

# **BULK WATER PRICES**

**1996/97**



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**A Review of the Pricing of Bulk Water Services by the Water  
Administration Ministerial Corporation**

**Bulk Water Price for 1996/97**



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES UNDER  
SECTION 12 (1)(a) OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
ACT, 1992**

**Matter No.:** SPDR/95/01

**Report:** No. 9, 1996

**Agency:** The Water Administration Ministerial Corporation  
(administered by the Department of Land and  
Water Conservation)

**Services:** Any services provided by the Water  
Administration Ministerial Corporation, to the  
extent that the service involves:

- a) the making available of water; or
- b) the making available of the Corporation's water  
supply facilities; or
- c) the supplying of water, whether by means of  
the Corporation's water supply facilities or  
otherwise

**Declaration of government monopoly services under Section 4 of the Act:**

Order dated 4 October 1995 - page 7115, Gazette No. 122

## **1 INTRODUCTION**

The Tribunal has been given a reference by the Premier under Section 12(1) of the Independent Pricing and Regulatory Tribunal Act 1992 to review of the pricing of water services and to determine the maximum price for water services supplied by the Water Administration Ministerial Corporation.

The Tribunal has considered both issues concurrently. An interim report for the pricing review will be released at the end of July 1996. However to allow sufficient notice of prices for 1996/97 the Tribunal has chosen to release its determination ahead of the review report. The determination is for the period 1 July 1996 to 30 June 1997<sup>1</sup>.

The interim report will give a detailed review of the basis of this determination including comprehensive coverage of the Tribunal's consideration of the matters listed in Section 15 of the Independent Pricing and Regulatory Tribunal Act 1992.

## **2 THE PRICE DETERMINATION PROCESS**

The Tribunal called for proposals from the Water Administration Ministerial Corporation for consideration of pricing principles and prices to apply from 1 July 1996 for the supply of water services. Submissions were invited from interested parties and the public on the appropriate pricing principles and prices to apply from that date.

Public hearings were held during February and March 1996 at Port Macquarie, Dubbo, Wagga Wagga, Leeton, Tamworth and Sydney.

Copies of all submissions and a transcript of the hearings are available for inspection at the Tribunal's offices, Level 2, 44 Market Street, Sydney. A list of submissions and selected summaries will be included in the interim report on the pricing review discussed above.

The Tribunal members who considered this determination were:

*Professor Thomas G. Parry, Chairman*

*Mr James Cox, Full-time Member*

*Ms Joan McClintock, Member*

*Professor Warren Musgrave, Temporary Member*

## **3 SUMMARY OF THE DETERMINATION**

- Maximum charges for the 1996/97 year will be limited to their 1995/96 levels. This includes the charges announced in the September 1995 Water Reform Package as set out in column 2 of Table 1 of the determination. It also includes some new charges, agreed between the Corporation and water user groups since September 1995, which are noted among those component charges listed in Table 2 to the determination.

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<sup>1</sup> For the Barwon region, water allocations are made on a 1 October to 30 September water year, while charges are levied quarterly on a 1 July to 30 June financial year. This arrangement will be preserved for the 1996/97 season.

- Some other periodic fees and charges which are set by Regulation (five-yearly fees for authorisations, permits, bore licences and approvals for flood control works) are not covered by the current determination as they were not examined during the recent public consultation process. They will be reviewed during the Tribunal's public consultation process in 1996/97 and varied where necessary for the 1997/98 season onwards.

## **4 BASIS OF THE TRIBUNAL'S DETERMINATION**

### **4.1 The Tribunal's Task**

The Tribunal strongly supports pricing mechanisms that recover the efficient costs of providing services. The Tribunal's task is to ensure the Water Administration Ministerial Corporation:

1. provides the appropriate level of water services in the most cost effective manner; and
2. recovers the cost of providing each water service from customers and others who benefit from that service.

The Corporation uses a set of infrastructure assets and incurs significant operating and maintenance costs to deliver water services. This includes costs incurred in managing and protecting river health and water users' rights. Informed judgements must be made to correctly measure costs, particularly in the case of infrastructure costs, and decide how these costs should be attributed to customers. In particular, many costs are incurred by the Corporation to provide benefits jointly to a number of customers. Difficult questions of judgement are involved in deciding on the correct sharing of costs between customers and other beneficiaries of water services.

### **4.2 Breadth of the task**

The Tribunal has conducted extensive public consultation on the pricing of water services and has investigated the pricing policies of the Corporation. The Tribunal has received a number of useful submissions from interested parties. A full list of submissions will be included in the interim report on pricing to be released at the end of July.

The Tribunal has gained an understanding of the great variety of water services provided by the Corporation. The Corporation provides water services ranging from the delivery of water via dams and weirs on regulated rivers<sup>2</sup>, to the licensing of water extraction from unregulated rivers and groundwater sources, as well as managing the impacts of river regulation and large scale water extraction from water sources.

The diversity of water sources managed by the Corporation is matched by the great diversity of customers. The Corporation's customers range from direct private beneficiaries, such as those holding licence entitlements, to more diffuse beneficiaries such as floodplain residents and the community of New South Wales generally.

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<sup>2</sup> A river is termed "regulated" where its flow is controlled by a structure owned by the Water Administration Ministerial Corporation. An "unregulated" river may in some instances still have its flow controlled, but the controlling structure is not owned by the Corporation.

The Corporation also receives revenue from a great variety of sources. Water users contribute revenue through a variety of annual water charges<sup>3</sup>, other periodic fees and charges, and, at times, voluntary levies. The NSW government makes annual budget allocations and the Federal government funds a kaleidoscope of specific program grants.

The Tribunal's task is to set prices for a variety of water services to be paid by an array of customer types, and to do so against the complexity of existing revenue streams. The information required to make these judgements is large and complex. While the Department of Land and Water Conservation (DLWC) has been most co-operative in providing information, much of the information required to examine costs and set prices in the way the Tribunal wishes is not currently available.

*Accordingly the Tribunal's determination for 1996/97 preserves, as far as possible, the level of charges in the 1995/96 season.* This includes a continuation of the increased charges that were introduced in the Government's 1995 water reform package, including the \$1.35 associated with the "resource management charge".

While the Tribunal currently lacks the necessary information to make systematic evaluations of all water charges, it does have sufficient information to conclude that the Corporation significantly under-recovers costs at the aggregate level.

The Corporation does need to recover more of its cost from water users. However, the Tribunal has identified several issues that need to be progressed before it can provide clear direction for water prices over the medium term. These include:

- the scope for efficiency improvements by the Department of Land and Water Conservation
- future capital expenditure requirements
- the identification of who benefits from particular expenditure
- the allocation of costs to user groups
- improving transparency and accountability and,
- the development of a regional focus for charging and service delivery.

The Tribunal's Interim Report, to be released at the end of July 1996, will set out a work program for the Corporation for the following twelve months to provide the information to assist in this assessment. This will enable the Tribunal to evaluate the services, costs and prices of the Corporation in a systematic way and revise prices for the 1997/98 season and beyond where necessary.

### **4.3 Costs of Resource Management**

During the Tribunal's review, much effort was put into debating the merits of the "Water Management Charge" introduced in the September 1995 Water Reform Package. Many submissions to the Tribunal claimed that the charge was a tax rather than a fee for service. The DLWC's submissions gave details of which costs are included in the charge. Debate

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<sup>3</sup> River operations account components of water charges are set in negotiation with regional water user advisory committees. Component charges set in this way often reflect local supply conditions and DLWC regional financial health. For example, water users in the Barwon region agreed to increase their water charges for 1995/96 by about 30%% from 1994/95 levels to fund a shortfall in the river operations account. Charges were also restructured into an access and availability charge to better suit prevalent drought conditions.

centred on whether revenue raised from the charge will be spent on water resource management which benefits those who pay the charge.

The Tribunal has formed the following conclusions on the Water Management Charge:

- The cost of water resource management by the DLWC and other government agencies should be recovered from those who benefit from the expenditure, but there is still uncertainty regarding the amount of spending required and who benefits from it.
- The revenue required to recover costs expended on water resource management is at least that level of revenue that will be recovered by the Water Management Charge in the coming season.
- water resource management requires expenditure at a basin-wide level, a valley-wide level and in some cases targeted expenditure on individual works. While recognising this, the Tribunal feels strongly that cross-subsidies should be minimised. Some of the money raised by the water management charge will need to be spent on State-wide or inter-valley resource management. As far as practicable, however, expenditure should be applied within valleys/catchments with consultation between the Corporation and key stakeholder groups in the catchments where the money is collected.
- Consultation with stakeholder groups should reflect the broad spectrum of water users and other interested parties. This should include, at least, water user groups, country town water supply authorities, environmental representatives, catchment landholders and government agencies.

#### **4.4 Towards pricing for 1997/98**

The Tribunal has chosen to release this brief report and determination for 1996/97 by the end of June 1996 to allow water users certainty on prices for the up-coming season.

The Tribunal's interim report on the pricing of water services by the Corporation will be released at the end of July. The report will detail the results of the current review process and identify work that must be done over the coming twelve months to achieve a systematic review of pricing for the 1997/98 year and beyond.

The Tribunal will call for further written submissions to be made on the interim report by the end of August 1996 and will hold a further public hearing during September 1996. A final report will be released at the end of October 1996.

Thomas G Parry  
*Chairman*  
25 June 1996



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

**DETERMINATION OF MAXIMUM PRICES UNDER SECTION 12 (1)(a) OF THE  
INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT, 1992**

**Matter No.:** SPDR/95/01

**Determination:** No 9, 1996

**Agency:** The Water Administration Ministerial Corporation  
(administered by the Department of Land and Water  
Conservation)

**Services:** Any services provided by the Water Administration  
Ministerial Corporation, to the extent that the service involves:

- a) the making available of water; or
- b) the making available of the Corporations water supply  
facilities; or
- c) the supplying of water, whether by means of the  
Corporation's water supply facilities or otherwise.

**Declaration of government monopoly services under Section 4 of the Act:**

Order dated 4 October 1995 - page 7115, Gazette No 122.

**Maximum prices determined under Section 14 of the Act to be charged during 1996/97 for  
water services.**

The maximum prices are shown in the attached tables.

Thomas G Parry  
*Chairman*  
25 June 1996



**Table 1: Maximum water charges for the 1996/97 year**

<b>USER CATEGORY</b>	<b>1995/96 CHARGES</b> (not set by the Tribunal)	<b>Maximum 1996/97 CHARGES</b>
<b>REGULATED FLOWS</b>		
<b>Irrigation</b>		
General Security	Charges as per Table 2 to this determination PLUS State-wide water management charge of \$1.35/ML (on licensed water entitlement)	1995/96 charges to apply
High Security	Charges as per Table 2 to this determination PLUS State-wide water management charge of \$1.35/ML (on licensed water entitlement)	1995/96 charges to apply
<b>Towns</b>	As for high security irrigation charges	1995/96 charges to apply
<b>Industry</b>	\$10/ML (on licensed water entitlement)	1995/96 charges to apply
<b>UNREGULATED FLOWS</b>		
<b>Irrigation</b>		
12ha and less	\$80/year	1995/96 charges to apply
12 to 20 ha	\$100/year	
20 to 40 ha	\$125/year	
40 to 80 ha	\$170/year	
80 to 162 ha	\$210/year	
larger than 162 ha	\$250/year	
<b>Town and Industry</b>	\$265/year	1995/96 charges to apply
<b>GROUNDWATER</b>		
<b>All commercial users</b>		
less than 20 ML/year allocation	\$75/year	1995/96 charges to apply
greater than 20 ML/year allocation	\$75/year plus \$0.40/ML (on licensed water entitlement)	1995/96 charges to apply
<b>Users in defined areas</b>	\$100/year plus \$0.40/ML (on licensed water entitlement)	1995/96 charges to apply
<b>URBAN UTILITIES</b>		
<b>Sydney and Hunter Water</b>	\$1.80/ML of water used	1995/96 charges to apply

**Notes**

1. Stock and Domestic users will NOT be required to pay any of the new charges introduced during 1995/96.
2. Users in Areas and Districts will pay the \$1.35/ML charge (on bulk supply entitlement), plus the delivery service and metering charges as determined by the valley, plus internal water distribution costs.
3. Water users in declared drought affected areas may not pay the water management charge for the 1995/96 year. This is the result of a Government policy decision and not part of the Tribunal's determination. The continuation or otherwise of this exemption is a matter for Government policy.
4. Charges for water users on "unregulated flows" for 1995/96 were proposed, but not charged. These charges shown in column 2 of Table 1 above will be charged for the 1996/97 season.

**Table 2: Delivery Service Charges and Metering Charges set by the DLWC for the 1995/96 season**

**(a) 1995/96 WATER CHARGES - RIVER PUMPERS**

Region	Delivery Service Charge \$ per ML		Metering Charge \$ per ML
	GIS (a)	HS (b)	
Barwon (c)	(d)	(d)	(d)
Central West - Macquarie (e) (f)	2.30	3.25	0.40
Central West - Lachlan (g)	1.86	2.79	1.07
Murrumbidgee (h)	0.75	0.75	0.73
Murray (i) (j) (k)	0.74	0.89	(l)
North Coast (m)	2.03	3.03	0.97
Hunter (n) (o)	1.60	3.00	1.35
Sydney - South Coast (p)	2.00	3.00	1.00

Notes:

**(1994/95 charges are noted in bold type where different to 1995/96 charges)**

(a) GIS = General Irrigation Security.

(b) HS = High Security.

(c) Plus: North-West Water Quality Monitoring levy \$0.25/ML.

Pindari Dam Enlargement levy \$9.40/ML in Border Rivers. **(\$8.95 in 1994/95)**

(d) GIS Entitlement Charge \$2.00 per ML of entitlement. **(\$2.02 in 1994/95)**

Plus Usage charge of \$1.50 per ML of water diverted. **(No charge in 1994/95, but a metering charge of \$0.50/ML applied)**

HS Entitlement Charge of \$3.00 per ML of entitlement.

Plus Usage Charge \$1.50 per ML of water diverted. **(No charge in 1994/95, but a metering charge of \$0.50/ML applied)**

Town Water Supply \$4.50 per ML of entitlement. **(No charge in 1994/95)**

(e) Minimum volume charged is one third of entitlement.

(f) Including North-West Water Quality Monitoring levy \$0.15/ML.

(g) Minimum volume charged is one third of entitlement for GIS and two thirds for HS.

(h) For Delivery Service Charge minimum volume charged is 100% of entitlement.

For Metering Charge the charge is 100% of entitlement.

(i) For Delivery Service Charge minimum volume charged is 100% of entitlement.

(j) Due to the buoyant nature of the River Operations Account a \$0.10/ML rebate has been allowed on the DSC.

(k) Plus \$2.94/ML on Gol Gol Creek.

(l) Metering Charge is in the range \$50 to \$5500 per meter and is based on entitlement.

(m) Minimum volume charged is 75% of entitlement.

(n) Minimum volume charged is 50% of entitlement for both high and general security irrigation entitlements and 100% for all other high security entitlements.

(o) Plus administration charge of \$45 per account.

(p) Minimum volume charged is 80% of entitlement.

**(b) METERING CHARGE FOR MURRAY REGION**

**ENTITLEMENT RANGES**

<b>RANGE LOW ML</b>	<b>RANGE HIGH ML</b>	<b>\$ PER LICENSE</b>
0	10	50
10	20	50
20	30	125
30	40	125
40	50	125
50	100	150
100	200	175
200	300	200
300	400	200
400	500	250
500	600	300
600	700	300
700	800	300
800	900	300
900	1000	500
1000	2000	750
2000	3000	1000
3000	4000	1750
4000	5000	2500
5000	6000	3000
6000	7000	3500
7000	8000	4000
8000	9000	4500
9000	10000	5000
10000		5500
BURONGA	5069	3000
CURLWAA	12239	5500
COOMEALLA	38721	5500

- Compare total entitlement for license (irrespective of security) with range table
- Apply corresponding dollar (s) value per license

Note 1: There is no usage component in the calculation of 1995/96 Metering Charges.

Note 2: Entitlement applies only to chargeable purposes.

Note 3: Charges apply for period of license.