

# 7 Tasmania

## Outstanding assessment issues

### Full cost recovery: urban

**Outstanding issue:** Tasmania is to demonstrate progress across all retail and distribution service providers, in implementing cost recovery and meeting the lower pricing bound as defined by the CoAG guidelines, with particular attention to asset valuations

**Next full assessment:** The Council will assess urban pricing reforms in 2003.

**Reference:** Water reform agreement, clause 3(a)

### Background

#### Cost recovery

In the 2001 National Competition Policy (NCP) assessment, the National Competition Council (the Council) was advised that the 1999-2000 audit of urban water businesses by the Government Prices Oversight Commission found 14 water businesses were commercially viable as defined by the Council of Australian Governments (CoAG) pricing guidelines. Nine wastewater businesses also earned sufficient revenue to recover at least the lower bound of the CoAG guidelines, although the Council noted that competitive neutrality adjustments were not included for a number of local governments. The audit information also suggested that Latrobe water services and King Island wastewater businesses earned returns around twice the recommended weighted average cost of capital.

Tasmania advised that efforts to assist reform initially focused on the largest service providers and on water rather than wastewater services. The Council was concerned that, despite this focus, a substantial number of the largest urban retail and distribution services were not operating on a commercially viable basis. These services included Launceston water, Hobart water and wastewater, Glenorchy wastewater and Clarence water.

Tasmania advised that Launceston, the largest provider of these services, had committed to reaching full cost recovery for water services and to setting rates to achieve this. Launceston was faced with some major increases in bulk water costs, which it has to manage while introducing two-part tariffs for

26 000 connections. The Council understood that Launceston expected to reach the lower band of the CoAG guidelines for 2000-01. Tasmania also advised that improvements in Hobart's water and wastewater businesses would be pursued before the June 2002 NCP assessment.

Tasmania noted that the combined returns for some water and wastewater services, such as those for Clarence, do recover the lower bound. The Council's view is that CoAG full cost recovery commitments require water and wastewater businesses to recover costs independently so as to avoid the risk of nontransparent cross-subsidies. The Council would be particularly concerned where, for example, property-based wastewater charges are used to prop up water business returns based on a two-part tariff, because this potentially undermines the volumetric signal to use water economically.

Tasmania advised that both Clarence and Burnie would be operating on a viable basis from 2000-01. The Council committed to revisit progress by all service providers in 2002, when the Government Prices Oversight Commission would have completed its 2000-01 audit on the commercial viability of local government water providers.

### Asset valuations

The 2001 Government Prices Oversight Commission audit showed that at least 16 local governments reported water and wastewater assets at written-down replacement cost or current value. The Council was not provided with information on the degree to which asset values had been optimised.

Of the two local governments that earned returns for 1999-2000 well in excess of the upper band of full cost recovery, both based their return figures on historic cost asset valuations. This valuation approach might have been a factor in the high results, particularly if a large proportion of assets are old. Another possibility, however, is that customers of these services were paying higher prices than they would in a competitive market. The Council undertook to revisit this issue in the 2002 NCP assessment.

In the 2001 NCP assessment, the Council stated that it would look for further information on Tasmania's progress with asset valuation (including optimisation), as recommended by the Government Prices Oversight Commission guidelines, and competitive neutrality costing.

## Tasmanian arrangements

### Cost recovery

The Tasmanian Government provided the Council with the results of the Government Prices Oversight Commission's audit of local government compliance with the commission's urban water pricing guidelines. The focus

of the audit each year is to determine whether local governments have achieved full cost recovery consistent with the CoAG water reform commitments reflected in the commission's guidelines. The report includes estimates of the real rates of return on assets for each local government. The results for 2000-2001 are summarised in table 7.1.

**Table 7.1:** Tasmanian local government water and wastewater businesses — rates of return

<i>Local government council</i>	<i>Water real rate of return (Per cent)</i>	<i>Wastewater real rate of return (Per cent)</i>
Break o'Day	1.4	4.7
Brighton	2.5	2.5
Burnie	1.1	-1.6
Central Coast	0.8	4.6
Central Highlands	-8.3	-6.2
Circular Head	6.1	4.6
Clarence	-2.1	3.5
Derwent Valley	-3.3	10.1
Devonport	0.0	1.7
Dorset	1.2	1.9
Flinders	1.3	No service
George Town	2.4	1.0
Glamorgan/Spring Bay	1.0	-0.9
Glenorchy	7.0	11.3
Hobart	-0.9	-1.4
Huon Valley	3.6	2.6
Kentish	-1.0	7.4
King Island	-2.1	8.5
Kingsborough	3.1	2.4
Latrobe	25.3	6.6
Launceston	-0.6	1.1
Meander Valley	2.1	3.9
Northern Midlands	3.8	1.4
Sorell	0.7	5.4
Southern Midlands	0.7	3.5
Tasman	No service	No service
Waratah/Wynyard	-1.0	2.2
West Coast	0.8	-1.9
West Tamar	1.1	4.4

*Source:* Government Prices Oversight Commission (2002, unpublished)

**Nineteen of the 28 local governments providing water supply services were assessed as operating within the guidelines. Eight local governments recovered insufficient revenue to meet the minimum requirement for full cost**

recovery, while Latrobe's 25.3 per cent real rate of return on capital exceeded the guideline for the maximum allowable return.

Twenty of the 27 local governments providing wastewater services were operating within the guidelines. Five local governments recovered insufficient revenue under the guidelines, and two exceeded the maximum allowable return.

The Tasmanian Government has assisted local governments with the implementation of CoAG full cost recovery guidelines. This assistance included the development of partnership agreements, communication through the Premier's Local Government Council, and provision of cost recovery and pricing correspondence, including the audit guidelines of the Government Prices Oversight Commission. The audit reporting cycle is to be changed, with data to be collected in November and the report to be finalised by February each year.

### Asset valuations

Revised water pricing guidelines were included in the audit guidelines and attached to the Premier's March 2002 letters to all local government water businesses. The guidelines call for asset consumption to be reflected through a renewals annuity or 2 per cent of the written-down replacement cost of assets, when local government water and wastewater businesses estimate the lower limit of cost recovery. Depreciation should be used based on deprival value (optimised replacement values) when estimating the upper limit. Where deprival valuations are not available, depreciation as reported by local governments on a current replacement cost basis may be used to value assets.

### Submissions

The submission from Robert Rockefeller, Director of Nekon (2002, submission 18), raised issues concerning full cost recovery and asset valuations using Hobart as an example to draw some conclusions on the progress of southern local governments.

- Hobart has not yet adopted full cost recovery.
- There is no independent oversight of asset valuations (and revaluations) for water and sewerage infrastructure at the retail level, which may lead to the application of incorrect valuation methods and distortions in pricing.
- The method of revaluing assets adopted by the City of Glenorchy varies from that of City of Hobart.

- The lack of clarity in who owns water and sewerage infrastructure assets has ramifications for full cost recovery, pricing and dividend distributions by local governments.

## Discussion

Tasmania provided the Council with full cost recovery information that shows:

- 19 of 28 local government water businesses were commercially viable (as defined by the CoAG guidelines) for 2000-01 — an improvement from 14 for 1999-2000;
- 20 of 27 local government wastewater businesses were commercially viable for 2000-01 — an improvement from 9 for 1999-2000.

Despite progress toward full cost recovery by local government water service providers, the Council is concerned that a significant proportion of Tasmania's largest service providers are still not commercially viable.

For the 2001 NCP assessment, Tasmania advised that the Council would see a significant improvement in the performance of this group. For the four largest providers discussed in that assessment, table 7.2 compares progress towards full cost recovery.

**Table 7.2:** Comparison of real rates of return

<i>Local government council</i>	<i>Service</i>	<i>Connections (approx. no.)</i>	<i>Real rate of return (%)</i>	
			<i>1999-2000</i>	<i>2000-01</i>
Launceston	Water	25 600	-1.0	-0.6
Hobart	Water	20 500	-0.6	-0.9
Hobart	Wastewater	n/a	-1.7	-1.4
Glenorchy	Wastewater	16 600	-0.6	11.4
Clarence	Water	17 500	-18.0	-2.1

*Source:* Government Prices Oversight Commission (2001, 2002 unpublished)

Of the five large local government services highlighted in the 2001 NCP assessment, none operated within the bounds of full cost recovery for 2000-01. Glenorchy increased its rate of return to move from making a loss to generating a 2000-01 return well above the upper bound limit of 7 per cent real rate of return.<sup>1</sup> Launceston and Hobart services remain largely the same and, despite improvements, Clarence still under recovers.

<sup>1</sup> This rate was set by the Government Prices Oversight Commission.

To address the under-recovery of costs by Hobart water and wastewater businesses, the Hobart City Council, in consultation with the Tasmanian Government, developed a full cost recovery plan. Tasmania advises that the Hobart City Council's water supply and wastewater businesses will operate on a full cost recovery basis from 2002-03. This approach will be achieved by re-allocating Hobart's rate revenue from general rates to water and wastewater service undertakings.

Of the under-recovering councils, the audit report revealed that three have bulk water supplied by Hobart Water. Part of their under-recovery is the result of an exceptionally dry 2000-01 summer, which resulted in higher quantities and costs of water purchases. The councils were unable to recover this expense as water users are charged via property based rates. The audit report suggested, however, that 2001-02 should be a more normal year for assessing the extent of departure from the commission's guidelines. This illustrates one of the difficulties caused by water charging based on property values rather than the level of water use.

The Council's 2001 NCP assessment noted the high rates of return earned by Latrobe and King Island councils. Of these two councils, Latrobe has by far the larger number of connections (3000). The audit information for Latrobe water and King Island wastewater services is presented in table 7.3.

**Table 7.3:** Comparison of real rates of return

<i>Local government</i>	<i>Service</i>	<i>Real rate of return (%)</i>	
		<i>1999-2000</i>	<i>2000-2001</i>
Latrobe	Water	14.3	25.3
King Island	Wastewater	13.5	8.5

*Source:* Government Prices Oversight Commission (2001, 2002, unpublished)

The Government Prices Oversight Commission audit makes it clear that the revenue of Latrobe has exceeded the guideline for the maximum allowable return, giving rise to monopoly pricing. Latrobe water services has increased earnings to approximately four times the recommended weighted average cost of capital, up from two times in 1999-2000.

The Council has concerns about the level of transparency in the commission's audit process. The audit reports provide no detail on the actual costing approaches used by local governments or how the commission adjusts for different approaches. The results of the audit are not publicly available and no formalised mechanism exists to ensure problems identified by the commission are rectified. These problems are illustrated by the audit review's finding that local government cost recovery performance has deteriorated in several cases. Again, given the lack of transparency, it is difficult to assess whether this apparent deterioration is the result of different costing approaches adopted in each year. Tasmania has also stated that climatic conditions over the reporting period have led to a lower level of cost recovery in some local governments, and that this fall should be reversed in coming

years. Given the level of information provided to the Council, it is difficult to verify this claim or to determine whether such climatic conditions will result in excessive returns for those local governments that are close to or above the top of the band.

Given that the Government Prices Oversight Commission's role is to make recommendations only and its report is not made public, it is difficult to see how the current process can generate the momentum to ensure reforms are implemented. The Council is looking for jurisdictions to demonstrate that they have processes in place that will continue to achieve the objectives of water reform beyond the life of the Council's assessment process.

### Asset valuations

Tasmanian providers appear to apply different asset valuation methods. In 1999-2000 local governments used various accounting and economic asset valuation methods. Tasmania has developed guidelines for local governments to apply, but the Council is unaware whether local governments are adopting these methods or whether the commission still needs to adjust all of these different valuation methods as part of its audit process. It is therefore difficult to compare performance across providers and to determine whether CoAG full cost recovery against the bottom of the band is being achieved.

The commission's audits discuss asset values only in general terms. Further, Tasmania has not provided sufficient information on asset values or asset valuation methods applied by local government providers for the Council to determine whether the approaches used are consistent with the water reform commitments.

The Council requires Tasmania to provide information on:

- the asset valuation methods used;
- why some local government councils are using asset valuation methods that are inconsistent with the commission's guidelines; and
- the degree to which asset values have been optimised. Where depreciation is used, it should be based on optimised replacement value.

The Government Prices Oversight Commission has cautioned interpreting the rate of return data as rates of return are calculated based on actual depreciation reported by local governments, which differs from the depreciation assumed in determining the lower limits for cost recovery. A local government activity may thus show a negative rate of return, yet still meet the lower limit for cost recovery.

An additional problem is that while the adjusted audit information may indicate that a local government is pricing within the band in one year, that level of cost recovery is not guaranteed to continue. The approach of local governments to asset accounting is different from the commission's guidelines

and no explanations are provided to explain these differences. The Council therefore cannot be confident that local governments will maintain appropriate levels of cost recovery into the future.

## Assessment

The Council has three key concerns with urban pricing in Tasmania.

- Insufficient information has been provided by Tasmania to make a full assessment of urban pricing reform.
- Based on the available information a significant number of local governments still appear to have levels of cost recovery outside the band. Further, the outcomes in some local governments deteriorated over the 12 months to the end of 2000-01.
- There is insufficient transparency in the Government Prices Oversight Commission's audit process to deliver ongoing reform.

The Council recognises that Tasmania has a number of mechanisms in place to support the implementation of water reform by local governments. The Council's assessment, however, is based on programs and processes that deliver reform outcomes. The Tasmanian Government has committed to working with the Council to resolve concerns about urban pricing and other issues. In a letter to the Council, Tasmania stated that in the area of urban pricing it would provide by 31 August 2002:

- a report on local governments' adoption of asset valuation methodologies consistent with CoAG guidelines;
- reasons for alternative valuation approaches being adopted; and
- responses to any assessment issues emerging from this information.

Tasmania also undertook to provide the Council by 31 August 2002 the strategy that will be adopted to improve the rate of progress in cost recovery for those businesses identified in the Government Prices Oversight Commission audit as either under-recovering or over-recovering costs. The Government Prices Oversight Commission audit report will be made publicly available by that date.

Based on this commitment, the Council has decided that it will conduct a supplementary NCP assessment in October 2002 on all issues raised in this section relating to full cost recovery. The Council is expecting significant outcomes from this supplementary assessment, and believes this is warranted given cost recovery reforms for urban water and wastewater services are now three years overdue.

All aspects of urban pricing reform will be assessed in the 2003 NCP assessment, when the Council will again look at the reform progress among



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local governments, and will expect substantial completion of reform commitments. The Council will also consider whether the approaches being used by Tasmania to encourage the implementation of reform are achieving the desired reform outcomes.

## Consumption-based pricing

**Outstanding issue:** Tasmania is to demonstrate progress against the two-part tariff implementation timetable, and rigorous consideration of the introduction of trade waste charges where cost effective.

**Next full assessment:** The Council will assess urban pricing reforms in 2003.

**Reference:** Water reform agreement, clause 3(b)

## Background

### Two-part tariffs

For the 2001 NCP assessment, Tasmania provided a progress report on local government water service providers against the two-part tariff implementation timetable.<sup>2</sup> For that assessment, the Council was satisfied that Tasmania had continued to achieve progress in implementing two-part tariffs. Four of eighteen local government water schemes were reported as adopting two-part tariff pricing structures. Given that this reform commitment was initially due by the end of 1998, the Council said that it would review progress against this timetable in 2002. The Council would need a robust justification for any delays in implementation.

### Trade waste charges

For the 2001 NCP assessment, the Council had not been advised of whether any services levied trade waste charges. The Council considers that significant gains would result from a rigorous investigation of the introduction of trade waste charges where cost effective.

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<sup>2</sup> The Council's December 1999 supplementary NCP assessment outlined Tasmania's process for determining the cost-effectiveness of two-part tariffs and the resulting timetable.

## Tasmanian arrangements

### Two-part tariffs

For 2002, Tasmania has reported significant progress in this area of reform, with 17 of the 18 schemes now having implemented two-part tariffs, in line with targets. The remaining scheme, operated by Derwent Valley Council, was to commence two-part tariffs in July 2002.

### Trade waste charges

Tasmania reported that local government councils have legislative and administrative support mechanisms to address trade waste issues.

The *Local Government Act 1993* enables local governments to enter into trade waste agreements with waste dischargers to recoup the additional costs of treatment of trade wastes. The *Local Government Act 1993* also allows local government councils to establish bylaws addressing trade waste issues.

The *Plumbing Regulations 1994* prohibit direct or indirect discharge of trade waste into a sewerage system unless the discharge is authorised in accordance with a special connection permit. Penalties are available to enforce this prohibition.

The Department of Primary Industries, Water and Environment has issued environmental guidelines for acceptance of liquid wastes to sewers under its sewerage management program. These guidelines identify technical limits for accepting liquid wastes. The department has been using the program to work with local governments to identify sources of trade waste. The department has also developed a model trade waste agreement to help local governments establish trade waste agreements with discharge customers.

The following are the result of these mechanisms.

- The Glenorchy, Hobart, Launceston and Devonport city councils have specific trade waste bylaws. These councils have also established extensive trade waste policies and guidelines. The Brighton, Central Highlands, Clarence City, Huon Valley, Kingsborough, Sorell and Tasman councils have similar powers under sewerage and/or drainage bylaws.
- The Hobart City Council has approximately 600 premises that discharge liquid trade waste to the council's sewerage system, and the majority are managed through trade waste permits that specify acceptance limits.
- The Devonport and Central Coast councils have entered into trade waste agreements with two of the State's largest point-source wastewater dischargers of nitrogen and phosphorous.

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- The Devonport City Council's sewerage system receives trade waste from a number of local industries. The quality and quantity of waste from each industry is variable and places a major load on the council's reticulation, operational and treatment costs. Costs are recovered from the relevant industries via trade waste charges applied under the council's trade waste bylaw. The trade waste charges also provide an incentive for industry to provide on-site treatment to reduce the impact on the sewerage system and, accordingly, to reduce their costs.
  - The Burnie City Council has trade waste agreements in place for identified dischargers. It is in discussion with a major milk processing facility regarding the treatment of the facility's effluent.
  - The Dorset Council has established a treatment plant funding program. A vegetable processing plant discharger at Scottsdale is meeting 90 per cent of the costs of the Scottsdale sewerage treatment plant.

### Smaller rural councils

Given the predominantly decentralised and rural nature of Tasmania, many smaller rural councils do not face significant pollutant loads from industry. Where a pollutant load is identified, however, all councils have the legislative power to address the issue. The following are examples of progress.

- The Kentish Council (population 5530) identified that the life of its pump stations are being reduced as a result of the Railton sewerage scheme treating trade waste from the Australian Cement Works. The Kentish Council is addressing this issue with the management of Australian Cement.
- The Northern Midlands Council has a significant trade waste agreement in place, whereby Longford Abattoirs fund 85 per cent of operational and treatment costs for the Longford sewage lagoons.
- The George Town Council also recovers approximately 70 per cent of its wastewater scheme revenues through trade waste agreements.

In addition, three large industrial sites have specific trade waste agreements, with a focus on cleaner production. They undergo regular monitoring to ensure acceptance limits are met. The agreements contain provisions for the recovery of operating costs and depreciation, relating to the council's sewage treatment facilities, sewer reticulation costs, sludge disposal costs and trade waste administration costs, along with relevant on-costs and overheads.

### Submissions

Robert Rockefeller (2002, submission 18) raised the following issues concerning consumption-based pricing.

- Brighton is the only southern Tasmanian council that has two-part tariff pricing of water services. Southern councils that do not two-part price include Hobart, Clarence, Sorrell, Kingsborough, Glenorchy, New Norfolk and Huonville.<sup>3</sup>
- Mr Rockefeller's properties in Hobart are charged water and wastewater services fees based on the annually assessed value of the properties. Based on water consumed, he has calculated he pays \$4.55 per kilolitre. The same consumption would cost \$8.42 per kilolitre in Glenorchy and \$0.66 per kilolitre in Brighton (under two-part tariff arrangements). Some buildings in Hobart are charged the equivalent of \$18 per kilolitre (calculated by dividing annual consumption by the annually assessed value charge for water services).
- Large volume water users, such as National Foods and Cascade, and large ships that come into port are only charged the marginal cost of water consumption.
- Two-part tariff reports and corporatisation tests, in Mr Rockefeller's opinion, are not providing an appropriate pricing signal that promotes water conservation.
- The City of Hobart does not require water meters on new residential buildings, so it is questionable whether the Hobart City Council desires to move towards two-part pricing.
- The Clarence City Council charges various rates for water in different residential areas in the city. Mr Rockefeller argues that the rates are dependent on whether meters are installed or not. In addition, an excess charge is in place for metered customers, while nonmetered customers have no excess charges and can consume any amount of water (that is, there is no incentive to conserve water). Clarence does not have a policy to meter the city, and does not charge on a consumption basis where meters are installed.
- Local governments should charge for water consumption if they can do so, rather than solely for excess water, and councils should discontinue annual valuation-based charges.

## Discussion and assessment

Tasmania is introducing two-part tariffs for local governments that have found the reforms to be cost effective. The lack of transparency in costing, price calculations and community service obligations, however, appear to be

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<sup>3</sup> Tasmania has undertaken an assessment of the cost effectiveness of applying two-part tariffs to its urban retail and distribution water supply schemes. This process is outlined in the Council's 1999 NCP supplementary assessment.

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resulting in customer concerns such as those expressed by Mr Rockefeller. Transparency was discussed in the previous section and is also discussed in the progress reports on community service obligations and cross-subsidies (see below). These will be significant issues in the 2003 NCP assessment.

Hobart City Council has released a water reform package (Hobart City Council, 2001) which is directly related to CoAG water reform commitments, and appears to address some of the issues raised in the submission by Mr Rockefeller. In relation to consumption based pricing, Hobart City Council have committed to undertake the following measures:

- Installation of meters for all non-residential customers;
- Application of a two-part tariff system of charging when non-residential metering is complete; and
- To attribute costs internally. Units responsible for the management of water use by Hobart City Council properties will be charged for that use in a transparent manner.

Hobart City Council has found that there are significant issues regarding cross-subsidies under their current practices. The endorsed reform package, however, aims to either eliminate these cross-subsidies, where appropriate, or to make them transparent.

In relation to Mr Rockefeller's claim that rates charged by Clarence City Council are meter dependent, Tasmania has advised that water rates are charged in accordance with the costs of each scheme operated by the Clarence City Council.

The application of trade waste charges appears to be *ad hoc*. There is a system of managing waste, but no consistent approach to pricing. The Council strongly urges Tasmania to adopt a trade waste charge that captures those customers who pay less than the incremental cost of discharges into local government sewerage infrastructure. The absence of such a charging regime — namely one that reflects the quantity and/or toxicity of the waste — provides scope for nontransparent cross-subsidies and has the potential to undermine the CoAG-endorsed principle of consumption-based pricing.

In the 2003 NCP assessment, the Council will focus on the trade waste charging arrangements in those local government areas where the largest trade waste discharges are located. These include Devonport, Hobart, Launceston, Circular Head, Central Coast, Glenorchy and Burnie.

## Water allocations and property rights

**Outstanding issue:** Tasmania is developing a policy on the regulation of farm dams.

**Next full assessment:** The Council will assess water allocations and property rights reforms in 2004.

**Reference:** Water reform agreement, clause 4(a)

### Background

In June 2001, the Council considered that Tasmania's system of water property rights met the CoAG commitments. The Council found, however, an emerging issue concerning the cumulative impacts on property rights and the environment of the capture of surface runoff by Tasmanian farm dams. A 2001 report by the Department of Primary Industries, Water and Environment on water availability in Tasmania stated:

*A negative impact of farm dams is the reduction of water yields and runoff reaching rivers and streams and eventually the sea, for example this can impact negatively on river mouths by building up sand bars and blocking flow. This is occurring in the north-east and north-west of the State. The Government made a decision to exclude the capture of surface runoff from needing a water right under the Water Management Act 1999. A question that needs to be addressed is when and how the State should develop a policy on the number of farm dams built within a region. (Department of Primary Industries, Water and Environment 2001a, p. 25)*

Tasmania was in the process of developing a farm dams policy to be in place by mid-2002. The Council undertook to review developments in the 2002 NCP assessment.

### Tasmanian arrangements

There is no statutory requirement to consider the cumulative impacts of farm dams built within a region because under the *Water Management Act 1999* no water right is needed to capture surface runoff.<sup>4</sup> Tasmania has recognised, however, that it needs to develop, in consultation with stakeholders, a policy to manage the cumulative impact of incremental dam development. The aim of the policy is to:

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<sup>4</sup> The Act allows a landholder to take surface water from land for any purpose without the need for a water licence. Where the taking of surface water is deemed to have a significant impact on catchment water resources, however, a water management plan can require it to be subject to a water licence (with appropriate conditions).

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- provide a strategic framework to improve the management of the impacts of incremental dam development; and
  - guide decision-makers in assessing the cumulative impacts of new dam permit and water licence applications.

During 2001-02, Tasmania commenced work on developing a policy to guide the Assessment Committee for Dam Construction in better assessing the cumulative impacts of dams as part of considering new dam permit applications. The policy will result in guidelines for use by the committee, and will consider the role of government and the community in actively managing the cumulative effects of dams to minimise future impacts. Funded in the 2001 State Budget, the policy will address the farm dams issue in two ways:

- managing the impact that allocations have on high flushing environmental flows; and
- specifying mitigating physical requirements in the building of dams, such as fish passage.

Public consultation on a discussion paper and policy options will be undertaken in July–August 2002 and the policy is now due for completion by September 2002. Interim guidelines are being used until the policy is finalised.

### Managing allocations

The policy will aim to establish sustainable catchment limits for dam development and water extraction. This project will examine mechanisms to manage farm dam development on a whole-of-catchment basis, including the cumulative impacts of water extraction on the environment and other users. The effects on the environment include the impacts of dams on riverine, wetland and estuarine ecosystems and water quality. The policy will consider changes to flow regimes, fish passage, water quality and dam safety associated with new permit and licence applications.

The Council was provided with a copy of the consultant's brief, which outlines two stages to the project.

- Stage one involves the collation and analysis of hydrological information from stream gauging stations around Tasmania, to select major catchments and key subcatchments with sufficient information to establish baseline data. Tasmania estimates that sufficient information should be available from approximately 100 stations. Monthly and annual rainfall and catchment area information will also be collated for the sites, and desktop environmental flows will be determined.
- Stage two involves the calculation of estimated sustainable yields available for abstraction in selected catchments, accounting for environmental flow requirements and the proportion of catchment yield

allocated as water licences. A key requirement of the project is to develop an assessment tool that can be integrated with the current dam assessment process. This will enable the Department of Primary Industries, Water and Environment to calculate available water for abstraction at other points within the catchments using rainfall and area weighted averages.

### Physical aspects of dam construction

The Assessment Committee for Dam Construction uses guidelines to approve farm dams, and these guidelines can be modified to address physical aspects of dam construction. The committee is required to account for the objectives of the Water Management Act and could reject a dam on the basis of environmental harm. The Committee considers flood flows, dam safety, water quality, and other environmental and heritage issues as well as the requirements of downstream users before approving a dam permit. Water licences and allocations to fill a farm dam are assessed and approved by the Department of Primary Industries, Water and Environment. Tasmania has advised that water rights are approved to take water only during the winter-spring periods (high flow periods). Outside these periods, all water entering a dam must be released downstream. The policy will be designed to assist the Assessment Committee for Dam Construction and the Department of Primary Industries, Water and Environment with criteria to make judgements on this issue, including thermal pollution guidelines.

### Interim guidelines

As part of the policy development, interim guidelines are being established to integrate water assessments better within the current dam permit process. A consultant has calculated interim water diversion limits within selected catchments across Tasmania, accounting for current water allocations and environmental flows. These limits will be used to avoid overallocation of resources and the future environmental management problems associated with the resulting increased demand.

Interim diversion limits will allow the Assessment Committee for Dam Construction and the Department of Primary Industries, Water and Environment to assess the cumulative impacts of water extraction of new dam permit and water licence applications. The department is examining options to assess water availability better at a catchment level, and the interim limits will be reviewed once the policy has been finalised.

### Submission

The Tasmanian Conservation Trust (2002, submission 7) supports the progress on the proposed farm dams policy, although it considers it



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unfortunate that the Tasmanian Government chose not to implement a moratorium on farm dam approvals while the process is being developed.

Colin and Suzanne Dyke (2002, submission 11) are oyster farmers in the Little Swanport Estuary on the east coast of Tasmania. Their business and that of coastal fisheries rely on the health of the water environment. Applications have been made to construct four in-stream dams in the catchment which, if approved, would collectively dam 20 per cent of the area of the Little Swanport River catchment. The fishery owners are concerned how these proposals may impact on the freshwater-dependent estuarine ecosystem and, consequently, farm productivity and business viability. The freshwater requirements of an estuarine ecosystem are unknown. The Dykes' submission argues that:

- there is continuing *ad hoc* proliferation of dams/water licences/allocations, averaging an incredible three applications per week in some stressed river systems and another 143 applications under assessment, with no water management plans in place;
- the proliferation of dams is occurring without environmental water requirements (EWRs) or environmental water provisions (EWP) being established for ecosystems that depend on the water resource being dammed/allocated, and without any certainty of the impact of the water takes;
- there has been no moratorium on access to freshwater since the Water Management Act was passed. In relation to marine farming plans, a moratorium was put in place until management plans were completed;
- the resources spent on assessing dams/water allocations under the *ad hoc* process may be better spent on speeding up the development of water management plans and other process implementation; and
- dam applications are heavily subsidised, with government sources providing funds for investigations.

## Discussion and assessment

Tasmania provided the Council with a copy of the consultant's project brief to determine sustainable water abstraction yields for selected catchments across Tasmania (stage one of the proposed final policy), a scoping paper on the cumulative effects of dams policy, and the interim guidelines. The Council is satisfied that Tasmania is addressing this issue and has implemented appropriate interim measures while developing a final policy position. The Council considers that the development of this policy is very important, especially given that the Tasmanian Government has established a \$10 million program for water development (see the progress report on new rural schemes).

The Council will assess all water property rights arrangements across all States in the 2004 NCP assessment. It will examine in 2004 the final cumulative effects of farm dams policy as part of an examination of Tasmania's progress in water property rights arrangements. The Council is satisfied the outstanding 2001 issue is being addressed.

## Provision for the environment

**Outstanding issue:** Tasmania is to demonstrate progress against its implementation program and principle 5 of the national principles for the provision of water for ecosystems.

**Next full assessment:** The Council will assess allocations for the environment in 2004 and provide a stocktake of progress against a jurisdiction's implementation program to identify remaining areas for assessment in 2005 when the program is to be complete.

**Reference:** Water reform agreement, clause 4(b-f)

## Background

The Council found Tasmania had met commitments for the 2001 NCP assessment. In assessing Tasmania's progress against national principle five, however, the Council noted that the Department of Primary Industries, Water and Environment had found that the South Esk and Meander rivers could be classified as overdeveloped over the summer months. The Council undertook to review the management plans for these rivers when they become available to determine whether Tasmania has addressed the issue of allocations for the environment over the critical period.

The Council has noted that the processes for determining environmental water requirements have been slower than Tasmania anticipated. At the time of the 2001 NCP assessment, no water management plans had been developed. While Tasmania was confident that the water management plans will be completed by 2005, the Council undertook to re-assess Tasmania's progress against the implementation program for the 2002 NCP assessment.

Tasmania is addressing water allocations for the environment in two phases under the 'water for ecosystem' policy.

- First, the Department of Primary Industries, Water and Environment is determining environmental water requirements (EWRs) across the State to address the flow requirements for rivers, using detailed methods for stressed rivers and rapid assessment methods for lower priority systems. An EWR is a description of the water regime needed to sustain ecological values of aquatic ecosystems at a low level of risk. These descriptions are developed through the application of scientific methods or local knowledge based on years of observation.
- Second, for stressed rivers and groundwater systems, an environmental water provision (EWP) based on environmental, economic and social

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considerations — as determined by the community and incorporated into the statutory water management plans — will determine the portion of the EWR that can be achieved. EWPs are the part of the environmental water requirement that can be met, or that part of the water regime preserved for the environment through agreement or negotiation. Tasmania has advised that protected environmental values identified by the community for water management plans are completed and will be used in determining EWPs.

Both EWRs and EWPs will be quantified as monthly average flows and/or average levels. Under the Tasmanian model, where it is necessary to reduce water allocations in stressed or overallocated systems, a water management plan provides that the reduction is equitable and that sureties attached to licences or water allocations are taken into account.

## Tasmanian arrangements

### Progress against implementation program

Environmental flow priorities for Tasmania are based on the consideration of factors in a knowledge-based 'impact matrix'. The matrix was developed in consultation with experts from a range of State Government departments, as well as the University of Tasmania. Factors included in the matrix are the ecological status of Tasmania's estuaries, water quality, threatened species issues, existing water allocations and water development pressures. A number of these factors have been combined into simple ratings (for example, instream ecology priority) and either assigned a high, medium or low priority, or ranked in order of importance.

Tasmania has advised that it has made substantial progress in identifying environmental flow requirements in river systems. Detailed information on progress is provided in an updated impact matrix in Attachment 1. The determination of EWRs was delayed in four catchments.

- The Coal River was due for completion in June 2001. The lack of rainfall and the degree of regulation prevented final analysis of minimum flow requirements until recently. Further, it has been recognised that this catchment requires a more holistic approach. A contract has been let for a consultancy to complete the necessary work. The studies under way recognise the ecological values associated with the Ramsar<sup>5</sup> listed wetland, the needs of the associated Pittwater Estuary, and flows required to maintain geomorphologic processes within the river. EWRs for this catchment are now to be completed in August 2002.

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<sup>5</sup> The Ramsar wetlands are those listed under the 1971 Convention on Wetlands as wetlands of international importance.

- The assessment of EWRs for the Welcome and Montagu catchments in far north-west Tasmania has been delayed. Assessment of these catchments is problematic given the substantial amount of drainage works and channel building that has taken place in both waterways (which were swamp forests). Neither catchment is a riverine or standing water ecosystem, so it has been difficult to determine the most appropriate method to assess EWRs. The Department of Primary Industries, Water and Environment has undertaken comprehensive surveys of river health and fish distribution in both catchments, to provide background material for EWR assessment. Scopes are being written to address EWRs for riparian and geomorphologic values targeted at undisturbed sections of these catchments. More holistic assessments are expected to be completed by December 2002.
- The Jordan River is targeted for completion in December 2002. Substantial work is under way as part of a major dam investigation. To avoid duplication of effort, the Department of Primary Industries, Water and Environment is awaiting the outcomes of these studies before conducting additional assessments. The ecological values associated with the Jordan catchment are significantly degraded, given riparian vegetation clearance and weed infestation, poor water quality and poor river health. New approaches will also be required to determine EWRs for this catchment. A revised timeline for this catchment is difficult to determine at this stage, given the dependence on external parties completing the dam studies.
- The Leven River was delayed due to field work and Basslink commitments this year. The revised completion date is September 2003.

Despite these setbacks, significant work has been completed, with major environmental flows studies brought forward in other areas of the State. Significantly, the Gordon, King and Lower Macquarie river studies are being delivered well ahead of previously provided timelines. The completion of these detailed scientific studies has been facilitated by the proposed Basslink interconnector between Tasmania and the southeast Australian power grid. Substantial work has also been completed on the lower Derwent River, well ahead of the June 2006 schedule.

#### Water management plans

Tasmania has advised that it decided to develop the Great Forester water management plan as a priority. The environmental flows work was completed and the catchment was deemed to be a good model for the water management planning process.

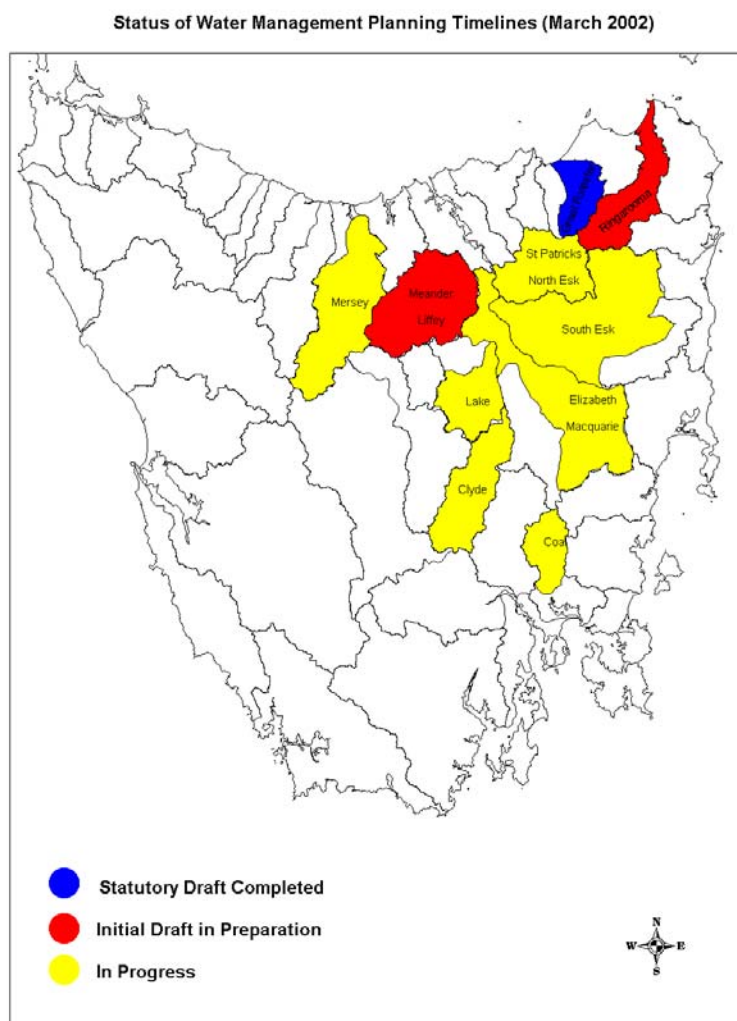
As a result, the completion of water management plans will not strictly accord with the original timetables. The water planning process is expected to be expedited, however, by the ability to use the revised Great Forester plan as a model for other catchments and by the increased resourcing for the water planning work in 2002-03. Tasmania has flagged an intention to review the

**timetable for the development of water management plans after the Great Forester plan is completed. The work status of the relevant water management plans is shown in table 7.4**

**Table 7.4:** Status of water management planning timelines for priority river systems

<i>Water management plan</i>	<i>Original timeline</i>	<i>Current work status</i>
Great Forester River	December 2004	Draft plan is complete. Four stakeholder workshops were held prior to the draft plan exhibition in January 2002, with a public meeting held on 14 February 2002. Case studies of economic impacts of plan effects on farming operations are complete. A report on submissions was prepared. Consultative group convened to review draft plan, and the group has met twice.
Meander	December 2001	Preliminary draft plan is in progress. Two public workshops completed. The Meander Dam proposal has delayed finalisation of the draft plan because the dam is expected to have a major favourable impact on the ability to implement environmental flow provisions. A draft Meander River water management plan for the 'with dam' scenario is included in the development proposal and environmental management plan submitted to support the application for statutory approvals for the Meander Dam. Further development of the plan has been put on hold, pending the outcome of the dam approvals process.
Upper and Lower Mersey rivers	December 2001	Part complete. Environmental flow study is complete. Stakeholder meetings were held. Negotiations are under way, with Hydro Tasmania as the major water user in this largely regulated river.
Elizabeth River	December 2002	Part complete. Environmental flow study is complete.
Liffey River	December 2002	Environmental flow study is complete, as per Meander River.
Tooms River	December 2002	Part complete. Environmental flow study is complete.
Macquarie downstream of Ross River	December 2003	Part complete.
Ringarooma River	December 2003	Preliminary draft plan is in progress. A second stakeholder workshop was held in September 2001. Case studies of economic impacts of the plan on farming are complete.
Coal River	June 2004	Environmental flow study is complete.
Lake River and Macquarie River below Lake River	December 2004	Part complete. Environmental Flow Study is complete.
South Esk River	December 2004	Part complete. Environmental flow study is complete.
Clyde River	June 2005	Part complete. Technical studies for Clyde River, Lake Sorell and Lake Crescent are complete. Clyde Catchment Water Management Planning Consultative Group formed May 2002.
Brumby's Creek	December 2005	Part complete. Environmental flow study is complete.
North Esk River	December 2005	Part complete. Environmental flow study is complete.
St Patricks River	December 2005	Part complete. Environmental flow study is complete.

Source: Government of Tasmania (2002, unpublished)



## Principle 5

Tasmania provided the Council with a copy of the draft Great Forester catchment water management plan publicly exhibited in January 2002. It is the first plan to reach this stage in Tasmania. Four stakeholder workshops were held to develop the draft plan, which contains EWPs based on two years of consultation. The proposed EWPs are shown in table 7.5.

**Table 7.5: EWPs for the Great Forester River, December–April (ML/day)\***

	<i>December</i>	<i>January</i>	<i>February</i>	<i>March</i>	<i>April</i>
2002-03	30	30	30	30	30
2003-04	35	35	35	35	35
2004-05	35	35	35	35	35
2005-06	35	35	35	35	35
2006-07	85	60	55	40	70

\* Measured at the Forester Road gauging station.

Source: Great Forester Catchment draft water management plan (January 2002)

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The plan does not propose to change current water allocations within the catchment. Restrictions on water takes will apply, however, when flow rates at the Forester Road gauging station are within 10 megalitres of the specified EWPs. Restrictions will be introduced generally in accordance with the following sureties, where surety 1 has the highest level of security:

- surety 1 — stock and domestic and essential town water supplies;
- surety 2 — EWPs;
- surety 3 — any prescriptive rights converted to a licensed allocation under the Act;
- surety 4 — special licences;
- surety 5 —
  - (i) commissional water rights, those rights converted to water licences under the Act, and nonessential town water supplies; and
  - (ii) all new allocations issued outside the period December–April; and
- surety 6 — all new water allocations issued for the period December–April providing the applicant can demonstrate that this quantity of water was used as a temporary water allocation in at least two years before 1 December 2002. Temporary water rights will be converted into permanent rights on request to the Department of Primary Industries, Water and Environment.

As the EWP level is approached progressive restrictions will be put in place on irrigation water extraction and a total ban on surety 5 and surety 6 takes will be applied at the EWP if necessary.

Tasmania advised that the statutory public meeting held in February 2002 raised a great deal of opposition to the draft plan on the grounds that it would have a severe economic impact on water users. Submissions received on the draft plan also expressed these concerns. As a result of public concern, the Department of Primary Industries, Water and Environment commissioned independent analysis of the impact of the proposed water flow regime in the draft plan. Armstrong Agricultural Services Pty Ltd and National Strategic Services Pty Ltd conducted the Great Forester Catchment, Irrigation and Water Reliability Project.

This consultancy concluded that the increase in environmental flows will reduce the amount of water available to irrigators by 2330 megalitres per year (or 43 per cent of present allocations) by 2006-07. Based on returns to irrigators of \$1000 per megalitre, the consultancy estimated a potential reduction in agricultural production of \$2.3 million per year at the farm gate level and flow-on losses of a further \$4.7 million and 22 jobs at the State level. The changes will result in reduced reliability of water for irrigation with more extended periods of restriction. The Tasmanian Farmers and Graziers

Association Dairy Council have expressed concerns about the draft water management plans for the Great Forester and the Ringarooma rivers.

The consultancy has resulted in Tasmania announcing a review of the draft Great Forester plan and a proposed change in the method for developing water management plans in general. The development of plans now needs to address the following matters.

- A draft plan needs ownership by water users, who should be directly involved in its preparation.
- Implementation actions must be considered particularly how economic consequences are to be addressed.
- Sufficient and acceptable water information must be available, including a measurable direction of environmental improvement.

The newly established Great Forester Catchment Water Management Planning Consultative Group is actively progressing these matters. The group aims to develop a new draft plan for release in August 2002.

As a result of this change in method, more time and resources than anticipated have been needed for negotiations on the draft Great Forester and other water management plans. In response, the Tasmanian Government increased recurrent funding for the water management planning process in the 2002-03 Budget.

As a result of the controversy surrounding the release of the original draft Great Forester Water Management Plan, some other catchments across the State have shown an unwillingness to engage in developing water management plans until a clearer picture emerges of the Government's direction in reviewing the draft Great Forester plan.

## Submissions

The Tasmanian Conservation Trust (2002, submission 7) supports the water management planning process, but argues that the process is under resourced and falling behind schedule. Only the Great Forester draft plan has been released for public comment. Additionally, the Tasmanian Government has failed to implement a water management plan steering committee, which would allow formal stakeholder input into the process.

The Tasmanian Conservation Trust is concerned too that the Government is reluctant to adhere to Principle 5 of the national principles for provision of water for ecosystems. In the absence of any finalised water management plans, the trust suggested that the Council reassess the Tasmanian Government's progress against this principle in 2003.

The Dykes (2002, submission 11) argue the following points.



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- While the Council's 2001 NCP assessment stated that water for the environment was established as EWRs for all water systems, only the water-dependent ecosystems of instream areas of rivers have set EWRs.
  - The tools to provide water for unstressed aquatic ecosystems simply do not exist yet.
  - While accepting that time and resources are required to develop processes and tools, a water management plan for Little Swanport may be 10 years away. As a result, the Dykes are lobbying the Glamorgan Spring Bay Council to seek a water licence to ensure adequate supply of water. The licence would be reviewed when a water management plan is completed.
  - Little Swanport and potentially other subcatchments demonstrate a deterioration in the freshwater availability for EWRs for the estuarine ecosystem. The degradation of the estuary may have already reached an unacceptable level of risk and be contrary to the national principles for the provision of water for ecosystems, due to the cumulative effects of all water takes.
  - The total taking of water from the catchment is not really known, not readily identifiable and not easily calculated.
  - The process of allocating water from a resource (in the absence of water management plans) is *ad hoc*, and lacks transparency to recognise EWPs for the many dependent ecosystems inextricably linked to the water resource.
  - The quality of coastal and marine water depends on land management practices and activities in the catchment.
  - A case study for the Little Swanport Estuary was provided in relation to principles 6 and 9 of the national principles for the provision of water for ecosystems.
  - While the Tasmanian Water Development Plan states as an objective:

*Ensure the assessment of water development proposals takes account of the long-term sustainability of the proposed use, for example, by ensuring irrigation proposals address salinity and soil management issues.* (Department of Primary Industries and Environment 2001, p.8)

the Water Management Act is deficient in that it does not provide the necessary head of power to enable the achievement of the legislation's intent. Other resource management systems in Tasmania, such as marine farming, have the power to impose management controls and licence conditions.

## Discussion

The Council has reviewed the Armstrong consultancy and has some concerns with the report and the possible direction Tasmania may be taking in relation to the determination of EWPs in water management plans. The draft Great Forester plan is the first water management plan that has been developed and will be used as a precedent in establishing the direction for the development of all other water management plans.

The socio-economic study conducted by Armstrong Consulting is not considered to be a robust analysis of the issue. The study is based on interviewing only three irrigators in the catchment and may not, therefore, be representative. The return of \$1 000 per megalitre seems to be high relative to returns earned elsewhere, and the extrapolation of losses to the State seems somewhat tenuous.

Furthermore, the report contains the following:

*While there was support for the concept of environmental flows, there was not support for the level proposed for the Great Forester. In part, this was because the evidence for increased flows was intangible and the scientific procedures to establish the required flow is complex and was not understood...Irrigators asked why they should meet the full costs of providing the increased environmental flows, a community benefit. (page 1)*

and

*while acknowledging and supporting the need for environmental flows to be identified, the three landholders did not accept that the increased requirements proposed for the environment were justified. It was their view there needs to be clear demonstration that the streams are degraded as a result of irrigation, and that reducing the present allocations for summer irrigation will ameliorate any such degradation. (page 7).*

The report argues the percentage of water available with a reliability of 90 per cent is reduced from 82 per cent now to 39 per cent of the direct take requirement to fully irrigate. The costs of obtaining water from other sources such as building additional storages, purchasing other allocations, groundwater, and water efficiency savings are prohibitive.

The report summarises the following as key issues and conclusions:

- there are difficulties in the region in understanding the size of the threat to water availability;
- stakeholders question the need to reduce water availability;
- there is reluctance to change enterprises;

- land values may be threatened;
- the logical option is to increase storage through capturing winter flow or large community dams;
- improving the efficiency of water use would be expensive and the prospects for improving efficiency are limited;
- “Why should I pay for the costs of the environment” when it is the community’s problem;
- the impact of plantation forests is a concern; and
- the regional economic impacts are unacceptable.

The bottom line of the report is that the provision of environmental flows, of the dimension proposed in the draft water management plan, will result in higher costs, significant capital infrastructure and/or reduced profitability and should not be pursued. The EWPs contained in the draft plan are therefore to be reviewed in light of this study. There is general agreement that more monitoring should be done (including metering) to determine accurate information on current usage. A working group of major stakeholders has been formed to further consider the plan.

The Council is highly concerned at an issue that has emerged across a number of jurisdictions in this assessment, namely, the use of socio-economic studies based on protecting current consumption putting off or watering down the legitimate needs of the environment, resulting in ongoing environmental degradation.

Tasmania has confirmed that there is a potential for socio-economic assessments to modify the phasing in of EWPs based on monitoring, adaptive management, and agreement with catchment communities. It is the Council’s view that the environment needs what the environment needs. As per the original Great Forester plan, EWPs need to be set and protected with high levels of surety.

The Council also does not accept the argument that the science for the environment has to be perfect before environmental provision are made, or proof obtained of causal degradation. All governments are committed to the precautionary principle. This states that in order to protect the environment, a precautionary approach to water allocations shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing measures to prevent environmental degradation.

In relation to the Dykes submission, the Council established that the timing of the water management plan for Little Swanport has been brought forward in recognition of the importance of estuarine values. The Tasmanian Government has placed an initial emphasis on determining EWRs for low flows in summer where systems may be considered stressed. The Little

Swanport water management plan will be used as a model to expand the EWR requirements to consider estuaries in other parts of Tasmania.

## Assessment

While an examination of progress shows that the timeframes for achieving formal water management plans have blown out in some cases, Tasmania has advised that it is confident the program will be delivered by the 2005 deadline. However, a number of plans are awaiting finalisation of the Great Forester plan as a precedent for how final plans should be implemented.

The 2001 outstanding issue has not been met. The Great Forester plan is, however, still a draft for an unstressed river and the Council needs to ascertain the extent of the proposed changes to the draft to finalise the first of Tasmania's water management plans.

Given the precedent value of the Great Forester plan, the Council is of the view that another assessment against this principle needs to occur in the 2003 NCP assessment to assess the final plan and the direction Tasmania proposes to take to meet its CoAG obligations. It is likely that the final Meander water management plan may also be available for this assessment. The Council does not want to see EWPs and the water management plan process diluted by the inappropriate use of socio-economic studies.

Finally the Council has confined itself in this assessment to reassessing outstanding issues with regard to principle 5. In relation to the case study provided by submission 11, the Council will next assess Tasmania's progress against all of the national principles for provision of water for ecosystems in the 2004 NCP assessment.

## Environment and water quality: integrated catchment management

**Outstanding issue:** Tasmania is to demonstrate developments concerning the State Natural Resource Management Strategy.

**Next full assessment:** The Council will assess integrated catchment management in detail in 2003, by which time the Council will expect that Tasmania will have implemented reforms planned in 2001 and resolved any outstanding issues.

**Reference:** Water reform agreement, clauses 6(a-b) and 8(b-c)

## Background

In 2001, the Council found Tasmania had met minimum NCP commitments. At that time, the major development in integrated catchment management in Tasmania was a proposal to develop a State Natural Resource Management Strategy. The strategy will be used to coordinate the development of

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catchment management plans at the regional level. Tasmania will seek formal accreditation of these plans under the National Action Plan on Salinity and Water Quality.

The State strategy was due for completion by the end of 2001. Given the importance of the strategy to Tasmania's integrated catchment management approach and arrangements under the National Action Plan on Salinity and Water Quality, the Council undertook to review developments concerning the State Natural Resource Management Strategy in the 2002 NCP assessment.

## Tasmanian arrangements

Following extensive consultation with stakeholders, the Tasmanian Government finalised and endorsed the Tasmanian Natural Resource Management Framework in February 2002. The framework covers issues such as administrative arrangements at State and regional levels, proposed legislation, natural resource management principles and priorities, and integration with relevant statutory and nonstatutory instruments. The framework is available through the Department of Primary Industries, Water and Environment's website ([www.dpiwe.tas.gov.au](http://www.dpiwe.tas.gov.au)).

The framework sets out the State's priorities, including water management. A coordinating Natural Resource Management Council of 16 members will advise the Government on matters including natural resource management priorities, the accreditation of regional strategies, the effectiveness of the implementation of these strategies, and the implementation and administration of funding programs. It also will promote the natural resource management principles and establish communication mechanisms with regional bodies and among stakeholders. The framework includes a set of interim State priorities, which the Tasmanian Natural Resource Management Council will review within 12 months of its establishment.

Three regional committees — with regions that share the boundaries of the three local government regional associations (the Cradle Coast Authority, the Northern Tasmanian Municipal Organisation, and the Southern Tasmanian Councils) — will sit under the Natural Resource Management Council. Regional committees will link local and State natural resource management activities, and provide for integration and coordination within their regions. They will identify regional priorities and prepare and monitor regional natural resource management strategies within 12 months of establishment. These strategies must include appropriate standards and targets, consistent with national natural resource management objectives, and meet accreditation criteria under the National Action Plan on Salinity and Water Quality. Each regional committee will comprise 12 members.

Tasmania has initiated a large number of catchment planning activities in previous years notwithstanding the absence of a formal overarching integrated catchment management policy or natural resource management strategy at the State level. The Department of Primary Industries, Water and

Environment has provided expertise and guidance in the development of these plans to ensure they are consistent with the sustainable development criteria of the resource management planning system. Tasmania provided the Council with a copy of a monthly newsletter on the development of local government partnership arrangements.

Tasmania expects that the existing plans will form the basis of the regional natural resource management plans to be developed under the Tasmanian Natural Resource Management framework and formally accredited under the accreditation system being developed as part of the National Action Plan for Salinity and Water Quality. These regional plans are expected to be completed by August 2003.

Tasmania has provided a timetable (shown in table 7.6) for progressing the implementation of the framework.

**Table 7.6:** Implementation of the Natural Resource Management Framework

<i>Action</i>	<i>Expected date for completion</i>
Final passage of legislation through Parliament	July 2002
Establishment of regional natural resource management committees	End of August 2002
Establishment of Tasmanian Natural Resource Management Council	Mid-September 2002
Development of regional Natural Resource Management strategies	12 months from establishment of the regional committees (approximately the end of August 2003)

*Source:* Government of Tasmania (2002, unpublished)

## Discussion and assessment

Since June 2001, the final Tasmanian framework has been released and draft legislation is out for public comment. Tasmania provided the Council with a copy of the final framework, which identifies water reform as a priority area, and a copy of the draft Natural Resource Management Bill 2002. The Bill was developed to provide the enabling legislation for the implementation of the framework. The legislation provides for the establishment, roles and functions of the Natural Resource Management Council and the regional committees, and for accreditation of regional strategies. A full review of the framework will occur after five years. The Tasmanian Parliament is to consider the Bill during the spring session.

Tasmania has provided a discussion of the integrated catchment management vision for the framework, along with the next steps for implementation and timeframes. Tasmania is on track to have regional strategies completed and in place by mid-2003. The Council is mindful that Tasmania signed an intergovernmental partnership agreement with the Commonwealth to

implement integrated catchment management reforms in priority catchments as part of the National Action Plan on Salinity and Water Quality.

The Council is satisfied that Tasmania has met the outstanding commitment for the 2002 NCP assessment. It will assess compliance in integrated catchment management reforms for all States in the 2003 NCP assessment.

## Progress report issues

### Full cost recovery: bulk water services

**Progress report:** Tasmania is to demonstrate progress in the application of appropriate asset management arrangements by bulk water service providers. Where an annuity approach is not introduced, the use of depreciation will need to be consistent with CoAG commitments

**Next full assessment:** The Council will assess urban pricing reform in 2003.

**Reference:** Water reform agreement, clauses 3(a) and (c)

### Background and Tasmanian progress

For the 2001 NCP assessment, the Council supported progress by the bulk water providers in gaining a clearer picture of the medium to long-term demand and the expenditure on assets needed to meet that demand. The Council also supported the identification of appropriate annuity payments to meet demand, as the forward-looking approach to asset management. The Council accepts that appropriate use of depreciation can lead to outcomes consistent with CoAG commitments. It concluded that it would look for evidence of continued progress in this area in future assessments. Where the annuity approach is not introduced, the use of depreciation would need to be consistent with CoAG commitments. Tasmania has not provided the Council with any further information on this issue for the 2002 NCP assessment.

### Full cost recovery: externalities

**Progress report:** Developments in factoring externalities into pricing by urban service providers

**Next full assessment:** The Council will assess urban pricing reform progress in 2003.

**Reference:** Water reform agreements, clause 3(a)(i); Expert Group report on externalities

## Tasmanian progress

The CoAG pricing guidelines require externalities to be incorporated into prices. The Council recognises that this a complex and difficult area, particularly in the urban sector. It views the first step as looking for prices to reflect an appropriate proportion of the costs of mitigating environmental problems of water use. The more advanced stage is a holistic approach to dealing with externalities, where pricing is only one component. As noted by the High Level Steering Group on Water (2000), externalities need to be addressed using a 'portfolio of decision tools'.

The Urban Water Pricing Guidelines for Local Government in Tasmania (revised March 2001) stated that externalities:

*...refer to costs imposed on, or incurred by, entities other than the council, for the prevention or mitigation of environmental damage, and recovered from the council through the imposition of environmental levies or licence fees. These externality costs should only be included where they are actually incurred and paid by the council.*

The Tasmanian Government asked local governments to provide this information on externality charges relating to the 2000 financial year. The Government Prices Oversight Commission was to undertake an independent assessment of whether the cost recovery and pricing policies achieve NCP obligations. This assessment was to be compiled and undertaken for inclusion in the 2002 NCP assessment.

The Government Prices Oversight Commission audit reports limited consideration of externality costs by local governments. The only Local governments to report externality costs in determining the limits of full cost recovery are Kentish and Northern Midlands for wastewater services, and Huon Valley for the upper limit of cost recovery for water services.

## Full cost recovery: tax equivalent regimes

**Progress report:** Developments in the implementation of tax equivalent regimes for metropolitan service providers

**Next full assessment:** The Council will assess urban pricing reform in 2003.

**Reference:** Water reform agreements, clause 3(a)(i); Expert Group report on tax equivalent regimes

## Tasmanian progress

For the 2001 NCP assessment, the Government Prices Oversight Commission's 1999-2000 audit of local government full cost recovery performance suggested that a significant number of water and sewerage services made competitive neutrality adjustments. It did not advise, however,



why more extensive competitive neutrality adjustments had not been achieved.

The Urban Water Pricing Guidelines for Local Government in Tasmania (revised March 2001) contain instructions for including taxes and tax equivalents when determining the lower and upper limits of full cost recovery:

*For the lower limit, income tax equivalents are explicitly excluded. For the upper limit, income tax equivalents should, in principle, be included. However, they are implicitly brought to account through the cost of capital which is assessed on a pre-tax basis; and*

*Competitive neutrality costs correspond with the taxes or equivalents component of full cost recovery. These include taxes, guarantee fees and the costs of satisfying regulations which are not imposed on a local government council activity but which would be imposed on a private sector entity. Examples include rates, and State land taxes which would otherwise be payable on local government council water assets.*

The commission's audit for 2000-01 indicates that taxes and tax equivalents are being considered in the move to full cost recovery. Tasmania has not provided the Council with details on which taxes and tax equivalents are being applied by each council.

## Community service obligations

**Progress report:** Significant progress in the transparent reporting of community service obligations

**Next full assessment:** The Council will assess the transparent reporting of community service obligations in 2003.

**Reference:** Water reform agreement, clause 3(a)(ii)

## Tasmanian progress

For the 2001 NCP assessment, Tasmanian local governments commenced reporting to the Department of Premier and Cabinet their water and wastewater community service obligations, as required under the revised Government Prices Oversight Commission guidelines. At that time, almost all local governments reported having no community service obligations. Tasmania noted that this issue would be addressed as part of the audit by the commission.

For the 2002 NCP assessment, Tasmania advised that a letter to all local government councils (February 2002) requested that they apply the principles within the Government's Community Service Obligations Policy and

Guidelines for Local Government, and advise of the existence or otherwise of any community service obligations. Tasmania stated that the local government councils are required to explicitly report community service obligations in the data provided to the Government Prices Oversight Commission.

The commission's most recent audit did not address community service obligations and the Council is not aware of whether Tasmania plans to review or make transparent local governments' compliance with the above requirements.

## Submissions

Robert Rockefeller (2002, submission 18) raised the following issues concerning community service obligations. Many local government councils do not meter and monitor own-purpose water and sewerage use. Consumers are subsidising this use, rather than community service obligations being properly identified and transparently reported. Mr Rockefeller's opinion is that local government councils would use between 5 – 10 per cent of water for own-purpose consumption. The lack of identification of community service obligations results in underestimation of revenue in the corporatisation and two-part tariff studies.

## Cross-subsidies

**Progress report:** Identification and transparent reporting of cross-subsidies, particularly among retail and distribution services

**Next full assessment:** The Council will assess urban pricing reform in 2003.

**Reference:** Water reform agreement, clause 3(a)(i).

## Background and Tasmanian progress

For the 2001 NCP assessment, the Council stated that initiatives such as the introduction of two-part tariffs and the consequent elimination of free water allowances are reducing the potential for nontransparent cross-subsidies in Tasmania. The explicit treatment of this issue among retail and distribution services, however, is still in its early stages.

The Council noted in 2001 that it would look for substantial progress by Tasmania in identifying and transparently reporting cross-subsidies, particularly among retail and distribution services for the 2002 NCP assessment. It made specific reference to property-based charges, free water allowances, and the absence of trade waste charges as causes of potential cross-subsidisation among classes of customers.

Tasmania has not undertaken an open and transparent analysis to identify levels of cross-subsidisation. The establishment of a more open and transparent price setting process, however, could address the Council's concerns about the transparency of cross-subsidies.

The Council notes that many consumers in Tasmania face property-based charging regimes for water and waste water services, and that this increases the risk of cross-subsidisation. If these regimes are to continue, any resulting cross-subsidies must be transparently reported. Tasmania has not provided a proposal to the Council on how it intends to identify and report these remaining cross-subsidies.

## Submissions

Robert Rockefeller (2002, submission 18) raised the following issues concerning cross-subsidisation. Southern Tasmanian councils, including the City of Hobart, do not transparently identify cross-subsidies or community service obligations. Water users are likely to be subsidising rate payers. A cross-subsidy exists between residential and nonresidential consumers, as well as between large and small users. Local government councils should identify and transparently report this situation if they continue to charge for water on a basis that does not reflect consumption. An independent regulator may be able to assist local government councils to meet this commitment. (For further information with regard to cross-subsidies by Hobart City Council, see the section on consumption-based pricing).

## New rural schemes

**Progress report:** Governments have agreed that all investments in new rural water schemes or extensions to existing schemes should be undertaken only after appraisal indicates that the scheme/extension is economically viable and ecologically sustainable. Tasmania is to provide a progress report on the status of new dam projects, such as the Meander Dam, against Tasmania's Water Development Plan.

**Next full assessment:** The Council will examine government investments in the year in which the government decides to proceed with a new rural scheme, to ensure the twin tests of economic viability and ecological sustainability have been met.

**Reference:** Water reform agreement, clause 3(d)(iii).

## Background

The 2001 State Budget provided \$10 million to finalise a Water Development Plan to recommend the construction of new water storages across the State. The plan was expected to be finalised by the end of 2001. The Tasmanian Government had not yet approved any of the projects identified in the draft plan, so 2001 NCP commitments were met.

Further, the Council found Tasmania's mechanisms for economic and ecological appraisal of new developments met CoAG requirements. In future NCP assessments, it will look for economic and environmental assessments consistent with CoAG's requirement for ecologically sustainable and economic viability once any new dam developments are approved.

In 2001, the Tasmanian Government announced an intention to proceed with the design of the Meander Dam project, 50 kilometres south west of Launceston. The 43-gigalitre dam will inundate 332 hectares of land. It will also supply licensed domestic water users along the Meander River, including town domestic water supplies and environmental flow requirements, followed by other allocated rights and new irrigation rights. A mini hydroelectric power plant will be installed to operate at the site and it will be connected to the State grid. Another objective of the dam is to increase the value of agricultural production. The irrigation area may include the neighbouring catchments of the Rubicon River and Western Creek. This would involve pumping water from the Meander Dam through pipes to the rivers in these catchments, to allow for irrigation of a greater area.

The proposed Tasmanian Meander Dam has been designated a controlled action under the Commonwealth *Environment Protection and Biodiversity Conservation Act 1999*. A plant species listed under the Act, *Epacris exserta*, was identified in the area to be inundated. Fauna of high conservation status that could be affected by the inundation include wedge-tailed eagles, spotted-tailed quolls and eastern barred bandicoots. Work is under way to identify ways of minimising the impact on threatened species and to develop plans for the species' recovery.

The Council has confirmed that a full statutory decision on whether the Meander Dam will proceed cannot be made until 2 August 2002 at the earliest, when all environmental clearances (including those by the Commonwealth Government under the Environment Protection and Biodiversity Conservation Act) are obtained.

A number of submissions received for the 2002 NCP assessment expressed concern (see below) with the proposed Meander Dam development. The Council will consider and assess these issues in a future NCP assessment if the Tasmanian Government decides to construct the Meander Dam.

## Tasmanian progress

### Water Development Plan

Tasmania publicly launched the Water Development Plan on 12 August 2001. One of the aims of the plan is to support the Government's objective of doubling the value of Tasmania's primary production over the 10 years to 2008. It identifies key water development opportunities that could benefit from public-private partnership funding arrangements. The 2002 State

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Budget allocated an additional \$4.5 million to progress water development in partnership with private enterprise.

### The Meander Dam

The Government has assigned the highest priority in the Water Development Plan to the development of the Meander Dam. It has nominated the Rivers and Water Supply Commission as the proponent for the initial stages of development.

Following a public tender process, Hydro Tasmania was selected to act on behalf of the Rivers and Water Supply Commission to carry out a full feasibility study on the Meander Dam. The feasibility study was to consist of engineering, environmental and economic studies, as well as to review the outcomes of previous reports.

Work on the feasibility studies commenced at the end of August 2001 and most of the work was completed in early 2002. The project is currently going through the statutory approval process under the Water Management Act. Given the size and complexity of the proposal, it has been called in for environmental assessment by the Environmental Management and Pollution Control Board under the *Environmental Management and Pollution Control Act 1994*. Under this process, the board directs the Assessment Committee for Dam Construction on environmental issues. The Environmental Management and Pollution Control Act requires the proponent to prepare a Development Proposal and Environmental Management Plan for public exhibition and comment.

The Department of Primary Industries, Water and Environment is responsible for managing infrastructure development projects to ensure the efficient and sustainable supply of water and to guide implementation of the Water Development Plan. This includes progressing specific infrastructure projects such as the Meander Dam to the stage at which an appropriate nongovernment body can take over the project. The department has been involved in managing the feasibility studies, developing the community information program and formulating the Development Proposal and Environmental Management Plan in cooperation with the Rivers and Water Supply Commission.

The latter plan for the Meander Dam was released in February 2002. It included a number of studies. Appendix E, for example, summarises an economic feasibility review of the dam proposal. That report found that preliminary estimates for pumping water into Weston Creek and the Rubicon River indicate a transfer cost of close to \$100 per megalitre. Such a cost is likely to be prohibitive for the intended irrigated dairy use, especially when added to the base Meander Dam water supply price. Unless the capital and operating costs of these two subsidiary schemes can be reduced, the stated demand is unlikely to be realised in practice. Some of the other off-river use also may prove to be too expensive.

In relation to dairy, indicative budgets suggest that a water price of \$50 per megalitre will be required for profitable investment in new irrigation infrastructure. Farmers with infrastructure already in place but with a shortage of water may be prepared to pay up to \$100 per megalitre.

Crop farmers may be able to pay more than dairy farmers, depending on the intensity of cropping being undertaken, the anticipated gross margins, and the required rate of return on any new irrigation facilities. Indicative budgets suggest that prices in excess of \$200 per megalitre could be justified in some cases. In practice, however, a maximum or break-even price for water is likely to be between \$100 and \$150 per megalitre. At this level, total demand may not be sufficiently high.

A follow-up visit with 26 large potential users indicated some potential for further development of on-farm storage. Depending on the efficiency of the site, the effective annual cost of on-farm storage varies from around \$5 to \$100 per megalitre. For farmers with unused sites, these figures will place an upper limit on what they are prepared to pay for water from the proposed scheme.

The report found that if no dam is built, and plans proceed to increase environmental flows and to reduce summer take, then severe economic impacts are likely in the region. Reduced irrigation will mean reduced crop and livestock production, leading to reduced profits and reduced employment. On the other hand, an expansion of irrigation will lead to increased output and employment with significant benefits to the region.

Industry has indicated that increased production opportunities within the Meander Valley would occur through more secure water supplies and that future prosperity of farm businesses will depend on this water. Except in the exceptional years of ideal seasonal conditions or abnormally high market prices, dryland agriculture is unlikely to be the key driver towards increased wealth in the valley in the long term.

During the farm survey, many landholders voiced concern about the current and future environmental health of the Meander River. Some felt this concern so strongly that they believed the dam should be built just as much to deliver higher flow rates in the summer as to provide landowners with additional water for irrigation.

The report also considers the issue of financing the dam proposal. The return on investment calculations are low compared with the range of generally expected returns on investments for other infrastructure projects. Further specification of project risks and the willingness of potential funding sources (for example, the Government, Hydro Tasmania and purchasers of water rights) to accept low or zero rates of return and assume higher levels of risk may alter outside investors' perceptions of the project.

The majority of prices within the proposed pricing range appear to be outside existing market tolerance levels, given the range of investment returns. A commercial viewpoint of the project indicates that the project is not viable

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given the economic report on price and demand levels compared with the capital cost of the project and investment rates of return. As demonstrated above, however, an effective ownership structure may provide returns that attract outsider investors.

Appendix N of the development proposal and environmental management plan considers the ecological impact of the Meander Dam proposal on the spotted-tailed quoll. The University of Tasmania completed this work in October 2001. At the regional level, the site represents a significant area of habitat in the local area. At the State level, the site is important within the core distribution range of spotted-tailed quolls in Tasmania. At least half of the remaining number of spotted-tailed quolls live in Tasmania, although significant densities of the species are restricted to the small northern coastal strip. The quoll is listed as vulnerable under the Commonwealth's Environment Protection and Biodiversity Conservation Act.

For three reasons, local population extinction is the likely scenario if the dam proceeds. These reasons are the low quality of surrounding habitat, the intense competition from resident quolls in potential dispersal areas, and increased human contact and human-induced mortality. The Upper Meander catchment is critical to the regional preservation of the species. The dam site is also part of an important wildlife corridor linking eastern and central Tasmania with quoll populations in the Gog Range, Mount Roland and the north coast. There are no viable alternatives other than the protection of this important habitat and population.

The Department of Primary Industries, Water and Environment have indicated the presence of a plant, *Epacris exerta* at the site is significant with regard to the requirements of State and Commonwealth threatened species legislation. The species only inhabits Tasmania and is listed as endangered under the Environment Protection and Biodiversity Conservation Act. There is a significant population at the dam site that would be destroyed if the dam proceeds and a population downstream of the site that may be damaged by altered flow patterns.

Appendix T of the development proposal and environmental management plan contains a proposed Meander water management plan scenario based on the dam proceeding. Development of the Meander water management plan is on hold pending the outcome of the dam approvals process. Tasmania is also considering further options for funding the Meander Dam. The Department of Primary Industries, Water and Environment commissioned an agricultural and economic report to be prepared as part of the Meander Dam feasibility study released in March 2002. Davey & Maynard Agricultural Consulting and Deloitte Touche Tohmatsu Serve-Ag conducted a feasibility study investigating the agricultural and economic aspects of the proposed Meander Dam.

This consultancy concluded that there are good prospects for the scheme proving to be financially viable, based on an anticipated capital cost of around \$30 million and a proposed funding model that includes contributions by Government, an electricity generator and one or more

private investors. The private investor contribution could come partly or wholly from prospective irrigators. The report, however, also contained the following conclusion:

*To be financially viable at the anticipated capital cost, the Government contribution may need to be provided with no return. This may be justified on a number of public good benefits, including improvements to environmental flows, flood mitigation, and for broader economic benefits to the region and the State ... A commercial viewpoint of the project on a stand-alone basis indicated that the project requires additional assistance given the economic report on price and demand levels vis-à-vis the likely capital cost and investment returns. (D&MDTT 2002, p.1)*

The consultants found that there is sufficient irrigation land along the Meander River to fully use the water proposed and that the potential for salinity appears relatively low.

Potential investors such as the Government, the electricity generator and purchasers of water rights may need to accept lower rates of return and assume higher levels of risk if third party investors are to achieve commercial returns. The feasibility study outlined one possible scenario for funding: based on the cost of the proposed dam and mini hydro scheme of \$29.4 million, the State and Commonwealth Governments could provide \$9.5 million, the electricity generator could provide \$6.3 million and private investors and farmers could provide \$13.6 million.

Based on this scenario, private investors could earn a 7–9 per cent return if the Government accepted a zero return on its contribution, the electricity generator accepted an 11 per cent return on its investment, and farmers were willing to pay \$55–\$75 per megalitre for water. The report recommends a project risk analysis and the development of a project risk matrix to refine the evaluation of investment returns.

#### *Next steps*

An application for a permit to commence construction of the Meander Dam was submitted in November 2001 and is being assessed under the statutory processes of the Water Management Act and the Environmental Management and Pollution Control Act. The development proposal has also been designated a controlled activity under the Commonwealth Environment Protection and Biodiversity Conservation Act. Under these legislative processes, final decisions on the statutory environmental approvals for the project are not expected until August 2002.

Tasmania provided the Council with a timetable of the key milestone dates concerning the development of the dam. It called for expressions of interest in the design and construction of the dam in late May 2002 and a decision on the issue of a dam permit will not occur before July 2002. A final decision by the Commonwealth on whether the dam project raises ecological issues under the Environment Protection and Biodiversity Conservation Act cannot occur



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under the statutory process before 2 August 2002. On 8 June 2002, the Tasmanian Government advertised for expressions of interest in the design, construction, financing and operation of the Meander Dam. If approval is forthcoming, then Tasmania intends to let the contract for design and construction in August 2002 and aim for construction to be completed by August 2004.

In responding to the consultants report that shows the dam is not financially viable, Tasmania has advised the Council that further work will be done to demonstrate the economic viability of the dam proposal, including the additional benefits the dam will generate for environmental flows and the public good. The Government is aware of its obligations in terms of CoAG water reform to show that any new investment is economically viable and ecologically sustainable.

Based on the above timeframe, the development of the Meander Dam and all issues raised by submissions will be a significant 2003 NCP assessment issue.

#### *Other dam proposals*

In May 2002, the Tasmanian Government announced that two further rural consultancies are under way to focus on preliminary design works and environmental scoping for specific rural water development proposals.

- In the Circular Head region, improved water availability may provide strategic benefits for the dairy industry, with greater opportunities for milk production via an increased area of irrigated pasture. A 5-gigalitre storage at Edith Creek (a tributary of the Duck River) could provide summer flow for Edith Creek and the Lower Duck River for irrigation.
- In the Central Highlands region, improving water availability by taking winter and/or flood flows into storage to supplement or increase irrigation would provide benefits for agricultural production and could provide environmental benefits for Lake Crescent and Lake Sorell. An 18-gigalitre dam and the building of a canal or pipelines at Christian Marsh on the Shannon River is proposed to enable distribution in the Clyde River.

## Submissions

The Tasmanian Conservation Trust (2002, submission 7) is highly concerned with the proposed Meander Dam development and argues that the Government seems committed to the construction of the dam without first assessing its economic viability and ecologically sustainability. The trust argues the following points.

- The dam would have significant impacts on two nationally listed threatened species: spotted-tail quoll and the South Esk heath subspecies *Epacris*. No effective mitigation measures have yet been proposed and, in at least one case, the advice of expert consultants has been ignored.

- No evidence of economic viability of this proposal has been provided. At the time of writing, the full economic feasibility study is still not available, with only eight days remaining in the public submission process.
- The draft development proposal and environmental management plan states that 'the majority of prices within the theoretical pricing range appear to be outside existing market tolerance levels' (p.4), and 'a commercial viewpoint of the project on a stand-alone basis indicates that the project is unviable given the economic report on price and demand levels vis-à-vis the capital cost of the project and investment rates of return' (p.4).
- The area immediately upstream of the proposed dam suffers from severe erosion and is considered Tasmania's most degraded sub-alpine area.
- The proposal is proceeding independently of a water management plan for the Meander catchment. Additionally, a major justification for the dam is to provide environmental flows in the Meander River. There is significant unlicensed take from the river. The proposal is an attempt by the Tasmanian Government to avoid its obligations under principle 5 of the national principles for the provision of water for ecosystems in this catchment.
- The Government is acting as both the proponent and assessing body.

## **Institutional reform: structural separation**

**Progress report:** Implementation of mechanisms to improve the transparency of reporting local government performance, including service charters and complaints handling mechanisms and the separation of service provision and regulation and the role of the Rivers and Water Supply Commission.

**Next full assessment:** The Council will assess institutional reform in 2003.

**Reference:** Water reform agreement, clause 6

## **Background**

In the 2001 NCP assessment the Council identified two areas of institutional reform where there were still outstanding issues for Tasmania. These included:

- transparency in the setting of prices and service standards from service provision among local government service providers; and
- separation in the management of resource, water allocation and environmental regulation from service provision by the Rivers and Water Supply Commission.

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## Local government

For local government retail service providers the Council has recognised that the size of many of these water businesses means that the best approach to meeting the institutional reform commitments is to provide for accountability and transparency in setting and reporting prices and service standards.

In 2001, the Council raised concerns about transparency in price setting and, in particular, whether information would be publicly available in a form that allows comparisons between local governments. In response, Tasmania committed to taking a proposal to the Premier prior to the 2002 NCP assessment to improve the transparency of reporting on local government performance. The Council noted that this proposal would need to address the issues of CSOs and cross-subsidies as well as pricing.

The Council has also raised concerns about the regulation of service standards by local governments. The 2001 NCP assessment noted that Tasmania had commenced a process to improve the transparency of the customer service standards of local government water businesses. Tasmania had informed the Council that in the six months following that assessment it would work with local governments to develop customer service charters and complaints handling processes.

## Rivers and Water Supply Commission

The Minister for Primary Industries, Water and Environment is responsible for resource management and water allocations. Currently the same Minister is one of the shareholders of the Rivers and Water Supply Commission. This can raise potential conflicts because the processes of water resource planning and ensuring compliance with water management requirements can affect the commercial viability of the Rivers and Water Supply Commission's business. To address these issues the Council is looking for procedures and other measures to ensure potential conflicts of interest are minimised.

The Council noted that in its 2002 assessment it would look at the progress and outcomes of the water planning process and the scope and monitoring processes for the Rivers and Water Supply Commission's Operating Licence, to determine whether these mechanisms are delivering sufficient transparency to minimise any potential conflicts of interest.

## Tasmanian progress

Tasmania has not provided the Council with any further information on what mechanisms it is considering for improving the transparency of pricing, CSO and cross-subsidy information, when a proposal was taken to the Treasurer or when it will be implemented. To the Council's knowledge, there has been no progress on this issue.

In March 2002, Tasmania informed the Council that the Premier's Local Government Council is developing a complaints handling mechanism, a service charter and access to the ombudsman. The Council has not been provided with any detail on these initiatives and progress appears to be behind the six months suggested by Tasmania in 2001.

In its 2002 NCP annual report Tasmania stated that the Rivers and Water Supply Commission licence is not yet complete and the terms and conditions need to be finalised over the next few months. Tasmania has noted that the licence will cover monitoring and enforcement.

## Submissions

The Tasmanian Conservation Trust (2002, submission 7) argues that the roles of water resource management, standards setting, regulatory enforcement and service provision are inextricably linked within the Tasmanian Government and heavily influenced by politics. Institutional separation is cosmetic at best.

Robert Rockefeller (2002, submission 18) raises issues about the structural separation of water service providers in Tasmania. His comments focus on a concern that there is insufficient transparency in the regulatory framework, the Government Prices Oversight Commission's powers are too narrow and the State and local governments have not separated regulation from the operation of water and wastewater businesses. Specifically he argued that:

- there is insufficient rigor and transparency in local government cost effectiveness studies of two-part water pricing; and
- retail water services should be regulated by the Government Prices Oversight Commission and the absence of such regulation is resulting in inappropriate approaches to asset valuation. This is leading to levels of cost recovery that are not based on appropriate pricing guidelines, a lack of transparency in CSOs and inefficient and nontransparent cross-subsidies.

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## **Institutional reform: devolution**

**Progress report:** Developments in devolving irrigation scheme management.

**Next full agreement:** The Council will assess institutional reform in 2003.

**Reference:** Water reform agreement, clause 6(g)

### **Background and progress**

The Council's 2001 NCP assessment reported that Tasmania had shown commitment to working through the issues for devolution and was engaged in processes to deliver the commitment. The institutional arrangements, however, had not been finalised and two of the three schemes had chosen to delay their decision until research and information was available on the Cressy–Longford process.

While the approach to devolution has not been finalised in all schemes Tasmania has made sound progress over the last year. Following an investigation of the alternative management options, the Rivers and Water Supply Commission entered into negotiations with elected representatives of the Cressy–Longford Irrigation Area, and funded independent financial, business and legal advice for Cressy–Longford representatives.

It was originally agreed that responsibility for day to day scheme operations, administration and management, including price setting, staff management, and ownership of the operational assets would be handed over in March 2001. Prior to the proposed handover date, however, the Australian Tax Office retracted previous advice that the Cressy–Longford Irrigation Area would qualify as a tax free entity. Given the new irrigator association is now considered to be a taxable entity, a review of the association's business plan was necessary and hence the handover was postponed until 1 April 2002.

Negotiations commenced with Winnaleah Scheme Irrigators at a meeting in August 2001 for handover of the Winnaleah Scheme on similar grounds to that agreed with Cressy-Longford. Discussions with Winnaleah were delayed during the consideration and settlement of the tax status of Cressy-Longford. The process of devolution is continuing and irrigators appointed new scheme managers for the Winnaleah Scheme in September 2001.

Following settlement with Cressy-Longford and Winnaleah Schemes, negotiations with South–East Scheme Irrigators are expected to commence promptly.

## Attachment 1: 2002 Environmental flows/water for ecosystems impact matrix

<i>Catchment</i>	<i>Water Development Priority</i>	<i>Water Quality Priority</i>	<i>Water Use Priority</i>	<i>Instream Ecology Priority</i>	<i>Estuary Conservation Status</i>	<i>Industry Priorities</i>	<i>NCC Priority</i>	<i>NCC TIMELINE</i>	<i>Mar 2002 Work Status</i>
Brid R	H	3	H	5	Degraded	IRRIGATION	1	Aug-99	Completed.
Elizabeth R	H	1	H	5	Critical	HYDRO TAS	1	Jul-99	Completed.
Esperance R	L	4	H	3	Moderate	INDUSTRY	1	n/a	Completed.
Gt Forester R	H	3	H	5	Degraded	IRRIGATION	1	Nov-99	Completed.
Liffey R	H	1	H	5	Critical	HYDRO TAS	1	Aug-99	Completed.
Macquarie R	H	1	H	5	Critical	HYDRO TAS	1	Dec-99	Completed.
Meander R	H		H	5	Critical	HYDRO TAS	1	n/a	Completed.
North Esk R	H	1	H	5	Critical	WSUPPLY	1	Aug-99	Completed.
Pipers R	H	3	H	5	Moderate	IRRIGATION	1	Aug-99	Completed.
St Patricks R	H	1	H	5	Critical	WSUPPLY	1	Aug-99	Completed.
Tooms R	H	1	H	5	Critical	HYDRO TAS	1	Jul-99	Completed.
Upper Mersey R	H	5	H	5	Badly Degraded	HYDRO TAS	1	n/a	Completed.
Upper Ringarooma R	H	4	M	6	High	IRRIGATION	1	Aug-99	Completed.
South Esk R	H	1	H	5	Critical	HYDRO TAS	1	n/a	Completed.
Ansons R	L		L	5	Moderate	IRRIGATION	2	Mar-00	Completed.
Boobyalla R	H		L	5	High	IRRIGATION	2	Mar-00	Completed.
Clyde R	H	6	H	1	Moderate	INDUSTRY	2	Jun-00	Completed.
Duck R	H	2	M	1	Degraded	IRRIGATION	2	Dec-00	Completed.

<i>Catchment</i>	<i>Water Development Priority</i>	<i>Water Quality Priority</i>	<i>Water Use Priority</i>	<i>Instream Ecology Priority</i>	<i>Estuary Conservation Status</i>	<i>Industry Priorities</i>	<i>NCC Priority</i>	<i>NCC TIMELINE</i>	<i>Mar 2002 Work Status</i>
George R	L	3	L	5	Degraded / Moderate	WSUPPLY	2	Mar-00	Completed.
Gt Musselroe R	H		L	5	Moderate	IRRIGATION	2	Mar-00	Completed.
Lower Mersey R	H	5	H	5	Badly Degraded	HYDRO TAS	2	Mar-00	Completed.
Lower Ringarooma R	H	3	M	5	High	IRRIGATION	2	Jun-00	Completed.
Lt Forester R	M		M	5	Moderate	-	2	Jun-00	Completed.
Lt Musselroe	H		L	5	High	-	2	Aug-00	Completed.
Mountain R	H	4	H	1	Moderate	IRRIGATION	2	Mar-00	Completed.
Nichols Rvt	H	4	H	5	Degraded	WSUPPLY	2	Sep-00	Completed.
Tomahawk R	H		L	5	Moderate	-	2	Jun-00	Completed.
Blythe R	H	2	M	2	Degraded	INDUSTRY	3	Dec-01	Completed.
Browns	L	4	M	5	Moderate	-	3	Dec-01	Completed.
Cam R	H	2	M	1	Badly Degraded	WSUPPLY	3	Dec-01	Completed
Coal R	H	6	H	1	Degraded	INDUSTRY	3	<del>Jun-01</del> . Revised to Aug 2003	Fieldwork completed.
Emu R	H	2	M	1	Badly Degraded	INDUSTRY	3	Dec-01	Completed.
Leven R	H	5	L	1	Badly Degraded	IRRIGATION	3	<del>Dec-01</del> . Revised to Sep 2003	Part complete.
Lt Swanport R	H	6	M	2	Moderate	IRRIGATION	3	Jun-01	Completed.
Montagu R	H	2	M	1	Moderate	IRRIGATION	3	<del>Dec-01</del> . Revised to Dec 2003	Part complete.
NW Bay Rvt	H		H	2	Badly Degraded	IRRIGATION	3	Mar-01	Completed.
Rubicon R	H	5	H	5	Degraded	IRRIGATION	3	<del>Dec-01</del> . Revised to	Under analysis.

<i>Catchment</i>	<i>Water Development Priority</i>	<i>Water Quality Priority</i>	<i>Water Use Priority</i>	<i>Instream Ecology Priority</i>	<i>Estuary Conservation Status</i>	<i>Industry Priorities</i>	<i>NCC Priority</i>	<i>NCC TIMELINE</i>	<i>Mar 2002 Work Status</i>
								Jun 2002	
Swan	H		H	5	High	IRRIG/WS	3	Jun-01	Completed.
Welcome R	H	2	M	1	Moderate	-	3	<del>Dec-04</del> . Revised to Dec 2003	Some field work completed.
Derwent R	M	6	H	5	Moderate	HYDRO TAS	4	<del>Jun-06</del> . Revised to Jun 2002	Some field work and analysis completed.
Forth R	H	5	L	5	Degraded	HYDRO TAS	4	Jun-06	
Gordon R	L	8	H	5	Moderate	BASSLINK	4	Jun-03	Completed.
Jordan R.	H		H	1	Moderate	IRRIGATION	4	<del>Dec-02</del> . To be revised	Novel approach required.
Lake R	H		H	1	Critical	HYDRO TAS	4	Jun-04	Part complete.
Ouse R	H	6	H	5	Moderate	HYDRO TAS	4	Jun-06	Some field work completed.

Source: Government of Tasmania (2002, unpublished)