


# **“Gifted assets: Is it sensible to promote water markets and simultaneously subsidise irrigation infrastructure?”**

Lin Crase, Nick Pawsey and Sue O’Keefe (Centre for Water Policy and Management)

# Theoretical benefits of water markets

- Empowerment
  - Security of tenure → Water saving investment
  - Consideration of opportunity cost → Water saving investment
  - Capacity to internalise externalities
  - Flexibility to respond to change
  - Consistent with tariff reform
- 

# Empirical support

- NWC reports
- Drought
- Others (e.g. Cummins and Watson)








# How does the policy mix for MDB over-allocation fit with water markets?

- Buyback
- Allow rights to change over time
- Mandate WUE
- Public subsidy of infrastructure

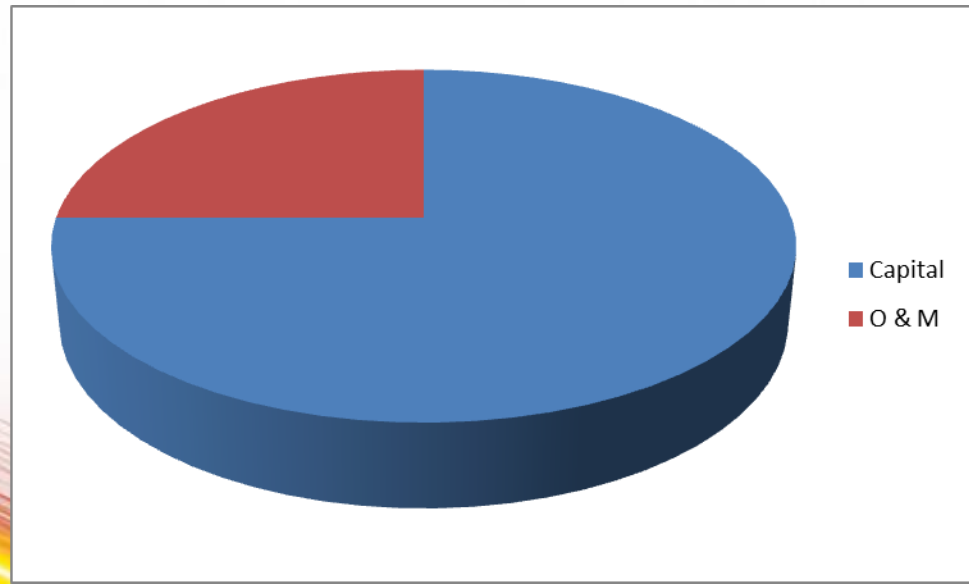


# The rationale of water markets and infrastructure subsidies

- Empowerment 
- Security of tenure → Water saving investment 
- Consideration of opportunity cost → Water saving investment 
- Capacity to internalise externalities 
- Flexibility to respond to change 
- Consistent with tariff reform

# Gifted Infrastructure and Tariffs

- Reform = Water Markets AND Tariff Reform
- Tariffs to reflect costs



# Two Sets of Books

- Regulatory Asset Base
  - No gifted assets
- Statutory Asset Base
  - Gifted assets at fair value



# How does this impact tariffs?

For G-MW (2011)

RAB revenue requirement = \$102 m

SAB revenue requirement = \$310 m

Tariffs need to increase 302%

And NVIRP stage 2 yet to come!!





# Concluding remarks

- Water markets plus tariff reform → Economic efficiency
- MDB over-allocation → Revert to subsidy
- Tariff distortions from gifted assets set to further undermine market incentives



Thank You



# 5<sup>th</sup> Annual Water Forum November 8

2012  
8.30am - 5pm

La Trobe University, North East Water and The Murray-Darling Freshwater Research Centre present the 5<sup>th</sup> Annual Water Forum

## Does water policy and management make use of the best available science?

### Keynote presentations:

Dr Ron Ben-David, Chair, Essential Services Commission Victoria  
**“Water Pricing: science or art?”**

Annie Volkering, Director, Knowledge, Standards and Assessment, EPA Vic  
(Topic and Bio to be provided)

Dr Greg Rasin, Director TLM Monitoring, The Murray-Darling Basin Authority  
**“Influence of science on NRM policy”**

Dr Jody Swirepik PSM, Executive Director Environmental Management Division,  
The Murray-Darling Basin Authority  
**“The influence of science on the Basin Plan”**

Dr John Whittington, General Manager, Resources Management and Conservation,  
Department of Primary Industries and Water, Tasmania  
**“Informed decision making - where do scientists fit in?”**

Wayne Tennant, Strategic River Health Manager, Goulburn Broken Catchment  
Management Authority  
(Topic and Bio to be provided)

Dr Jane Doolan, Deputy Secretary Water Group, Department of Sustainability and  
Environment  
**“Improving the communication of science for policy makers”**

Held at La Trobe University, University Drive, Wodonga Victoria 3690

Further information - or to register your interest,  
visit [www.latrobe.edu.au/cwpm](http://www.latrobe.edu.au/cwpm) or T: (02) 6024 9868 | E: [cwpm@latrobe.edu.au](mailto:cwpm@latrobe.edu.au)