



Submission to:
The Independent Pricing
and Regulatory Tribunal,
NSW

2006-2010 Bulk Water Prices for:
State Water Corporation and
Water Administration Ministerial Corp

A Submission prepared jointly by the:

Inland Rivers Network
WWF-Australia
Nature Conservation Council of NSW

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IPART Submission

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Previous submissions by the Conservation Groups (NCC, IRN, TEC, WWF) have provided comments to IPART on rural water pricing issues of significance from an environmental perspective. The Conservation Groups considered that establishing an appropriate pricing regime for water will encourage water users to reduce extractions and improve water efficiency, thereby improving the ecological integrity of our surface and ground water systems. IPART has indicated that increasing the price is unlikely to significantly reduce demand because of the high value of water to irrigators compared to its cost. However the Conservation Groups maintain that in many instances higher prices may discourage water use, for example, where water is used in marginal or low value activities and cannot be easily transferred through trading. Increased pricing will also encourage more efficient use of the resource.

It is important that funds made available to manage the environmental impacts of water extraction and use not be limited by the agencies ability to fully recover costs from users. Sufficient funds should be provided to the Department of Natural Resources (DNR) for effective and sustainable water resource management. Resource management costs must be based on scientifically determined needs for maintaining an ecologically sustainable river system and in meeting NSW's obligations under water reform agreements and legislation, in particular those detailed in the Water Management Act, support of the Catchment Management Authorities (CMAs), and implementation of Water Sharing Plans. NSW is also required to comply with commitments agreed to nationally under Council of Australian Governments (COAG) and the National Water Initiative (NWI). Funds provided for these activities should not be based on users' willingness to pay but on the adequately funding effective and sustainable water resource management, whether funds are source from users or the community.

The Conservation Groups previous submission on the 2006 Bulk Water Price Review focused on IPART supporting timely implementation prices that fully recover costs as obligated under the National Water Initiative (NWI), specifically,

- For the State Water Corporation (SWC) and DNR to prepare a price path required to achieve full recovery of costs.
- For SWC and DNR to commit to implement the price increases necessary to achieve full cost recovery over the price path detailed.
- To clearly identify those valleys in which users are considered incapable of paying the costs of water delivery and management. For these valleys, to outline the reasons full cost recovery cannot be achieved and to show the level of government subsidies required, with alternatives to continuing to provide subsidised water seriously investigated.

Comments on IPART's Current Draft Determination

Full Cost Recovery in the current price path

The Conservation Groups consider that a reasonable goal is for NSW is to achieve full recovery of costs for all valleys in the current price determination period. The Draft Report shows that in regulated rivers 96% of SWC's costs and 98% of DNR's costs are expected to be recovered by 2010. However, the Conservation Groups have suggested previously that full cost recovery could be achieved much more rapidly in regulated rivers for all but a few valleys (Peel, South and North Coast) which together use a relative small proportion of the total water supplied.

There is a lower level of recovery anticipated for DNR's costs of water resource management for unregulated rivers and groundwater, showing 90% and 74% recovery respectively. While it is encouraging that the current determination includes a price path, to 2010 and indicates the level of lower-bound cost recovery expected to be achieved, it greater effort needs to be made to fully recover the water management costs for unregulated rivers and groundwater. IPART has limited price increases for unregulated water to 15%/year for the North Coast, Murray and South Coast, valleys which will not recover costs over the price path. While in percentage terms this seems a reasonable approach, the annual dollar/ML price increases proposed are quite low averaging only \$0.39-\$0.79/ML per year. For groundwater, price increases are also low in absolute terms, being limited to a maximum of 15% per year, with the average increase over the determination period at \$.09 to \$0.78/ML per year for entitlements and \$0.05 to \$0.35/ML per year for usage. The importance of groundwater resources to a wide range of water users, and the expense of assessing and monitoring their condition, must be considered in determining the need for price increases.

While the NWI requires that states move towards upper bound pricing where practicable, at this stage little effort has been made in establishing a time line to recover prices to the upper bound level, including a return on capital on post 1997 assets.

A price path for full cost recovery

In its previous submission, the Conservation Groups recommended that price path be prepared detailing the increases required to achieve full cost recovery. The Conservation Groups maintain that this price path should be provided covering the current determination period. A long term price path will provide information to users on expected price increases and allow them to adjust their activities accordingly. It will also indicate the level of subsidy provided by the government and identify valleys where cost recovery will be difficult to achieve.

In the current determination, a few valleys have been identified as being unlikely to be able to fully recover costs. The level of on-going subsidies needs to be identified for these

valleys and alternative strategies need to be considered. The option of either reducing services or decommissioning the water infrastructure rather than continue providing heavily subsidised water to these valleys must seriously be evaluated. If the community determines that continuing subsidies to some users is justified, then it is suggested that these subsidies should be paid directly to specific users rather than through reduced prices to all users. Any such determination must be on the basis of over-riding community benefit and be made in a transparent and accountable manner.

Water Resource Management Costs

DNR originally forecasted water resource management costs at approximately \$53m/yr. IPART accepted recommendations in the consultant's report, reducing "efficient costs" to \$46-\$43m/yr. based on the assumption that a greater proportion of WRM costs will be undertaken by CMA's and the reduced costs of preparing water sharing plans.

The Conservation Groups consider it essential that funds are made available for necessary resource management activities and that these are undertaken. The consultants, Halcrow Pacific determined that the management of blue green algae and wetland recovery and planning are DNR activities that should be transferred to CMAs. However, it needs to be understood whether adequate resources will be available to CMAs to undertake the appropriate activities before these are removed from DNR's responsibility. It is not clear that there has been proper consultation with CMAs to determine whether this is the case. Costs should not be removed from DNR's cost base unless there is a sufficient degree of certainty that other organisations have the resources to undertake the activity. Further, we suggest that there is a need to cover any transition in responsibilities from DNR to CMA management where it occurs, supported by monitoring to facilitate process and outcome accountability.

A larger question that IPART might need to consider, relating to the costs of resource management activities undertaken by the CMAs, might be whether it is reasonable that a share of these costs be included in the prices charged to users under the same rationale that DNR's water resource management costs are currently allocated. The NWI calls for recovery of the costs of water planning and management (clause 67ii) but does not specify the source of those costs. Therefore the Conservation Groups would argue that proportion of those costs should be recovered from users whether they are provided by the DNR, DEC, CMAs or any other responsible agency.

In 1994 the COAG Water Reform Framework established the principle of full cost recovery for water. This principle was reaffirmed in the National Water Initiative guidelines. In the past twelve years there has been some progress but NSW has been unable to set water prices to achieve full recovery of costs. Under proposed price paths substantial gains in cost recovery will be achieved, with regulated and unregulated systems close to achieving full recovery of lower bound prices. However urgent progress still remains to be made in recovery of groundwater costs.

While the Conservation Groups are pleased that the proposed price path achieves a reasonable level of cost recovery, it is still felt that a price path demonstrating pricing necessary to achieve full cost pricing and a strategy for those valley that are assessed to be unable to pay for water supplied is necessary.

In addition the extent that externalities are being recovered needs to be considered and the steps necessary to move towards upper bound pricing. The Conservation Groups feel it is particularly important that water provided from new infrastructure, be required to recover full upper bound costs including capital recovery and a return on capital invested. While the Conservation Groups oppose the construction of new dams in principal, dams currently under construction in Queensland and Tasmania are not expected to recover upper bound costs, continuing to subsidise irrigation water to users.