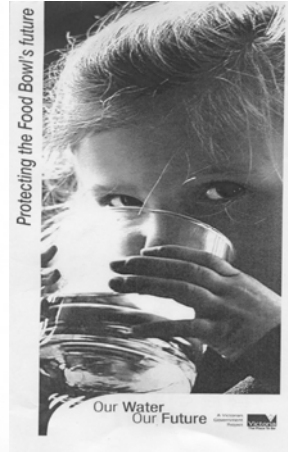




Some Starters

- Thanks to organisers, particularly Katrina
- Paper available from the web
- Thanks to Sue O'Keefe
- Warning – Policy criticism ahead
- Structure:
 - Broad observations about water policy
 - Specific concerns about infrastructure upgrades
 - Urban tariffs
 - Concluding remarks

Politics and Policy



DISCLAIMER

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

The Real Problem

- Sensible response to scarcity given hydrological variability?
- How to stop government dabbling with resource allocation to achieve income redistribution?

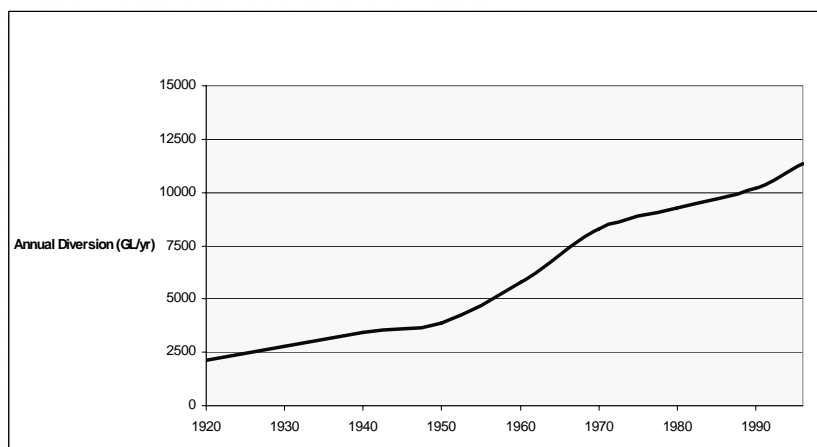
The Real Problem

- Sensible response to scarcity given hydrological variability?
- Answer: One size does not fit all

The Real Problem

- How to stop government dabbling with resource allocation to achieve income redistribution?
- Much more complex – some background using the Murray-Darling Basin (but the lessons are broader)

Policy Achievements - The Cap



Diversions from the M-D Basin

Some Recent Policy History

- Water Reform Framework 1994
 - Separate land and water
 - Kick start a market
 - (insufficient attention to basics of property rights)
- National Water Initiative

Some Recent Policy History

- Independent Audit Group ranking of rights:
 1. Statutory rights with history of use
 2. Statutory rights with no history of use
 3. Non-statutory rights with history of use

- The Basic Problem:

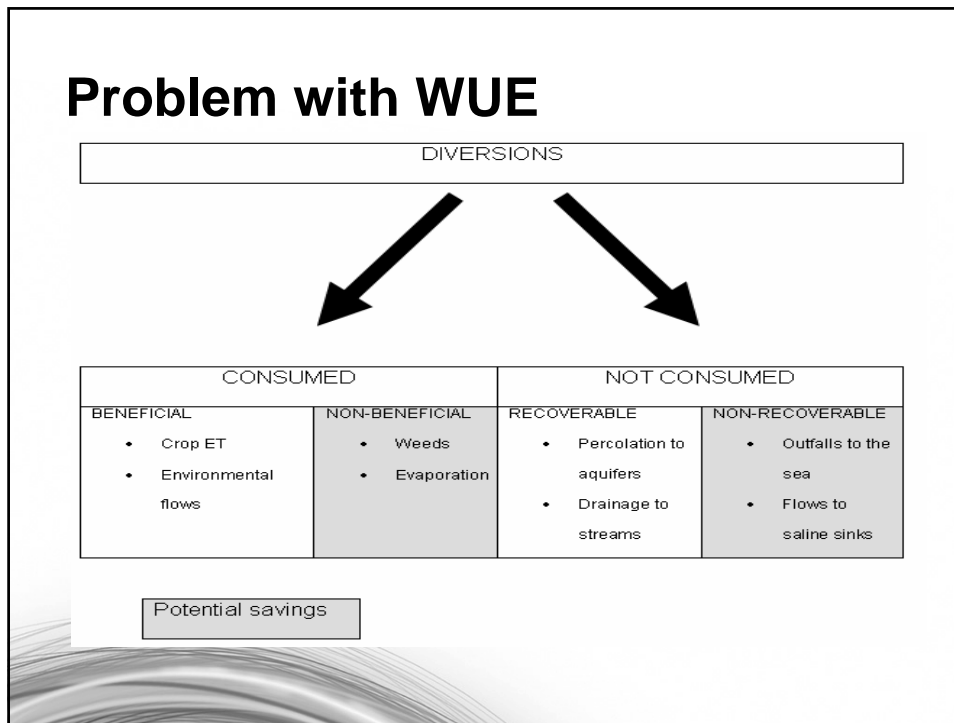
$$1 + 2 + 3 > \text{Cap}$$

Some Recent Policy History

- Solutions:
 1. Buy back rights
 2. Allow rights to expire or degrade on renewal
 3. WUE projects to 'save' water
 4. Impose an efficiency 'dividend' via WUE
- Solutions 1 & 2 have been left as the solution of last resort

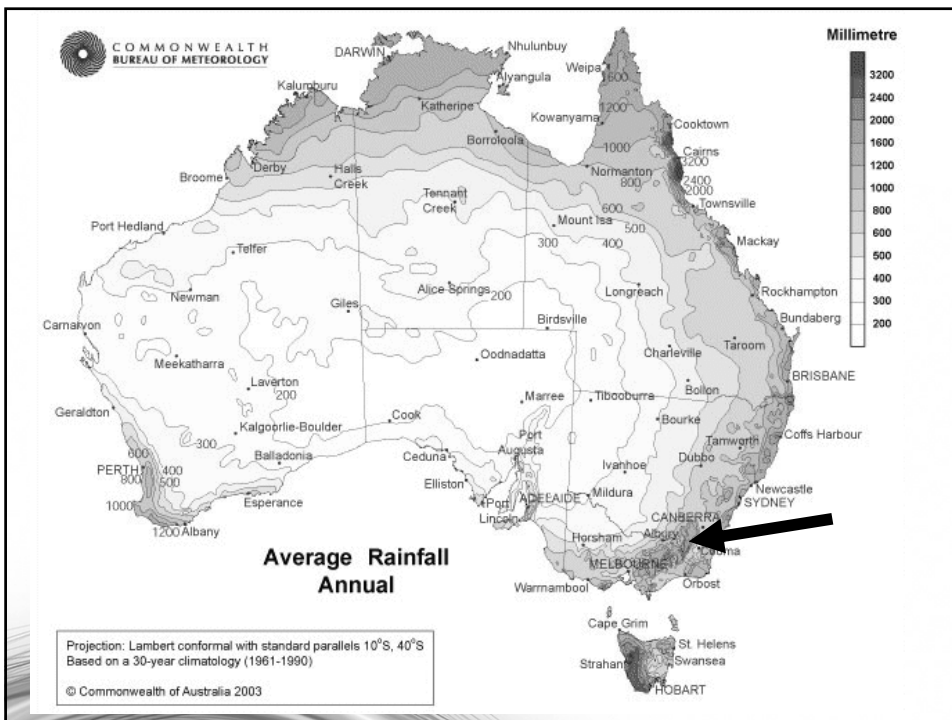
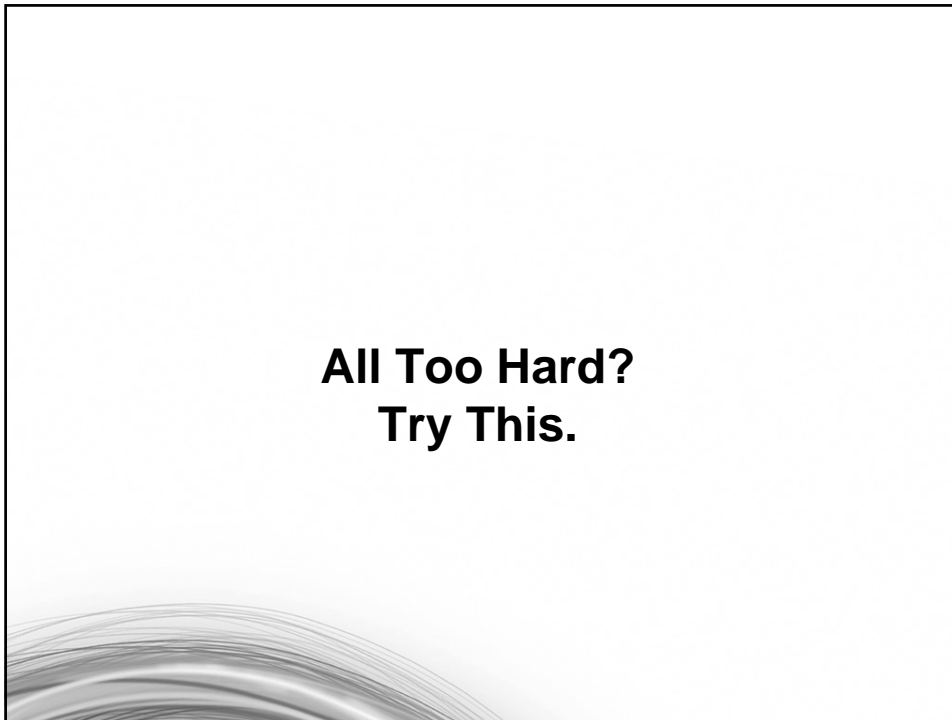
The Problems with Modernisation (WUE)

- Cost (fixation with a single input)
- Limited accounting for hydrology and scale



Market Impacts

- The demand for water increases within the project area
- Those outside the project area will also need to buy more water to offset decline in reliability
- Price of water increases
- Rights commonly offered for sale have declining reliability

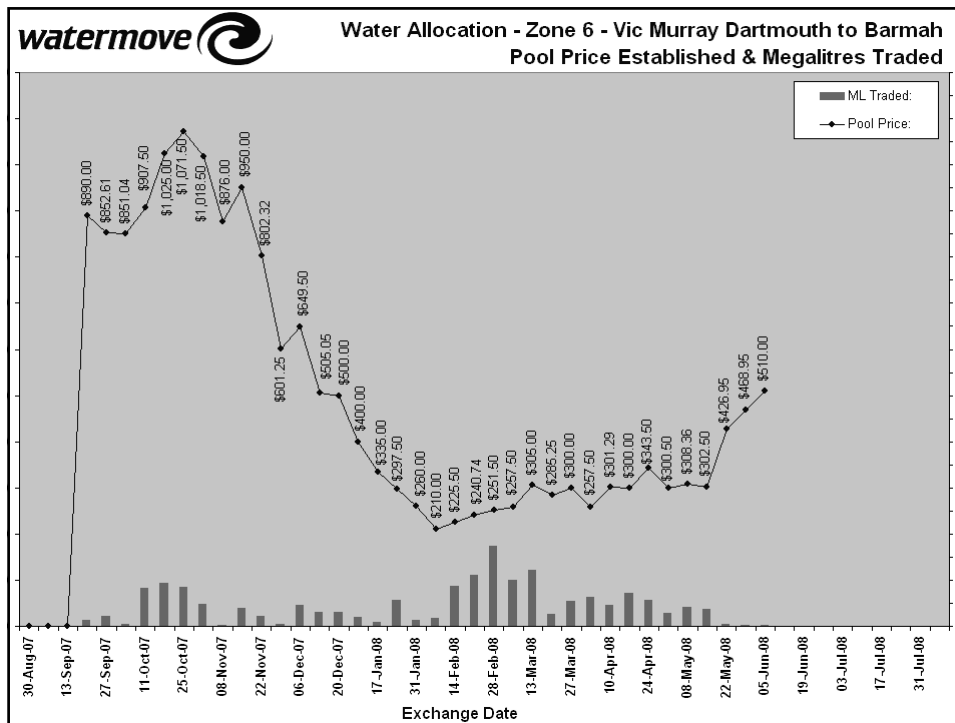


Jurisdictional Differences

- Albury:
 - Fixed charge = \$500
 - Volumetric IBT
 - Step 1 set at 50 cents per kilolitre
 - Stage 4 restrictions

Jurisdictional Differences

- Wodonga:
 - Fixed charge = \$370
 - Single volumetric rate set at \$1.50 per kilolitre
 - Stage 1 restrictions and no change foreshadowed this summer



Concluding Remarks

- Markets being subverted by other policy actions
- No quick fix in sight
- Tariffs are doable and should receive more attention

