

Dear Paul,

Thank you for the Commission Report 8 on Prices. Please find attached the first chapter of a book describing the economic rationale behind Water Rewards. This is the crux of Edentiti's Water Rewards Commercial submission to the Chief Minister's Office and of our submission to the Water Commission for Residential Water.

If either of these submissions are accepted and implemented they will have an impact on water prices.

Water Rewards will increase prices along the lines of the Water Abstraction Charge or the increase in prices if individuals were given an allowance and then permitted to trade water. That is, we believe that Water Rewards should be considered by the Commission but purely as a method of raising and spending funds to increase water infrastructure capacity. The Rewards should not impact on, or assume the Commissions' task of setting tariffs for water and wastewater at levels that allow the ACTEW to recover their costs of providing water in and prudent and efficient manner. Another way of looking at Water Rewards is that it creates a market in ways of providing new water infrastructure and ways of saving water; it is not a market in water and so differs from other schemes such as water trading.

The approach is a different way of tackling the problem summarised by the phrase "The Tragedy of the Commons" and it gives communities an economically efficient yet fair way to build infrastructure for the "common good". This idea is expanded in the attachment titled "Reconciling self interest and community interests".

I have attached a summary of the submission to the Chief Minister on Commercial Water Rewards. The approach provides the government with a method of incorporating non economic goals into the provision of public services. For water the goal is assumed to be "the reduction in the need for water restrictions". This goal is achieved by demand management through price increases for high consumers and rewards for low consumers, and through increasing the effective supply of water through the construction of infrastructure to both save water and to increase supply.

For this method to operate efficiently we ask that the Commission permits the government to adjust tariffs for consumers to pay for Rewards. Rewards is a socially equitable method to increase prices for demand management in times of scarcity and so the level of Water Rewards should vary depending on the quantity of stored water and on anticipated runoff in the water catchments. That is, value of Water Rewards will rise and fall depending on storage. It is recommended that the government be permitted to set the level of Water Rewards without further reference to the ICRC and so reduce the need to impose water restrictions.

Besides impacting price, the result of this method will be the development of markets in Water Rewards and in water infrastructure technologies. Although it is to be proven we expect the price of Water Rewards to stabilise around the minimal marginal cost of new supplies of water. We also believe that the market in water infrastructure technologies will lead to the lowest cost savings in water and in the provision of new supplies.

Kevin Cox
for Water Rewards.

