

The Economics of Water

The public meeting in Port Lincoln enabled me to get a fuller idea of the discussion supporting the ESCOSA Economic Report on Water for the State Government.

Before the meeting I read thoroughly the Executive Summary (my small printer was not up to the task of downloading the full Report) and understood it pretty well. However, various nuances came out while participating in the public forum.

I was most conscious of the limitations surrounding the focus of the document, and accepted for discussion the need for them. At the end of the discussion, although I understood the presentation and comments made, I became concerned for the issues that were being deliberately minimized by the imposition of the basic requirements.

I will try to explain.

It was made clear that a purely economic appraisal of our present water pricing system showed up the problem of providing water at rates below cost for everyone and not just those considered in need. Action on this could save money BUT the present system ensures that ALL those in need get the subsidy. It is likely that a pure economic approach would require ALL those in need to actually be identified and then compensated in some way. Inevitably (?) some people will fall through the cracks in this approach. Some sort of social justice concern might therefore require, initially, for everyone to receive the subsidy unless identified as being able to do without. Although outside the brief of the presentation, it still needs to be included in any deliberations by the Government.

Another factor that underlay much of the discussion was the intention to maintain SA Water's dominant, even monopolistic position regarding the sale of water. I am not sure that the future of SA Water should be seen as being fortified so it can continue as in the past. The future of SA Water might be better served if it was seen to be not just the provider of water (and sewage services) but the conservator of our water as well. Could not SA Water be paid not just for selling water, but for conserving it as well? Presumably conservation could go a long way to deferring future expenditure on infrastructure by encouraging water use and supply other than by more pipes and pumps? The best example is the present expenditure of \$3.8 m by SA Water on a pipeline connecting Coffin Bay to the Port Lincoln basins. This would not be necessary if all householders in Coffin Bay were required to have at least 10,000 gallons in water storage (or some amount depending on the size of the roof of their dwelling).

I have since consulted some thoughts by Mike Young (an acknowledged water economist) and he reminds me that the first consideration in water economics is the maintenance of the system that provides the water. I fear the emphasis on an economic perspective on EP will pass over the fact that our water comes from underground tanks (basins) that at one time were FULL but are now extraordinarily depleted. Unless the economic system sets out to repair the present water supply by emphasizing restoration right at the start (ie before implementation) then no matter how well the economics are applied, the region will soon be in a position of having huge sums spent on supplying more water. In fact, it is still possible to create an ecologically sustainable solution, but will the present emphasis on economics make that more and more impossible?

A few days later:

I have not read what I have already written – I am just forging ahead. Any repetition only indicates its importance to me.

I have been reading “Adelaide – Water of a City” Wakefield Press because I new it contained relevant thoughts, many by Mike Young, but also to broaden my outlook, even just temporarily.

One persistent thought in the last few days relates to farmers. If there is going to be a purely economic framework for water supply in the future, then famers and all other businesses must pay exactly the same price as people in urban areas. The only exception I can think of is fire brigades – they can access water for free – everyone else pays, the same!

The most telling thing I read (page 299) says:

“A further very important aspect that must be considered when using market processes to allocate water is the interaction between these [economic] mechanisms and the natural environment. Once again this has received comparatively little discussion to date. The oft-quoted xxxx/kL price for water does not cover environmental costs or externalities. Thus redirecting water from Queensland to South Australia already an expensive option, may actually be prohibitively expensive if the true cost includes the loss of several bird species and diminished wetlands in Queensland..... The real problem here is lack of knowledge as to the ‘true’ costs, and the difficulties in estimating these accurately.”

This is what I mean by going down the economic pathway – it has to be all or nothing. If economic thinking is applied to a selected part of the problem and not all of it, it will be the environment that will suffer again, and again, and again.

I remind you that EP relies mainly on groundwater. A close examination of the problem will show that there is in fact very little water available for the public reticulated system. It has been over-extracted and looks like this will continue, for good economic reasons. However, that won't get our basins back. An empty tank is worthless, and even if it rains, if the demand will drain the tank in a few days (because it is cheaper to do so) it will remain empty. Its future should really be as a continuous sustainable supply for centuries.

I do not wish to write any more unless YOU think I can add something useful. I can back up every claim made here to show that previous water management here is a farce, and warn you that any price rise in water bills on EP will only push more people off SA Water and into getting even more rainwater tanks, leaving the best economic predictions in tatters.

D. John Hurwick