

**DEPARTMENT OF LAND AND WATER
CONSERVATION**

BULK WATER PRICES

from 1 July 2000

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

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1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) determines the charges which the Department of Land and Water Conservation (DLWC) can set for services relating to the delivery of bulk water. The Tribunal's role is to set the maximum prices DLWC can charge for these services, in accordance with Section 12(1) of the *Independent Pricing and Regulatory Tribunal Act, 1992*.

In its last determination, the Tribunal set prices for 1998/99 and 1999/2000 to give stakeholders greater certainty at a time when DLWC was separating its resource management and operator functions, while improving its information cost base.¹ At that time, the Tribunal projected prices for 2000/01 to demonstrate progress towards the Council of Australian Governments' (COAG) target of full cost recovery by 2000/01.²

The Tribunal indicated it would establish a longer-term price path in future determinations, once DLWC had made further progress with institutional reform and costing information.³

Since the Tribunal's last determination, DLWC has created a commercial water business, State Water, and made progress in implementing the Tribunal's recommendations. However, considerable work is still required to provide all the cost information the Tribunal believes should be made available.

For this reason, DLWC has proposed prices for 2000/01 only, based on the prices projected in the Tribunal's 1998/99 determination. However, DLWC argues that bulk water prices ultimately need to be significantly higher. When it has completed further work to substantiate its case, DLWC intends to apply for significant increases in bulk water prices and a longer-term price path.⁴

After undertaking an investigation and review of bulk water prices, the Tribunal has made a determination applicable from 1 July 2000.⁵ To enable DLWC to request a longer-term price path once it has made sufficient progress in compiling the required information, the Tribunal has kept the expiry date for this determination open. In order to give water users some certainty over the coming year, the Tribunal has agreed not to increase bulk water prices before 1 July 2001.

The Tribunal has reviewed the indicative prices for 2000/01 established in the 1998/99 determination. It believes that these prices, with some minor modifications, achieve a reasonable balance of the issues the Tribunal must consider under Section 15 of the IPART Act. The prices the Tribunal has set for 2000/01 will result in an average increase in bulk water prices of 8 per cent across all water sources. Prices in each valley will increase by between 1 per cent and the maximum cap of 20 per cent, depending on whether full cost recovery is reached.

¹ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 1.

² IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 5.

³ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, Foreword.

⁴ DLWC submission, Foreword.

⁵ The exception to this is the Border, Gwydir, Namoi and Peel Valleys, which operates on a different water year with a determination commencing 1 October 2000.

In some regulated valleys, State Water has negotiated changes to the structure of prices with customer service committees. The Tribunal has approved these changes because they are consistent with the Tribunal's pricing principles. The Tribunal has supported DLWC's revised proposal to restructure the charge for the temporary transfer of a water licence to a fixed fee of \$25 per transfer plus a variable charge of \$1 per megalitre transferred, with a maximum charge of \$75 per transaction.⁶ The Tribunal has rejected DLWC's proposed base charge of \$100 per licence in regulated valleys.

As shown in Table 4.2 in chapter 4, by generating an additional \$3.3m, the 2000/01 prices continue progress towards the Tribunal's full cost recovery target established in July 1998. For future determinations, the Tribunal will take account of DLWC's progress in implementing the recommendations established in this and previous determinations.

This report outlines the determination and the Tribunal's rationale in more detail. It sets out:

- the review process and regulatory framework
- an assessment of DLWC's progress since the last determination
- an explanation of current levels of cost recovery
- prices set for each charge and the implication of these charges for water users.

The complete determination of maximum bulk water prices follows this report.

⁶ In its submission to the Tribunal, DLWC proposed a fixed fee of \$25 per transfer plus a variable charge of \$1 per megalitre. In the public hearing on 5 July 2000, DLWC revised its proposal to include a maximum total charge of \$75 per transaction.

2 REVIEW PROCESS AND REGULATORY FRAMEWORK

2.1 The review process

The Tribunal reached its determination following an investigation and review process which began with DLWC submitting a proposal for maximum prices for bulk water in 2000/01. The Tribunal invited interested parties to make submissions concerning these proposals (Appendix 1 lists submissions received). The Tribunal held a public hearing, at which interested parties presented their views (Appendix 2 lists presenters).

The Tribunal also discussed issues with DLWC staff and water users, and reviewed the minutes of all meetings of State Water's customer service committees. The Tribunal conducted an analysis of the impacts of alternative pricing levels on DLWC, its customers and the environment, in line with Section 15 of the IPART Act.

The Tribunal's determination is based on all the findings obtained through the review process. Tribunal members who considered the determination are: Dr Thomas Parry (Chairman), Mr James Cox (Full-time Member), and Dr Warren Musgrave (Member).

Copies of all submissions and a transcript of the public hearing may be viewed on the Tribunal's website at www.ipart.nsw.gov.au or inspected at the Tribunal's office.

2.2 Pricing principles

When determining prices, the Tribunal must consider the range of issues listed in Section 15 of the IPART Act. Appendix 3 lists the Section 15 information considered in the current determination. Having reviewed this information, the Tribunal is satisfied that the pricing principles developed in its interim report and past determinations⁷ remain valid.

2.3 The form of price regulation

In line with DLWC's proposal, this determination sets a maximum price for each of DLWC's bulk water charges. In future determinations the Tribunal would like to establish a longer-term price path and, wherever possible, incorporate into its determinations any price agreements between DLWC and State Water's customer service committees.

⁷ See IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, pp 9-13 and more generally, IPART, *Bulk Water Prices: an interim report*, October 1996.

In future, the Tribunal wishes to establish the maximum revenue for each valley over the period of the price path, and ensure that negotiated prices are consistent with the Tribunal's pricing principles. This process would have the advantages of providing:

- DLWC with certainty about the basis on which its revenue could be obtained
- water users with certainty about what they would be charged, enabling them to plan their use of water
- the flexibility to adjust price structures to reflect regional differences in costs and service levels.

3 PROGRESS SINCE 1998/99 DETERMINATION

The Tribunal has considered DLWC's progress since the last determination under the following categories:

- separating State Water from DLWC
- improving customer service
- improving the level and quality of DLWC's financial information
- achieving efficiency gains
- establishing and monitoring performance indicators.

The Tribunal has also highlighted areas where further progress could be made.

3.1 Establishing State Water

DLWC has indicated that at this stage it is not likely to establish State Water as a separate entity because it believes State Water's responsibilities and accountabilities will change as a result of the water reforms process. State Water and DLWC believe it is preferable that the two organisations remain together at this stage while their respective roles are being further defined.⁸

Nevertheless, DLWC claims it has significantly advanced the separation of its water delivery services from its resource management activities by establishing:

- State Water as a separate business unit within DLWC and recording it as a separate 'company' within DLWC's accounts
- service contracts with DLWC for key functions provided.⁹

In addition, DLWC has established a draft operating licence and water access licence for State Water which separates the functions of each entity.

The Tribunal believes that the following measures should be taken to separate State Water adequately from DLWC:

- State Water's accounts should be separately audited on a valley basis, and a full set of financial statements reported
- services agreements should cover services currently supplied to State Water by DLWC, where appropriate, and these services should be subject to open tender wherever possible¹⁰
- State Water's operating licence should specify its water delivery functions and any resource management obligations and include a customer contract, with performance against key indicators audited and published.

⁸ Transcript of public hearing 5 July 2000, p 15.

⁹ DLWC, submission, p 2.

¹⁰ This view is also supported by irrigators such as Western Murray Irrigation (submission p 2).

3.2 Customer service

State Water believes it has improved its customer service by:

- establishing customer service committees (CSCs)
- conducting customer surveys and preparing actions in response
- improving the format of bills, applying this format across all valleys to ensure consistency, and providing information sheets to interpret the bills¹¹
- improving the protocols for dealing with customer complaints or billing inquiries
- developing a customer service charter.

3.2.1 Customer service committees

Customer service committees (CSCs) represent bulk water customers in their valley by providing advice to State Water on:

- appropriate service levels
- water pricing strategies for recommendation to the Tribunal
- asset management priorities, including asset renewal and maintenance
- disputes between customers and State Water
- an appropriate performance reporting framework.¹²

As currently envisaged, the CSCs will play a major role in examining and questioning DLWC and State Water's expenditures in each valley. CSCs should provide a mechanism for water users to have a greater say in how bulk water services are provided in their valleys. Submissions and feedback from stakeholders indicate strong support for CSCs.¹³

However, customers have not been entirely happy with the progress of the CSCs. Some customers feel CSCs should play a more significant decision-making role in the valley, to exert greater influence over costs and service levels.¹⁴ Some CSCs have complained that State Water provided information only on the day of a meeting, not allowing members an opportunity to analyse the information thoroughly.¹⁵

For the next determination the CSCs should provide feedback to the Tribunal regarding their progress in influencing service levels and costs.

¹¹ Transcript of public hearing 5 July 2000, p 11.

¹² State Water, *Information Sheet: Customer Service Committees*.

¹³ Southern Riverina Irrigation Districts' Council (submission p 2), for example, believes that "State Water appears enthusiastic and genuine" in its attempts to update Murray CSC members on relevant issues.

¹⁴ Murray Irrigation Ltd, submission p ii, Murrumbidgee Customer Service Committee submission, p 4 and Shoalhaven City Council submission, pp 2 and 3.

¹⁵ Murray Irrigation Ltd, submission, p 6.

3.2.2 Customer surveys

State Water has conducted two customer surveys in the past two years, and prepared programs to deal with the problem areas identified.¹⁶

The surveys were reviewed independently by the University of Technology, Sydney. The main findings of the surveys were:

- perceptions of good performance in the areas of water delivery, staff quality, water ordering and billing
- generally positive perceptions of the quality of asset maintenance and operation
- poor perceptions of the quality of investment decisions.¹⁷

3.2.3 Billing

State Water believes it has significantly improved its billing functions by:

- centralising bill processing and upgrading its financial information system to account for the billing¹⁸
- standardising bill formats across valleys and developing information sheets to explain the bills¹⁹
- establishing a billing information facility with a 1800 telephone number and a new telephone protocol²⁰
- establishing service standards for billing and dealing with customer complaints.²¹

State Water has appointed four customer service managers and 30 customer service officers across NSW, responsible for meter reading, billing and complaints handling.

Water users' suggestions to further improve billing include electronic payment and a remote water accounting system.²² The proposed system would enable customers to view their bills, order water and obtain real time information on their water consumption.²³

¹⁶ Transcript of public hearing 5 July 2000, p 12.

¹⁷ Presentation by Ms Eva Cox, University of Technology, to State Water. Ms Cox noted that few precise comparisons between the surveys could be legitimately made because of differing methodologies (survey summary provided to State Water on 8 February 2000). The Tribunal has therefore not been able to use the surveys to assess whether State Water's services have improved over the past two years.

¹⁸ DLWC submission, p 14.

¹⁹ DLWC submission, pp 14 and 15.

²⁰ DLWC submission, p 14.

²¹ DLWC submission, p 11.

²² Private discussions with water users in Gwydir and Lachlan Valleys.

²³ The Tribunal understands that Murray Irrigation Ltd and Murrumbidgee Irrigation already have such a system in place.

3.2.4 Customer service charter

DLWC notes that State Water is in the process of developing a customer service charter with the CSCs.²⁴ The Tribunal supports this initiative and urges State Water to consider the following issues when developing its charter:

- Does the customer charter clearly outline State Water's services and the penalties for not complying with the charter?
- Is the performance against the charter audited independently and the results of the audit made available to the public?

3.3 Financial information

DLWC believes it has achieved "significant improvements in the accounting and costing of bulk water services"²⁵ by:

- revising its accounting system, which separates State Water's activities from other DLWC activities²⁶
- upgrading its accounting system, which has improved administration of revenues²⁷
- establishing internal service agreements to charge State Water for corporate support services and aspects of water resource information activities²⁸
- introducing "special purpose financial reports which enable monitoring of bulk water costs, revenues and government contribution and subsidies at the valley level for regulated, unregulated and groundwater systems".²⁹

Notwithstanding these reported improvements in the quality of its financial information, DLWC has not proposed prices for this inquiry based on its revised estimate of bulk water costs.³⁰ The Tribunal has therefore relied on the estimate of bulk water costs determined in July 1998.³¹

The Tribunal is encouraged by the level of detailed financial information provided to CSCs in the valley financial reports. However, the accuracy of the information in these reports needs to be reviewed in future determinations by:

- independently auditing the statements
- benchmarking bulk water costs and establishing the link between costs and service levels
- allowing CSCs and other stakeholders sufficient time to review costs and service levels.³²

²⁴ DLWC submission, p 14.

²⁵ DLWC submission, p 3.

²⁶ DLWC submission, p 12.

²⁷ The Auditor General's Office has supported the upgrade in DLWC's accounting system (Auditor General's Office, letter to IPART regarding inputs to the Econtech ANTS Calculator, 8 June 2000, p 2).

²⁸ DLWC submission, p 12.

²⁹ DLWC submission, p 3.

³⁰ DLWC submission, p 4.

³¹ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, pp 2 and 5.

³² Submissions which raise the issue of the quality of the financial information include: Border Rivers Food and Fibre pp 1 and 5, Gwydir Valley Irrigators' Association p 1, Lachlan Valley Water pp 1-2, Macquarie River Food and Fibre pp 1-3, Namoi Valley Water Users' Association pp 3-4 and pp 16-22, Southern Riverina Irrigation Districts' Council p 2.

3.4 Efficiency

In its 1998/99 determination the Tribunal was concerned with the efficiency of bulk water service delivery. The Tribunal estimated that DLWC could achieve efficiency gains of \$7.1m on its bulk water service delivery and resource management costs.³³

DLWC claims to have achieved \$7m in bulk water costs since the last determination by:³⁴

- rationalising head office space³⁵ and corporate service³⁶
- centralising personnel management and financial processing³⁷
- rationalising river gauges³⁸
- achieving efficiency gains in the management of the surface water database information system.³⁹

DLWC has indicated that most contracts for the supply of service for the Murray Darling Basin Commission are now subject to open tender, and its resource management activities (eg monitoring water quality and meter reading) are co-ordinated with other entities such as wholesalers and local government authorities.⁴⁰

However, DLWC acknowledges that a large proportion of its 'efficiency savings' may be due to a reduction in service levels, rather than to efficiency gains.⁴¹

It is essential that DLWC and State Water develop, in conjunction with CSCs, performance indicators and quantify service levels to allow efficiency levels to be properly assessed.

The Tribunal believes DLWC could make further efficiency gains by adopting some efficiency measures suggested by the Tribunal in the last determination⁴² including:

- benchmarking State Water's performance against other bulk water businesses such as Goulburn Murray and Sydney Catchment Authority
- further exploring opportunities to co-ordinate water quality monitoring and meter reading in conjunction with other state and local government agencies operating in catchments
- rationalising community consultation processes, in particular exploring opportunities to combine consultative structures with other environmental and resource management agencies
- standardising licensing and environmental review procedures across regions.

³³ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 3.

³⁴ DLWC, transcript of public hearing 5 July 2000, p 10.

³⁵ DLWC, submission, p 13.

³⁶ DLWC, transcript of public hearing 5 July 2000, p 20.

³⁷ DLWC, transcript of public hearing 5 July 2000, p 20.

³⁸ DLWC, transcript of public hearing 5 July 2000, p 20.

³⁹ DLWC, transcript of public hearing 5 July 2000, p 19.

⁴⁰ DLWC, submission, p 13.

⁴¹ DLWC, transcript of public hearing 5 July 2000, p 19.

⁴² IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, pp 20-21.

3.5 Performance indicators

In its 1998/99 determination the Tribunal asked DLWC to review and introduce performance indicators which would allow the Tribunal to assess service quality, efficiency and reliability as required under Section 15 of the IPART Act.⁴³

DLWC now notes that it has “implemented a performance management system that focuses on customer satisfaction, service standards, cost minimisation and reliability”. State Water utilises a range of key indicators to monitor performance,⁴⁴ and has prepared a detailed report on benchmarking and performance indicators⁴⁵. However, neither DLWC nor State Water has established an adequate system of performance indicators.

The Tribunal believes DLWC should work with the CSCs to improve its performance indicators so they provide useful measures of the quality and efficiency of key bulk water services.

⁴³ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, pp 20-21.

⁴⁴ DLWC, submission, p 13.

⁴⁵ State Water report, *Asset Management Practices: Benchmarking Monitoring and Review*.

4 COST RECOVERY

In the current determination, the Tribunal has based prices on the 2000/01 prices projected in the last determination, except in those regulated valleys where DLWC has proposed lower prices.⁴⁶ Prices move towards the costs recovery targets set in the Tribunal's last determination.

4.1 Costs

In the last determination, the Tribunal assessed full cost recovery at \$44m (\$1996/97). This position was based on the Tribunal's cost sharing ratios and efficiency targets for DLWC, and excluded a rate of return on past investments.⁴⁷ The cost base included relevant operating and asset-related costs, along with a share of water resource management costs. The Tribunal has reviewed this full cost recovery estimate in terms of the matters listed in section 15 of the IPART Act, and believes it continues to be the most appropriate estimate.

DLWC has indicated that substantially higher costs should be recovered through bulk water prices.⁴⁸ The main areas of growth cited are new risk assessment studies for its total asset management planning (TAMP), and the costs of implementing a water reform program.⁴⁹ DLWC intends to explain these costs to State Water's customer service committees prior to making a submission to the Tribunal in 2001.⁵⁰

The Tribunal has not reviewed DLWC's estimates of the growth in bulk water costs in detail, because insufficient evidence was produced to substantiate these as representing an efficient level of bulk water costs.

4.2 Revenues

Based on DLWC's estimated long term average usage, the 2000/01 prices will result in revenues of \$35.7m, a \$3.3m increase compared to 1999/00. As indicated in Table 4.1 below, the majority of this additional revenue will come from users in regulated valleys because this is where most of DLWC's costs are incurred.

Table 4.1 Revenue by water source (\$m, 2000/01 dollars)

Source	1997/98 Actual	1998/99 Actual	1999/2000 Actual	2000/01 Projected	Change from 1999/00
Regulated	22.9	25.1	29.3	32.0	2.7
Unregulated	1.1	1.5	1.5	1.8	0.3
Groundwater	1.2	1.3	1.6	1.9	0.3
Total revenues	25.2	27.9	32.4	35.7	3.3

1. 2000/01 revenue for regulated rivers is based on DLWC's estimated long term usage.
2. Unregulated revenue excludes the resource management charges to Sydney Catchment Authority and Hunter Water Corporation.

⁴⁶ These lower charges are a result of DLWC's discussions with the CSCs.

⁴⁷ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, pp 2-5, pp 24-30.

⁴⁸ DLWC, submission, p 4.

⁴⁹ DLWC, submission, pp 4-5.

⁵⁰ Transcript of public hearing 5 July 2000, p 21.

4.3 Cost recovery

On the basis of the Tribunal's determination, as indicated in Table 4.2 below, full cost recovery will not be achieved in all regions by the end of the determination. However, considerable progress will have been made, and the extent of the under recovery will be transparent.

Table 4.2 Shortfall from cost recovery (\$m 2000/01 dollars)

	Efficient Costs	1997/98 Actual	1998/99 Actual	1999/00 Actual	2000/01 Projected
Regulated	36.1	13.3	11.0	6.8	4.1
Unregulated	3.1	2.0	1.6	1.6	1.3
Groundwater	3.0	1.9	1.7	1.4	1.1
Licensing	3.5	3.3	2.2	2.0	1.8
Total	45.7	20.5	16.5	11.8	8.3

1. The Tribunal's assessment of statewide efficient licensing costs in 1997/98 was \$3.3m; actual cost is \$4.6m, and licensing revenue is \$1.5m.
2. Shortfall for regulated rivers in 2000/01 is based on DLWC's estimated long term usage.
3. These results can be compared to Table 8.1 in the last determination. However, Table 8.1 was in 1996/97 dollars and uses revenue projections for 1997/98 - 1999/00 based on DLWC's long term average usage.

Tables 4.3, 4.4 and 4.5 show the shortfall from full cost recovery on regulated rivers, unregulated rivers and groundwater respectively.

Table 4.3 Shortfall from cost recovery, regulated valleys (\$m 2000/01 dollars)

	Efficient Costs	Projected Revenues 2000/01	Shortfall
Border	1.71	1.68	0.03
Gwydir	2.74	2.70	0.04
Namoi/Peel	3.57	3.07	0.50
Macquarie	4.15	4.15	-
Lachlan	4.01	3.28	0.73
Murrumbidgee	7.45	7.45	-
Murray	8.77	8.56	0.21
Toonumbar	0.32	0.03	0.29
Hunter	2.88	1.00	1.88
Brogo	0.54	0.10	0.44
Total	36.14	32.02	4.12

It is unlikely that full cost recovery will be achieved on the regulated rivers in the Hunter, North Coast and South Coast regions because prices to fully recover costs would be far greater than could be paid by any irrigation business if it was to remain viable.⁵¹

⁵¹ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 35.

Table 4.4 Shortfall from cost recovery, unregulated valleys (\$m 2000/01 dollars)

	Efficient Costs	Projected Revenues 2000/01	Shortfall
Barwon	0.27	0.27	-
Barwon Darling	0.59	0.20	0.39
Intersecting Streams	0.11	0.03	0.08
Central West	0.28	0.10	0.18
Murrumbidgee	0.23	0.17	0.06
Murray	0.05	0.07	-
North Coast	0.63	0.38	0.25
Hunter	0.22	0.22	-
Sydney/South Coast	0.71	0.37	0.34
Total	3.09	1.81	1.28

Table 4.5 Shortfall from cost recovery, groundwater valleys (\$m 2000/01 dollars)

	Efficient Costs	Projected Revenues 2000/01	Shortfall
Barwon	0.54	0.53	0.01
Far West	0.45	0.26	0.19
Central West	0.36	0.36	-
Murrumbidgee	0.28	0.28	-
Murray	0.30	0.30	-
North Coast	0.18	0.07	0.11
Hunter	0.21	0.08	0.13
Sydney/South Coast	0.71	0.05	0.66
Total	3.03	1.93	1.10

5 MAXIMUM PRICES

This section outlines the Tribunal's determination of the maximum prices DLWC may charge for delivering bulk water and for other services. The Tribunal estimates that this determination will result in a weighted average price increase of 8 per cent across all water sources. Average prices will increase by 9 per cent in regulated rivers, 13 per cent in unregulated rivers, and 6 per cent for groundwater. Individual price increases will be capped at 20 per cent across all water sources.⁵²

In setting these charges, the Tribunal has taken into account the effect of the new tax system and all matters under Section 15 of the IPART Act, including the potential impact of the charges on DLWC's financial viability, the implication of the prices on the environment, and the potential impact on bulk water users. The Tribunal believes that the prices achieve a reasonable balance between the objectives in Section 15.

5.1 GST

The Tribunal has made an explicit adjustment to DLWC's costs as a result of the Federal Government's New Tax System (ANTS), consistent with the ACCC guidelines on price exploitation and the new tax system.⁵³ The Tribunal proposes to adjust prices from 1 July 2000 for the specific impact of the ANTS package on DLWC.

The provision of water and sewerage services is GST-free.⁵⁴ This means that DLWC:

- will not be required to pay GST on its revenue and will not have to increase prices by 10 per cent
- will be able to claim back GST credits on its purchases
- will see decreases in input costs where wholesale sales tax equivalents have been paid, and indirectly as suppliers' costs decrease.

In its role as price regulator, the Tribunal has set procedures to satisfy itself that the effects of the ANTS package are appropriately reflected in prices charged by the utilities it regulates. This role is distinct from the Australian Competition and Consumer Commission's (ACCC) role in monitoring price exploitation under the Trade Practices Act. The utilities regulated by the Tribunal are required to comply with the Tribunal's determination (and its procedures on ANTS compliance) as well as the price exploitation guidelines of the ACCC.

In estimating DLWC's operating costs, the Tribunal has considered the various ways the Federal Government's new tax system could affect DLWC. These include: reduced input costs due to the abolition of wholesale sales taxes, additional compliance costs associated with the new system, and subsequent impacts on the CPI.

⁵² Depending on the water usage, the final bulk water bill may be higher or lower than the Tribunal's estimates.

⁵³ ACCC, *Price Exploitation and the New Tax System*, March 2000.

⁵⁴ GST-free means that no GST is levied on the sale of these goods or services and the registered business may also claim input tax credits.

The Tribunal has estimated cost savings of 0.5 per cent in regulated valleys, 0.6 per cent in unregulated rivers, and 0.6 per cent in groundwater areas. These figures have been applied to both capital and operating expenditure.

To predict the cost savings that would arise from the new tax system, the Tribunal required all regulated utilities to use the economic model, Econtech.⁵⁵ This model examines all costs of regulated services, and calculates the direct and indirect tax savings for that business.⁵⁶

The Tribunal required each utility to engage an independent auditor to certify that the costs it used for modeling were accurate and representative. Econtech was used to review each agency's modelling to ascertain whether the data used in the model was representative, and whether the model had been applied correctly. In its financial modeling, the Tribunal used only the short term impacts as a one-off adjustment for 2000/01.

5.2 Proposed base charge on regulated rivers

To cover the minimum cost of administering a licence, DLWC has proposed a base charge of \$100 for regulated rivers.⁵⁷ DLWC has estimated that the base charge would generate additional revenue of \$0.6m. A large number of stakeholders have strongly objected to the introduction of the base charge.⁵⁸

DLWC has noted that reading meters and billing customers cost between \$104 and \$208 per licence, depending on the valley. DLWC has estimated that approximately 20.5 per cent of licence holders in regulated valleys are invoiced for less than \$100.⁵⁹

The Tribunal has sympathy for DLWC's request to recover the efficient cost of administering licences from those customers whose bills are below this minimum cost. However, the Tribunal does not support a base charge to capture this minimum cost at this stage. A base charge would be charged on all licence holders, irrespective of whether their bills are greater than \$100. Approximately 80 per cent of customers are invoiced for more than \$100. Under DLWC's proposal, they would be required to pay the base charge.⁶⁰

The Tribunal understands that DLWC has concerns about introducing a minimum bill (as opposed to a base charge). The Tribunal asks that in the next pricing proposal, DLWC raise these concerns and consider options to cover minimum costs.

⁵⁵ The Econtech model has been used widely, including by the ACCC and NSW Treasury, to assess ANTS impacts.

⁵⁶ Direct tax savings arise where the business no longer has to pay certain taxes such as wholesale sales tax. Indirect tax savings arise from the business's supply chain as taxes previously embedded in its inputs are removed.

⁵⁷ For the Hunter Valley, DLWC proposes that the existing administration fee be consolidated into the base charge. DLWC, submission, p 8.

⁵⁸ Submissions opposing the base charge include those from: Mr Ildu Monticone p 1, Mr Laurie Pengelly p 1, Border Rivers Food and Fibre p 4, Gwydir Valley Irrigators' Association p 1, Macquarie River Food and Fibre p 5, Murray Valley Water Diverters' Advisory Association p 2, Namoi Valley Water Users p 8, NSW Irrigator's Council p 4, Peel Valley Water Users' Association p 3.

⁵⁹ Supplementary information provided by DLWC, 6 July 2000.

⁶⁰ Supplementary information provided by DLWC, 6 July 2000.

5.3 Water transfer fee

In its submission, DLWC has proposed replacing the current \$75 fee for the temporary transfer of a water licence with a \$25 fixed fee plus a variable fee of \$1 per megalitre of water transferred.⁶¹ At the bulk water public hearing, DLWC clarified its submission and stated that its new fee would be capped at \$75 per transaction, making transactions of less than 50ML cheaper.⁶²

DLWC believes the proposed temporary water transfer fee will encourage trading of small bundles of water because it will make these trades more financially viable.⁶³

Stakeholders have strongly opposed DLWC's original proposal⁶⁴, but generally support its amended, capped proposal.⁶⁵ Under the amended proposal the cost of temporarily trading parcels of water above 50ML would not change, but the cost of temporary trades below 50ML would fall.

DLWC has estimated that the transfer of licences costs \$242,631 per annum. In 1999/00 it received revenues of \$96,570 for transferring licences. Under the proposed fee, DLWC would lose approximately \$2,000 unless the volume of small trades increased.⁶⁶

Whilst the Tribunal has supported a restructured charge, DLWC should investigate the potential to streamline the approvals process to minimise the amount of administration required to transfer a licence on a temporary basis. DLWC's process for transferring licences still remains bureaucratic and complex.⁶⁷ Simplifying this process, and educating irrigators about trading may encourage trading.⁶⁸

5.4 Structure of bulk water prices

The Tribunal has retained the structure of charges established in the last determination.⁶⁹ The only exception to this occurs in some regulated valleys where DLWC has proposed a change in the structure of prices in line with discussions with the CSCs.⁷⁰

⁶¹ DLWC, submission, p 11.

⁶² DLWC, transcript of public hearing, p 14.

⁶³ DLWC, submission, p 11.

⁶⁴ Submissions opposing DLWC's original proposal include: Border Rivers Food and Fibre p 4, Gwydir Valley Irrigators' Association p 3, Lachlan Valley Water p 2, Macquarie River Food and Fibre p 5, Moira Private Irrigation District p 2, Mungindi-Menindee Advisory Council p 2, Murray Irrigation Ltd p 5, Murray Valley Water Diverters Advisory Association p 2, Namoi Valley Water Users p 9, Peel Valley Water Users' Association p 4, West Corugan Private Irrigation District p 2 and Western Murray Irrigation Ltd p 4.

⁶⁵ Submissions supporting the maximum charge of \$75 per transaction include: Mr Richard Sargood, Murrumbidgee Customer Service Committee p 7, Murrumbidgee Groundwater Pumpers' Association p 2 and NSW Dairy Farmers' Association p 5.

⁶⁶ See email dated 11 July 2000.

⁶⁷ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 55.

⁶⁸ Southern Riverina Irrigation Districts' Council submission, p 1.

⁶⁹ A list of the licence types with the price structure for each licence is presented in Appendix 4.

⁷⁰ The minutes of CSC meetings indicate that the proposed prices were not discussed in the context of the proposed base charge and changes to the water transfer fee.

The valleys affected by this change include: the Murray, Lachlan, Namoi-Peel and Hunter. The Murray and Namoi-Peel will have greater emphasis on usage, while the Lachlan and Hunter will have a greater emphasis on fixed charges.⁷¹ The Tribunal has not accepted DLWC's price proposals for other regulated valleys, as this would generate revenues, based on average long term usage, which were greater than the cost recovery targets established in the last determination.

In the last determination the Tribunal noted that a large proportion of the water stored in the Peel and Hunter Valleys was used by high security water users. The Tribunal acknowledged that the correct pricing of high security water may reduce the scale of future price rises for general security water.⁷² However, the Tribunal has been reluctant to change the existing premiums without undertaking a detailed analysis of additional costs incurred by DLWC, and the opportunity for stakeholders to comment on this analysis.

Some users in the Peel and Hunter Valleys have again objected to the size of the premium being paid by high security water users.⁷³ They assert that high security users should pay a larger proportion of costs in these valleys. This would be achieved by freezing the price of general security water and substantially increasing the price of high security water.

The proposed prices will increase bulk water prices in the Peel Valley by 14 per cent and the Hunter Valley by 19 per cent. In the Peel Valley cost recovery will increase from its current level of 25 per cent to 28 per cent, while in the Hunter Valley cost recovery will increase from 57 per cent to 65 per cent. Revenue will still fall significantly short of costs, even if the premium for high security water was to triple from their current levels of 150 per cent in the Peel Valley and 140 per cent in the Hunter Valley. Given this low level of cost recovery, the Tribunal believes there is room to increase both general and high security prices in the Peel Valley.

The Tribunal requests that State Water assess the cost-reflectivity of high security premiums by:

- updating existing modelling of hydrologic equivalence between high and low security in each valley
- analysing river regulation costs to isolate additional costs of supply.⁷⁴

The Tribunal also requests that State Water complete a detailed review of its costs to determine whether fixed and usage components of tariffs should be revised to be more cost reflective.

⁷¹ Submissions from users (Mr Ildu Monticone, Mr Laurie Pengelly, Mr G L Swain) in the Peel Valley support a greater emphasis on usage based pricing.

⁷² IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 40.

⁷³ Hunter Valley Water Users' Association submission p 3, Peel Valley Water Users' Association submission p 1, and submissions from Mr Ildu Monticone p1, Mr John Brigden p 2 and Mr Laurie Pengelly p 2.

⁷⁴ IPART, *Bulk Water Prices for 1998/99 and 2000/01*, July 1998, p 41.

5.5 Implications for customers

Water users are very concerned about the impact of increased water charges on the viability of certain irrigation businesses, and on the prosperity of regions dependent on irrigated agriculture.⁷⁵ The Tribunal acknowledges the concerns raised in submissions, but notes that the information available to the Tribunal indicates that bulk water costs are a small proportion of farm costs.

As a proportion of total variable costs, DLWC's bulk water charges vary from as low as 1-2 per cent for a large cotton farm, to 5-7 per cent for a large rice farm.⁷⁶ Changes in the price levels of other key inputs such as labour, fuel, machinery, interest and chemicals are likely to have a far greater impact on farm costs.

The Tribunal has not been persuaded that the maximum prices set in this determination will have a significant social impact. Bulk water prices are too small a proportion of most irrigation businesses' costs to have any significant economic, and thus, social impact.

The Tribunal's views were supported in a recent NSW Department of Agriculture study of the impact of water prices on typical farms in the Peel Valley.⁷⁷ Dividing the Peel Valley into geographical areas, the study defines a typical farm in each of these areas. A typical farm is defined as the average commercial farm in the areas involved in lucerne production. Dairy farms and small farms with water use of less than 20 ML and an irrigated area of less than 10 ha were excluded from the study.

The study models a series of price increases up to approximately 200 percent higher than 1999/00 prices, and concludes that, "the price increases are unlikely to pose major viability issues for most irrigation farms in the Peel Valley. They will however add to the general picture of declining terms of trade common to many broadacre agricultural industries".⁷⁸

The study estimates that in 1999/00 net farm income ranged from \$13,289 to \$29,943. The Tribunal estimates that this will fall to between \$12,925 and \$29,615.⁷⁹ The Tribunal believes that these falls in net farm income will not have a significant impact on the viability of farms in the region.

As noted in previous reviews, the Tribunal believes it is important to gain similar information for all valleys. The Tribunal requests DLWC to undertake similar studies for all regions.

⁷⁵ Some submissions (Mr John Brigden, AB and GF Jarrett and GL Swain) claim that any increase in water prices would force them to trade their allocations. The Tribunal supports water trading as it allocates water to the best economic use.

⁷⁶ IPART, *Bulk Water Prices: an interim report, October 1996*, p 116.

⁷⁷ The study was provided to the Namoi-Peel customer service committee. The Department of Agriculture incorporated the committee's comments into the study.

⁷⁸ NSW Agriculture's report, p 25.

⁷⁹ NSW Agriculture's report, p 24.

5.6 Implications for the environment

The Tribunal believes the most effective way of remediating environmental problems on NSW rivers is for DLWC to manage water use within ecologically sustainable river flow regimes. The role of water pricing in this management regime is to recover that proportion of DLWC's costs that can be attributed to managing water use. For the next determination the Tribunal will consider any additional resource management costs incurred by DLWC as a result of the Government's revised water management legislation.

The Tribunal has maintained its two part tariff for bulk water charges. The usage component of the two part tariff is one method of providing incentives to use water more efficiently. The effectiveness of employing usage pricing to influence demand management will vary across valleys, depending on the type of farms in the region. However, as noted in the section above, bulk water costs represent only a small proportion of total on-farm costs. Thus, changes in bulk water prices may not have a significant effect in the amount of water used.

APPENDIX 1 LIST OF SUBMISSIONS

Organisations

Albury City Council	Mr B J McLennan
Border Rivers Food and Fibre	Mr Bruce McCollum
Dairy Farmers Association of NSW	Ms Joan Waterford
Dept of Land & Water Conservation	Dr Robert Smith
Environment Protection Authority	Dr Neil C Shepherd
Friends of the Earth Sydney	Mr Dietrich Willing
Gwydir Valley Irrigators Association	Mr John Seery
Hawkesbury–Nepean Catchment Management Trust	Mr Peter Davey
Hawthorne Pastoral Co	Mr Conolly
Hunter Valley Water Users Association	Mr Arthur Burns
Hunter Water Corporation	Mr David Evans
Inland Rivers Network	Mr Stuart Blanch
Lachlan Valley Water	Ms Mary Ewing
Macquarie River Food & Fibre Association	Ms Susan Benedyka
Moira Private Irrigation District	Mr Michael Barlow
Mungindi–Menindee Advisory Council Inc	Mr Barry Strahan
Murray Irrigation Limited	Mr Bill Hetherington
Murray Valley Water Diverters Advisory Association (NSW)	Mr W R Anderson
Murrumbidgee Customer Service Committee	Mr Rel Heckendorf
Murrumbidgee Groundwater Pumpers Association	Mr Gerard Toscan
Nambucca Valley Water Users & Management Group	
Namoi Valley Water Users Association	Mr Jeremy Killen
Narromine Irrigation Board of Management	Mr E O Whittle
Nature Conservation Council of NSW	Ms Kathy Ridge
NSW Farmers' Association	Mr Simon Carson
NSW Irrigators' Council	Mr Col Thompson
NSW Treasury	Mr John Pierce
Peel Valley Water Users Association	Mr Rex Tout
Shoalhaven City Council	Mr John Gould
Southern Riverina Irrigation Districts' Council	Mr Laurie Arthur
Stratharlie Pastoral Company Pty Ltd	Mr Thomas Woolaston
Tamworth City Council	Mr D J Hill
Tarcutta Creek Water Users Association	Mr Denzel Clarke
Toonumbar Dam Water Users' Association	Mr Gordon Bebb
Tweed Shire Council	Mr Mike Rayner
West Corugan Private Irrigation District	Mr Peter Wallis
Western Murray Irrigation Ltd	Mr Anthony Couroupis

Individuals

Mr John Brigden

Mr Robert Caldwell

Ms Isabel Higgins

Mr AB & GF Jarrett

Mr Ildu Monticone

Mr Laurie Pengelly

Mr Simon Phillips

Mr Richard Sargood

Mr Geoffrey L Swain

APPENDIX 2 PRESENTERS AT THE PUBLIC HEARING**Organisation**

Department of Land and Water Conservation

Gwydir Valley Irrigators' Association

Nature Conservation Council of NSW

Murray Irrigation Ltd

Macquarie River Food & Fibre

Namoi Valley Water Users' Association

NSW Irrigators' Council

Presenters

Mr Robert Marsh

Mr Wal Murray, Mr Ken Arnott

Ms Jen Guice, Dr Stuart Blanch

Mrs Jenny McLeod

Mr John Clements

Ms Lee-Anne Melbourne

Mr David Ledgerwood, Mr John Grant

APPENDIX 3 IPART ACT REQUIREMENTS

Section 15 compliance

Section	Reference
s15(1)(a) the cost of providing the services concerned	The Tribunal has reviewed the cost base used in chapter 7.1 of the last determination and believes this continues to be the most appropriate estimate of bulk water costs.
s15(1)(b) the protection of consumers from the abuses of monopoly power in terms of prices, pricing policies and standard of services	<p>The Tribunal has reviewed the pricing principles established in chapter 7.2 of the last determination and believes these remain appropriate for the current determination.</p> <p>The Tribunal has approved some revisions to pricing structures where they are consistent with the Tribunal's pricing principals and the cost recovery targets for each valley.</p> <p>Chapters 3.2 and 5.5 of the current determination discuss service standards and the impact of prices on customers.</p>
s15(1)(c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales	The Tribunal has considered this issue and continues to believe that a rate of return on assets remains appropriate on investments made since July 1997. This is consistent with the position in 1998/99 and 1999/00, as outlined in chapter 7.3 of the last determination. DLWC did not seek to recover a rate of return on its assets in the current determination.
s15(1)(d) the effect on general price inflation over the medium term	The Tribunal's constraints on prices are detailed in chapter 5 . These will ensure that the impact of the Tribunal's determination will have a negligible impact on general price inflation over the medium term.
s15(1)(e) the need for greater efficiency in the supply of service so as to reduce the cost for the benefit of consumers and tax payers	The Tribunal has considered DLWC's efficiency and has recommended areas for further efficiency gains, as outlined in chapter 3.4 of the current determination. In addition, the Tribunal has reviewed the efficiency targets discussed in chapter 4.1 and 7.1.2 of the last determination and believes that they remain valid.
s15(1)(f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment	The current pricing structure includes a usage component, which provides an incentive to use water more efficiently, as discussed in chapter 5.6 . The detailed price structures are included in appendix 4 . Prices are also set to recover a component of resource management costs. This is discussed in chapter 7.4 of the previous determination.
S15(1)(g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets	Not applicable.

Section	Reference
s15(1)(h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body	Not applicable.
s15(1)(l) the need to promote competition in the supply of the services concerned	The Tribunal advocates promoting greater competition to ensure that efficient costs are met. The Tribunal considers these issues in chapters 3.1, 3.4 and 3.5 of the current determination. Chapter 7.1.4 of the last determination also remains relevant.
s15(1)(j) consideration of demand management (including levels of demand) and least cost planning	The Tribunal has considered the impact of its pricing structure on demand management, as outlined in chapter 5 of the current determination. Chapter 7.4.2 of the last determination remains relevant.
s15(1)(k) the social impact of the determinations and recommendations	Chapter 5 sets constraints on movements of individual tariffs. Chapter 5.5 assesses the potential impact of the proposed price increases on customers.
s15(1)(l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).	In making this determination, the Tribunal has been mindful of the need to maintain existing levels of service and the potential for increases in some service levels. In chapter 3 the Tribunal discusses DLWC's progress towards improving standards of service.

Section 16 compliance

Section 16 of the IPART Act requires an assessment of the likely annual cost to the NSW Government's consolidated fund if bulk water prices are not increased to the maximum level. Given DLWC's estimate of long term water usage, the new bulk water prices to apply from 1 July 2000 or 1 October 2000 will increase revenue by \$3.3m.

APPENDIX 4 LICENCE TYPES AND PRICE STRUCTURE

Regulated rivers

General security licences Licence holders are charged a general security fixed price and a usage price corresponding to the valley for which the licence was issued.

Wholesale licences These licences are issued to irrigation areas or districts which purchase large amounts of water and on-sell it to customers within the district. Holders of these licences are charged a wholesale discount in recognition of the lower cost incurred by DLWC in providing water to an area/district compared to the costs of delivering water to a river pumper. The discounts are charged as a proportion of the low security fixed charge. Discounts for each irrigation area are listed in the attached determination.

High security licences Holders of these licences are guaranteed to receive 100 per cent of their licence entitlements in all but the worst drought years. This greater security justifies a price premium to reflect the additional cost of supplying high security water.

High security licence holders are charged a high security fixed price and usage price (at the same price as for general security licences) corresponding to the valley for which the licence was issued. The high security fixed price represents a premium on the low security price.

High flow licences High flow licences permit access to water only when river flows reach a certain height. In the last determination the Tribunal set the same usage price for all water accessed in regulated rivers, whether it is accessed as allocation, off-allocation or high flow water. An exception to this is Macquarie Generation in the Hunter Valley, where the Tribunal has exempted Macquarie Generation from paying its high flow water usage.⁸⁰

Unregulated rivers

Area based and volumetric licences Irrigation licences for unregulated rivers are currently area based. Water users may irrigate an area of land ranging from 2 to 6000 hectares. There are no limits on the volume of water which may be used, and usage is not metered (except for some large users on the Barwon-Darling River).

Water users are charged either an area based or a volumetric charge, depending on whether the licences are metered. A minimum bill applies if charged by area and a base charge applies if charged for usage.

Metropolitan water utilities DLWC currently charges Hunter Water Corporation and Sydney Water Corporation for resource management activities. This charge is based on per megalitre of water usage.

High flow licences High flow licences permit access to water only when river flows reach a certain height. High flow licences on unregulated rivers will continue to be charged on the same basis as all other irrigation licences.

⁸⁰ IPART, *Bulk Water Prices for 1998/99 and 1999/00*, July 1998, p 45.

Ground water

Ground water is separated into management and non-management areas. Usage in management areas is metered or monitored. Usage is not metered or monitored in non-management areas. Licence holders in management areas are charged a base fee per property, an entitlement charge to apply to megalitres of licence entitlement and a charge per megalitre of water used. Licence holders in non-management areas are charged a base fee per property and an entitlement charge.

APPENDIX 5 INFORMATION REQUIREMENTS FOR A MEDIUM TERM PRICE PATH FROM DLWC

General information

- Description of the scope of activities for State Water and each DLWC water related program.
- Description of how ring fencing of costs and activities works within the DLWC.
- Current organisational chart.
- Description of how services are charged between related business units, ie transfer prices to and from State Water, where relevant.
- DLWC's Corporate Plan and any documentation explaining its resource management role.
- Description of asset valuation methodology used for financial reporting and regulatory purposes, where different.
- Description of cost allocation methodology.
- Review of progress in implementing the NSW Government's water reform agenda and its implications for operating and capital costs of water related activities.
- Review of implications of NCC review of NSW compliance with COAG water reforms.

Separation of State Water

- Copies of State Water's Operating Licence, Water Access Authority and Statement of Corporate Intent.
- Clear accounting of the resource management activities recovered in the bill sent by the resource manager to State Water.
- Clear separation in the operating licence of State Water's functions from the resource management functions.
- Description of service agreements between DLWC and State Water.
- Review of degree to which any service agreements are contestable.

Customer service

- Description of recent improvements in customer service.
- Copy of a Customer Service Charter negotiated with a customer service committee.
- Review of the billing system and any steps taken to improve it.
- Copy of State Water's complaints protocol (and any similar documentation for DLWC).
- Copy of current customer satisfaction surveys.
- Description of processes for consultation with user groups and other stakeholders on regional/valley accounting, and negotiation of service levels, where appropriate.

Financial information

General

- Financial statements for State Water including:
 - profit and loss account – audited previous year, current and 5 year forecast
 - balance sheet – audited previous year, current and 5 year forecast
 - cash flow – audited previous year, current and 5 year forecast
 - capital expenditure forecasts – 30 years
 - debt and interest profiles – plus 10 year forecasts.
- Explanation of any material differences between revised costs and the cost provided to the Tribunal for the 1998/99 determination.

Capital costs

- Copy of current Total Asset Management Plan.
- Description of how future capital works are affected by dam risk assessments and current or potential environmental flow rules.
- Description of asset value for the current review, tracing additions to initial capital base since the last review.
- The requested rate of return and calculations which support this request.
- Depreciation expense by major asset class for those capital items excluded from the asset annuity, indicating the method of depreciation, average asset life, and a comparison of depreciation expense for tax or tax equivalent purposes.
- Evidence that MDBC asset annuity is based on engineering assessments of asset conditions and financial calculations from asset plans.

Operating costs

- Audited special purpose valley financial statements for years 1999/00 and 2000/01.
- Staff numbers by valley/region by year.
- Wages and salaries by valley/region by year.
- Total overhead costs prepared on an accruals basis.
- Assigned corporate overheads, indicating the total amount of the corporate overhead, the amount assigned to each valley/region, and the basis and calculation of that allocation.
- Separate identification of costs charged by the Murray Darling Basin Commission (MDBC) and any associated MDBC water business, and description of associated works.
- Description and measurement of efficiency improvements since the last review, and targets for the proposed price path period.
- Results of any internal benchmarking between regions/valleys and externally with other utilities.

Performance measures and operating statistics

- Description of performance management system and efficiency measures.
- Number of customer complaints by year (where available), by water source and major category (eg service quality, problems, prices too high, tariff structures).
- Map of river network showing dams, weirs, and any other regulatory structure.
- Profile of water use on regulated rivers for the past five years and projections for the coming year, showing water use in each regulated river broken into allocation water, off-allocation water and high flow usage.
- Description of the method used to determine water allocations on regulated rivers and any relevant changes to this method in the preceding five years or over the proposed price path.
- Description of water use on unregulated rivers and projections over proposed price path by region/valley, and description of methods used to permit or restrict water usage.
- Profile of water use from ground water sources by valley/region over the preceding five years (differentiating management and non-management areas) and projections over the proposed price path, and description of the system for determining allocations.

Proposed prices and tariff reform

- Requested revenue as developed from these inputs.
- Proposed prices, describing the current prices, and proposed changes over the requested price path.
- Revenue analysis, indicating the amounts of revenue derived from each valley/region by year, by water source.
- Description of the method used to derive proposed prices and major drivers in the application of that method.
- Pricing models, updated for changes to licence system and water usage data.
- Description of actions taken to rationalise existing tariffs and licensing system to overcome charging anomalies (eg Macquarie Generation, industrial water use, town water supply, recreational, high flow).
- Description and review of the method used to determine premiums for high security water use.
- Review of the existing proportions of fixed and usage charges.
- Review of the cost-reflectivity of high security premiums.
- Review of the existing discounts on wholesale access fees and the commercial viability of charging arrangements with these wholesale customers, including any legislative obstacles to charging for system losses.
- Comparison of existing and proposed prices with bulk water prices in Queensland, Victoria and any other relevant jurisdictions.

Impact analysis

- Description of the impact of proposed prices on typical bills for water users by water source.
- Assessment of the financial impact of proposed prices on typical water users by region/valley.
- Assessment of the socio-economic impact of proposed prices by region/valley.

Licence fees and other miscellaneous charges

- A schedule of licence fees and identification of any changes over the past three years.
- Review of licensing administration processes and efficiency levels.
- Description of any changes proposed to licensing administration and fees and the time frame for this.
- A schedule listing other miscellaneous charges levied by the DLWC or State Water.
- Revenues raised from each of those miscellaneous charges, by year.
- Description of any actions to develop fee-for-service charging for access to DLWC's information database.
- Separate identification of resource management actions and costs attributed to metropolitan water authorities and any other "large" customers.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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

Reference No: 99/235

Determination: No 7, 2000

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

The Government monopoly services were declared by the Government Pricing Tribunal (Water Services) Order 1995, made on 4 October 1995 and published in the Gazette No. 122 dated 6 October 1995 at page 7115.

The maximum prices listed under section 1 to 7 of this Determination are to apply from 1 July 2000 (other than the Regulated Rivers prices for the Border, Gwydir, Namoi and Peel valleys which apply from 1 October 2000) until such time as the Tribunal makes a subsequent determination.

1 Definitions and interpretation

1.1 Definitions

In this determination:

area-based licence means a water licence issued on an unregulated river and expressed to limit water use to a particular maximum area of land.

DLWC means the Department of Land and Water Conservation.

general security licence means any water licence issued by DLWC as a general security licence.

GST refers to the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act, 1999*.

ground water means water accessed from an aquifer or other below-ground water source.

ground water management area means an area which DLWC has designated as a ground water management area, and for which DLWC has a current management plan in place.

high flow licence means any water licence issued by DLWC as a high flow licence.

high security licence means any water licence issued by DLWC as a high security licence.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act, 1992*.

region means a region of NSW as determined by DLWC from time to time for the purpose of issuing water licences under Division 3 of the *Water Act, 1912*.

regulated river means a river in which the flow of water is actively controlled by a structure owned by the Water Administration Ministerial Corporation and administered by DLWC.

the Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales, established under the IPART Act.

unregulated river means any river in NSW where the flow of water is not actively controlled by a river structure owned by the Water Administration Ministerial Corporation and administered by the DLWC.

volumetric licence means a water licence issued on an unregulated river and expressed to limit water use to a particular maximum number of megalitres of water use.

water licence means any licence issued under Division 3 of the *Water Act, 1912*.

1.2 Interpretation

If there is any inconsistency between this determination of the Tribunal, and a previous determination of the Tribunal, this determination will prevail to the extent of the inconsistency.

In interpreting this determination, a construction that promotes the purpose or object underlying the IPART Act (whether or not that purpose or object is expressly stated in the IPART Act) is preferred to a construction that would not promote that purpose or object.

2 Regulated rivers

Table 1 shows the maximum charges for water licences on regulated rivers in each region or river valley of NSW. The maximum charges for all regulated rivers are a fixed charge (at the high security or general security charge, depending on the licence) and a usage charge, corresponding to the region or river valley for which the licence is issued.

The licence holders listed in Table 2 receive a proportionate reduction in their fixed charge as indicated in the table.

The maximum charges for high flow licences (other than that held by Macquarie Generation) is the usage charge corresponding to the region or river valley in which the licence is issued. High flow licences do not pay the fixed charges listed in Table 1.

Table 1 Charges for regulated rivers

Region/River valley	Fixed charge (\$/ML of entitlement)		Usage charge ³ (\$/ML of water usage)
	High security licences	General security licences	
Murray & Lower Darling ¹	4.18	3.79	1.02
Murrumbidgee ¹	3.39	3.22	0.84
Lachlan ¹	5.20	3.46	3.97
Macquarie ¹	4.37	3.36	4.54
Namoi (including Peel) ²	7.53	5.02	6.01
Gwydir ²	4.26	2.83	3.30
Border ²	4.53	3.03	3.53
Hunter ^{1,4}	5.36	3.83	3.81
Toonumbar ¹	6.85	5.27	3.51
Brogo ¹	6.85	5.27	3.51

Notes:

1. Applies from 1 July 2000 until such time as the Tribunal makes a subsequent determination.
2. Applies from 1 October 2000 until such time as the Tribunal makes a subsequent determination.
3. The usage charge is to be paid on all water used, regardless of whether DLWC designates the water used to be allocation water, off-allocation water, high flow water, or any other designation.
4. Macquarie Generation's high flow licence shall be exempt from the usage charge in the Hunter region for the duration of this determination.

Table 2 Discounts on fixed charges for wholesale customers

Licence holder	Discount on fixed charges (%)
Murray Irrigation Ltd	60
Western Murray Irrigation	81
West Cororgan	65
Moira Irrigation Scheme	70
Eagle Creek Scheme	76
Murrumbidgee Irrigation Corporation	72
Coleambally Irrigation Corporation	68
Jemalong Irrigation	74

3 Unregulated rivers

Table 3 presents maximum charges for water licences (other than those held by Hunter Water Corporation and Sydney Catchment Authority) on unregulated river in each region or river valley of NSW.

The maximum charge for an area-based licence is a charge per hectare, corresponding to the region or river valley for which the licence is issued. A minimum bill of \$50 applies to these licences.

The maximum charge for a volumetric licence is a charge per megalitre of metered water usage, corresponding to the region or river valley for which the licence is issued, plus a base charge of \$100 per licence.

The maximum charge for Hunter Water Corporation and Sydney Catchment Authority is \$1.80 per megalitre of water usage.

Table 3 Charges for unregulated rivers

Region/River valley	Area-based licence¹ (\$/hectare)	Volumetric licences² (\$/ML of usage)
Barwon Darling	6.58	0.91
Barwon	5.95	0.83
Intersecting Streams	6.58	0.91
Central West	6.58	0.91
Murrumbidgee	6.58	0.91
Murray	3.75	0.47
North Coast	6.58	0.91
Hunter (excluding Hunter Water Corporation)	5.70	0.79
Sydney/South Coast (excluding Sydney Catchment Authority)	6.58	0.91

1. Area-based licences may be charged a minimum bill of \$50.

2. Volumetric licences may be charged a base charge of \$100.

4 Ground water

Maximum prices for water licences for ground water are shown in Table 4.

The maximum charge for ground water licences in ground water management areas is a fixed charge plus a usage charge corresponding to the region or river valley for which the licence is issued, plus a base charge of \$100 per property.

The maximum charge for ground water licences, other than those in ground water management areas, is a fixed charge corresponding to the region or river valley for which the licence is issued, plus a base charge of \$75 per property.

Table 4 Charges for ground water

Region/River valley	Fixed charge (\$/ML of entitlement)	Usage charge (\$/ML of usage)
Murrumbidgee	0.41	0.20
Murray	0.66	0.33
Central West	0.67	0.34
Far West	0.73	0.37
Barwon	0.42	0.21
Sydney/South Coast	0.73	0.37
Hunter	0.73	0.37
North Coast	0.73	0.37

5 Licence fees

Maximum charges for licence applications, renewals and permanent transfers will remain at the levels charged in 1997/98, as per section 9.4.2 of the last determination.

The charge for the temporary transfer of the licence between licence holders is not to exceed a fixed charge of \$25, plus a variable charge of \$1 per megalitre of water transferred, but with a maximum total charge of \$75 per transfer.

6 New or additional charges

Prices or charges for bulk water services provided by the Water Administration Ministerial Corporation which are not referred to in this determination, are to remain at 1996/97 levels.

The Water Administration Ministerial Corporation may not levy new or additional charges for any bulk water services other than in accordance with this determination or with the Tribunal's approval in future determinations.

New and existing voluntary charges may continue to be negotiated between the Water Administration Ministerial Corporation and water users without reference to the Tribunal.

This determination does not cover charges to the Lowbidgee Flood Control and Irrigation District, Waddy Scheme, Colligen and Niemer, Little Merran Trust, Gol Gol Creek and Gol Gol Creek North.

7 Consistency of determination with A New Tax System

The Tribunal's determination of the above charges has been made on the basis that those charges are free of the impact of the GST.

If any charge in this determination is or becomes subject to the GST, it will be amended so that the maximum charge that may be levied is the charge determined in accordance with the formula:

$$\text{Charge}^{+\text{GST}} = \text{Charge} \times (1 + \text{Y})$$

where:

Charge^{+GST} means the GST inclusive charge calculated under this section;

Charge means the relevant GST exclusive charge calculated under sections 1 to 6 of this determination;

Y means the amount defined in *A New Tax System (Goods and Services Act), 1999* as the GST payable per dollar of taxable supply.