DLWC RESPONSE TO IPART DRAFT REPORT ON BULK WATER PRICES FROM 1 OCTOBER 2001

1. Introduction

DLWC has reviewed IPART's draft determination with respect to a range of pricing issues. These include a revised proposal for restructuring unregulated river tariffs and provision of supplementary information on Part 9 licences, as specifically sought by IPART; an assessment of the integrity of the costing information utilised to develop bulk water prices; analysis of the impact of the proposed pricing regime on future bulk water revenues; and, issues concerned with implementation of the new cost sharing arrangements. Detailed comments addressing key aspects of the determination are provided below.

2. Three Year Price Path (s1, p1-2; s2, p3-4)

The draft determination proposes a three year price path for bulk water services. This timeframe will provide greater certainty to customers regarding future bulk water prices and to DLWC regarding future revenue streams. In addition, the price path will enable DLWC and State Water to more adequately put in place the costing systems, pricing regimes and other IPART requirements contained in the determination. In particular, a longer price path will enable State Water to enhance customer consultation processes through its Customer Service Committees.

3. Impactor Pays Approach to Cost Sharing (s5, p27-33)

DLWC's April 2001 pricing submission utilised a beneficiary/impactor pays approach as a basis for sharing costs between water users and the Government. This conformed with the requirements for cost sharing established by IPART in its 1998 determination. The draft determination proposes to adopt an exclusively impactor pays approach to cost sharing.

DLWC agrees with IPART that an impactor pays approach should have the effect of sending appropriate price signals for minimising overall future costs, having regard to the consensus approach to river management planning established by the Water Management Act (WMA). The current cost sharing arrangements, on the other hand, do not provide different stakeholder groups in the water planning process with incentives to adopt the most cost effective solutions. Rather, they seem to encourage cost shifting behaviour, a process that could undermine the WMA.

In summary, DLWC generally supports the introduction of an impactor pays approach to cost sharing. This is, however, subject to the matters raised in (5) below concerning the methodology utilised for allocating costs being addressed in the final determination, and to development of effective systems to implement the framework as discussed in (6) below.

4. Line in the Sand (LIS) Approach to Cost Attribution (s5, p27-33)

Introduction

The draft determination proposes all bulk water costs attributable to pre 1 July 1997 (LIS) activities be denoted as legacy costs and assigned a nil user share. IPART has extended the LIS concept applicable to return on assets to all other bulk water costs, including operating and resource management costs. DLWC supports introduction of this approach subject to the reclassification of a range of legacy costs to the forward looking cost category.

Impact of Proposed Cost Attribution

The effect of attributing a nil user share for many costs classified as legacy costs will give water users a perverse incentive to seek a higher level of expenditure on activities denoted as legacy than would otherwise be the case. This appears to conflict with the stated intention of the new cost sharing arrangements, which is to provide incentives to stakeholders to seek cost effective solutions to water management.

Thus the cost attribution process will effectively result in cost shifting behaviour. It will not therefore send the correct signals to water users about the costs that must be incurred for water extraction to continue. This will be to the detriment of an efficient bulk water system.

Application of Cost Classification Criteria

For reasons primarily of intergenerational equity, it is acknowleged some costs of a legacy nature that are incurred as a result of past activities should not be borne by water users, and may therefore be assigned a nil customer share under the LIS approach.

However, it is considered that costs currently being incurred which bear no direct relation to past activities (eg costs incurred as a result of raised standards) should be reclassified as forward costs. Such costs do not so much arise from a need to remediate damage caused by past activities but from a need to contain or reduce the impact of current extraction activities.

Treatment of Compliance Costs

In IPART's 1998 determination it is stated that, 'The Tribunal believes that the costs of complying with the new environmental standards are a legitimate cost of doing business … and should be paid for, in part, by licensed water users.' IPART also recognised in that determination the need for cost recovery of safety standards but delayed a decision until State Water produced a total asset management plan. This has been available for the current pricing process.

Under the draft determination, all occupational health and safety and dam safety upgrade costs for the next 30 years would effectively be classified as legacy, for which no cost recovery would be available to DLWC.

It is considered compliance costs brought about by raised standards cannot be legitimately construed as legacy and should be allocated a user share along with other forward costs under the impactor pays approach. DLWC believes that such costs cannot be considered 'a legacy of a change in community standards' (s5, p31), and that application of this criteria reduces the efficacy of the costing process.

DLWC Cost Assessment

DLWC has reassessed the attribution of costing data under the LIS approach, making adjustments to the classification of costs to take into account the issues noted above. This assessment indicates that a range of legacy costs should be reclassified as forward costs. Consequently, legacy costs would represent a smaller component of total costs than proposed in the draft determination. Based on the proposed revision to the LIS cost attribution criteria, DLWC estimates the water user share of cost recovery should increase by $3.4m per annum over the price path. As a way forward, adoption of a customer share of 25% of legacy costs (an option in the ACIL review) would go some way in improving cost recovery to the level sought.

Description of Past Investments

The general reference to pre 1 July 1997 investments in the draft determination (eg s4.3.3, p25) as largely reflecting 'inefficient past investment and poor past (management) practice' is not considered accurate. Rather, it would be more appropriate to refer to past investments 'made for a variety of not necessarily commercial or environmental reasons'.

5. Impact on Cost Recovery arising from Application of Proposed Cost Sharing Framework (s5, p27-35)

DLWC notes some inconsistencies in the application of the impactor pays/LIS allocation of costs at the subproduct level, as documented in ACIL Consulting's report to IPART. In relation to compliance costs, these inconsistencies result in a significant underestimation of subproduct costs attributed to water users. As a result, the summarised costings shown in the draft determination, which draw on ACIL Consulting data, are understated.

Based on a consistent application of the impactor pays/LIS allocation principles across all subproducts, cost recovery (user share of costs) would be $4.2m per annum higher over the price path than indicated in the determination. Together with the proposed revision to the LIS cost attribution criteria (discussed in item (4) above), cost recovery would increase by $7.6m per annum. The implication of this change on regulated river prices over the three years would be relatively small and would not impact on the price caps proposed in the determination.

6. Implementation of Proposed Cost Sharing Framework (s5, p27-35)

As indicated above, DLWC supports the introduction of an impactor pays approach and a modified LIS approach for cost sharing purposes. However, the proposed costing framework presents some complex implementation issues for DLWC. Under the framework, all bulk water costs will be allocated at the DLWC program subproduct level rather than product level. This will involve the allocation of some 115 bulk water subproducts costs to each service (regulated river, unregulated river and groundwater) and valley.

Consequently, it will be necessary for DLWC to develop robust business rules in order to be able to adequately define and classify costs for cost recovery purposes. This will be an onerous task and one which is anticipated will be subject to an ongoing consultation process with stakeholders. In addition, the costing requirements will place a substantially greater transparency burden on DLWC for reporting purposes.

DLWC will therefore seek IPART's involvement in the costing framework's developmental stages. It may transpire, however, that some changes to the framework will be necessary for implementation to be undertaken satisfactorily. In this regard, DLWC believes it would be desirable, in the first instance, for the final determination to note recognition of potential problems that could arise in implementation of the framework. In addition, potential difficulties should be accommodated by providing some flexibility in any compliance requirements for the next pricing round.

7. **Cost Recovery Level** (s8.2, p54-56)

Under COAG commitments, full cost recovery of bulk water services was to have been achieved by 1 July 2001. DLWC sought a cost recovery level of 80% from its proposed pricing regime. This was seen as reasonable progress towards achievement of full cost recovery.

The draft determination, provides for continued, if slow, progress towards full cost recovery, but falls short of meeting the target over the price path. It provides for cost recovery of 73% compared to the current level of 61%.

A critical concern is the extent to which the level of cost recovery proposed in the determination satisfies the Government's COAG commitments. The outcome of the National Competition Council's review of progress in meeting these commitments cannot be ascertained at this stage.

8. 1 October 2001 Start Date for New Prices (s1, p2)

Proposed charges for 2001/02 will require State Water to apply two rates of charges for the calculation of annual water bills:

- ◊ Existing (2000/01) prices to apply from: 1.7.01 to 30.9.01
- ◊ New (2001/02) prices to apply from: 1.10.01 to 30.6.02

This arrangement will require substantial programming changes in the licence administration system to enable the billing system to incorporate 1 October 2001 price changes. This is because the majority of meters have not been read for billing purposes within the current year - readings normally being scheduled at year end - to enable charges to be calculated for the period 1 July to 30 September 2001, in addition to the period 1 October 2001 to 30 June 2002. It will also increase the bill processing task for State Water, entail estimation of water usage in the first quarter of the year, reduce State Water revenue and potentially result in additional customer enquiries and complaints.

Introduction of new prices from 1 July 2001 is therefore preferred by DLWC. Water users are believed to be comfortable with the billing process developed in recent years, and financial year billing is generally perceived as a better customer service. In addition, the impact of the proposed prices on water bills in the first quarter of the year would be relatively small. State Water discussions with the NSW Irrigators Council and several Customer Service Committee chairs indicates their concurrence for price changes effective 1 July 2001.

While DLWC seeks implementation of new prices from 1 July 2001, it considers 1 October 2001 should be the latest date for price changes to take effect. Should IPART decide to commence new prices from 1 October 2001, DLWC proposes the following arrangements to facilitate the billing process:

(a) fixed and base charges to be levied at the new rate from 1 October 2001

(b) water usage charges :

   (i) regulated Border, Gwydir, Namoi and Peel Valleys, where metering readings are available, to be levied at the new rate from 1 October 2001 (these valleys have an October - September water year)

   (ii) all other valleys to be levied for the year 2001/02 at 10% of the current price plus 90% of the new price (to reflect water usage in the September Quarter 2001)

9. Accounting for Changes in the General Level of Prices (determination, p99-104)

The draft determination indicates regulated and unregulated river and groundwater prices for 2002/03 and 2003/04 will be adjusted for the effects of inflation as follows:

'Price effective at end of preceding year X (% change in CPI + % change in determination price for current year)*

**where CPI is the year on year % change in the Consumer Price Index (weighted average of 8 capital cities, Australian Bureau of Statistics) relating to March quarter of preceding year'*

The above method of calculation is considered to be incorrect, as general price changes should apply to nominally determined prices - incorporating relative price increases specified in the determination - for the years concerned. The correct methodology for inflating prices in 2002/03 and 2003/04 is as follows:

*'Nominal determined price (incorporating relative price increases specified in the determination for current year) X CPI**

**where CPI is the year on year % change in the Consumer Price Index (weighted average of 8 capital cities, Australian Bureau of Statistics) relating to March quarter of preceding year'*

While it is understood that IPART intends to use the latter methodology to inflate prices for each of the two years, it would be preferable to restate the formula to assist all parties in planning requirements and to avoid confusion at the time price changes take place.

10. Draft Determination Prices for 2002/03 and 2003/04 (s7.1, p41; s7.3, p48; determination p99, 101-103)

It is appropriate for s7 to show actual determination prices and/or percentage changes applicable to prices in 2002/03 and 2003/04. However, it is considered desirable for the determination section to detail actual determination prices for 2002/03 and 2003/04. This will provide greater certainty to all parties as to prices prevailing in a given year, and facilitate the application of general price changes ((9) above).

11. Return on Assets (s4.3.3 p25)

IPART's draft determination reduces the return on assets from $3.8m pa sought in DLWC's April 2001 pricing submission to $2.2m pa, as a result of reducing the rate of return and asset base utilised in calculating the return. This item is discussed below.

Rate of Return (s4.3.3 p25; A7.1.3, p87)

IPART has reduced the rate of return utilised in calculating State Water's return on assets from 7% to 5% per annum (real). The rate has been lowered on the basis that DLWC is not subject to financial distribution requirements of the NSW Government; that is, DLWC is not required to pay dividends or tax equivalents. IPART also indicate that as State Water has no debt obligations and is a budget funded entity, development of a unique rate of return - using (say) the capital assets pricing model to develop a weighted average cost of capital (WACC) - has limited relevance. DLWC agrees with this.

IPART's draft determination compares the WACCs of other water businesses, but notes the distinction between rates utilised for Hunter Water Corporation/Sydney Catchment Authority (7% per annum (real)) and Gosford/Wyong Councils (5.4% - 5.8% per annum (real)). In support of the lower rate allowed for State Water, IPART has indicated the latter organisations are similar entities to State Water in that they do not operate as independent commercial businesses; that is, they are not subject to normal commercial disciplines, payment of dividends or income tax. IPART also notes this is the first year that a return on assets has been applied in bulk water pricing, and to minimise customer impacts, the Tribunal proposes to phase in any allowance for return on assets. Therefore, given current market expectations, IPART considers a real rate of 5% per annum to be appropriate for State Water.

IPART notes that given a WACC range of 4.7 - 7.5% per annum (real) for water businesses, a real rate of 5% per annum is on the low side. Moreover, DLWC does not believe this charge should be phased into prices, especially given the relatively minor level of costs the charge would generate. To give the correct signals for efficient investments, new investments should earn a commercial risk-adjusted return on capital. It is also considered that as an entity supplying mainly commercial customers, and operating under clear commercial principles, State Water is a more commercially oriented entity than the two councils concerned.

For the reasons noted above, DLWC considers a 7% per annum (real) rate of return, as proposed in its April 2001 pricing submission, should be applied in return on assets calculations.

Asset Base (s4.3.3 p25; A7.1, p85-86)

IPART reduced DLWC's asset base utilised for return on assets calculations by $17.7m, of which a substantial amount ($9.5m) results from deducting post 1 July 1997 capital expenditures related to projects completed before that date. Conversely, there are substantial expenditures occurring pre 1 July 1997 relating to post 1 July 1997 requirements/activities, which on the same basis could be included in the asset base. Moreover, other bulk water costs are not, to this extent, subject to line in the sand cost attribution on this basis.

Accordingly, DLWC considers that the approach adopted is somewhat arbitrary and lacks the rigour necessary for a consistent basis of costing. DLWC's April 2001 pricing submission already proposed a restrictive asset base, which excluded Murray-Darling Basin Commission and Dumaresq-Barwon Border Rivers Commission assets as well as other assets used in rural water supply.

For the reasons noted above, DLWC considers the asset base utilised for return on assets calculations should, at a minimum, be amended to include the $9.5m in post 1 July 1997 capital expenditures referred to in the draft determination.

12. Part 9 Licences Charges (s7.4.2, p50; determination, p105)

Part 9 licences have been issued to several water management authorities, including the Sydney Catchment Authority, Hunter Water Corporation, Sydney Water Corporation, Macquarie Generation, Delta Electricity and Eraring Energy. Application and annual management charges recover the cost of issuing and managing the water licences. These charges are separate from annual bulk water charges which recover the cost of water supply and are currently set by IPART.

In considering whether to set Part 9 licence charges, IPART's draft determination seeks details from DLWC about the purpose and basis of costing of these charges. The charges are given effect by the Water Act 1912, and it is not considered that a requirement exists for the charges to be subject to determination by IPART.

Section 194 of the Water Act sets out the basis and purpose of the licence charges. The charges cover the reasonable costs relating to a licence which are incurred by DLWC in monitoring and auditing activities, ensuring compliance, and in reviewing and managing the licence. The charges are likely to vary from year to year, with higher costs being incurred when public reviews of the licence are being undertaken - every five years - and/or special studies or investigations are carried out.

The licence charges are based on direct recovery of costs of the services provided by DLWC to licensees, and are revised annually to reflect work scheduled to be undertaken. Charges for these services are negotiated directly with licensees; alternatively, they are provided with the necessary information for their review and concurrence. As part of this process, financial reports, showing details of current expenditures and updated expenditure estimates are provided to licensees on a regular basis. A formal reporting process has also been established with each licensee, generally through a Strategic Liaison Committee.

The feedback DLWC has received indicates that licensees are generally satisfied with the level and quality of financial information they are provided with as well as the process for setting licence charges.

13. Regulated River Pricing - Minimum Billing (s7.1, p41-44; determination, p99-100)

The proposed separation of water licences into access rights, works approvals and water use approvals may result, in some cases, in an existing licence being owned by up to three different entities. Hence the holder of the access right would receive the fixed (entitlement) charge and the water user (holder of the works approval and/or the water use approval) would receive the usage charge.

The new licensing arrangements will, therefore, have the effect of increasing the number of regulated river customers receiving bills of less than $50. The administrative effort for such low value billing is not cost effective.

DLWC believes, therefore, that a $50 minimum billing charge - issued on the same basis as proposed for unregulated river customers (Table 4, p102) - should be extended to billing regulated river customers.

14. Unregulated River Pricing (s7.2, p44-48; determination, p100-103)

Introduction

DLWC's pricing submission proposed converting the current unregulated river area based charge to a volumetric entitlement charge as well as introducing a two part tariff structure for unregulated rivers. The two part tariff would include a fixed entitlement charge and a volume based usage charge where metering and monitoring are being implemented. The submission also proposed increasing town water supply agency and industrial customer prices to irrigator levels and introduction of a minimum bill for all services.

IPART's draft determination allows for implementation of the two part tariff, on the basis that introduction of consumption based pricing is to be encouraged where possible. However, IPART has indicated DLWC should review the proposed tariff structure, as part of its response to the determination, with reference to the implications for DLWC revenue, customers and the potential price signalling effects (s7.2.3, p48). This review has been completed and details of a revised two part tariff structure proposed by DLWC are provided below.

The need for review of the tariff structure reflects the apparent inequities arising from the wide variations between valleys in the proposed fixed charges, and the consequent imbalances between fixed and usage components of the tariff in individual valleys. This issue is addressed in DLWC's revised proposal. By way of background, it is noted that with respect to regulated rivers, there are quite wide variations in the two part tariff between valleys. This situation has largely arisen from IPART's ongoing need to balance the competing goals of cost reflectivity, revenue management, obligations to customers and potential price signalling effects.

For consistency with established bulk water pricing principles, then, cost reflectivity is the focus of the revised unregulated river two part tariff. Other pricing considerations have been taken into account as appropriate.

Addressing Tariff Inequities

Unregulated river pricing arrangements are relatively complex, and in the short term, inequities between customers have been perpetuated. A notable result is that charges for town water supply agencies and industrial customers are approximately half the levels that are borne by irrigators, since the former pay only the usage component of the price, whereas the latter pay the fixed and usage components of the tariff. Nevertheless, town water supply agencies and industrial customers have priority for water over irrigators in dry periods. On the basis of equity and market efficiency, it is considered that all customers should be subject to the same pricing regime when purchasing an identical service.[1]

[1] IPART Bulk water Services Interim report, 1996 p32; IPART Bulk Water Prcing Determination 1997, p26-32 ; IPART 1998 Determination p32-33 and p39.

The two part tariffs shown in the determination - initially proposed in DLWC's April 2001 pricing submission - were developed to ensure charges to town water supply agencies and industrial customers would not fall relative to charges levied on irrigators. It is now proposed that these equity concerns be more fully addressed by including town water supply agencies, industrial customers and irrigators under the same pricing regime from the first year of the price path, 2001/02. In addition to enhancing equity, this change will improve cost recovery and provide greater revenue stability for DLWC.

Cost Reflectivity

The variable cost proportion of unregulated river total bulk water costs ranges from 10% - 38% across all valleys. This results from application of avoidable cost ratios to the total costs reported in the draft determination. (The ratios used are those provided to IPART by ACIL and PwC in August 2001). These cost proportions have been utilised to develop a cost reflective tariff structure. Table 1 shows the variable and fixed proportions of total costs in each valley.

Table 1: Unregulated River Variable and Fixed Proportions of Total Bulk Water Costs (after ANTS Savings)

Valley	**Variable Proportion of Costs** %	**Fixed Proportion of Costs** %
Border	29	61
Gwydir	22	68
Namoi	34	66
Peel	10	90
Lachlan	38	42
Macquarie	28	72
Far West	27	63
Murray	34	66
Murrumbidgee	23	77
North Coast	25	75
Hunter	14	86
South Coast	30	70

Revised Tariff Structure

The draft determination notes the progress of the volumetric conversion process and sets fixed/ml (fixed per megalitre) prices for unregulated rivers consistent with the conversion of irrigation licences from area based to entitlement volumes. DLWC's revised tariff structure incorporates these fixed charges for 2001/02.

The variable cost ratios in Table 1 above form the basis for revised usage prices in each valley. An exception has been made for the Peel Valley which has a variable cost ratio of 10% and total costs of only $6,460. The Namoi Valley variable cost ratio of 34% has been utilised as a surrogate for calculation of Peel Valley usage. The fixed/variable cost ratios have been applied to the 2001/02 fixed charges ('volume of entitlement charge') shown in the draft determination (Table 3, p101) to derive revised fixed and usage charges. This effectively maintains the price cap set by IPART. With the exception of the Hunter Valley, the usage component represents a reasonable portion of the two part tariff for all valleys, providing the necessary price signalling effects.

As indicated above, under the revised tariff, Stage 1 fixed charges remain unchanged in 2001/02. The tariff is based on all unregulated river customers being charged the applicable valley price from 2001/02. It is proposed that town water supply agencies and industrial customers be charged the two part tariff from 2001/02 based on actual or assessed water usage. The fixed component of the tariff would also be based on water usage in 2001/02, with the $100 base charge for these customers being removed. It is also proposed that a $50 minimum bill be introduced for all customers from 2001/02.

The revised unregulated river prices are shown in Table 2.

Table 2: Revised Unregulated River Prices ($01/02)

Valley	Stage 1 Fixed Charge 2001/02	Revised Two Part Tariff 2001/02		Increase on Previous Year 2002/03 (a)	Increase on Previous Year 2003/04 (a)
	$/ML	Fixed $/ML	Usage $/ML		
Border	2.23	1.58	0.65	20%	20%
Gwydir	2.23	1.75	0.48	20%	20%
Namoi	2.23	1.46	0.77	20%	20%
Peel	2.23	1.46	0.77	20%	20%
Lachlan	1.79	1.11	0.68	20%	20%
Macquarie	2.63	1.88	0.75	20%	20%
Far West	1.21	0.89	0.32	20%	20%
Murray	1.80	1.18	0.62	20%	20%
Murrumbidgee	3.16	2.43	0.73	20%	20%
North Coast	2.39	1.80	0.59	20%	20%
Hunter	1.55	1.33	0.22	20%	20%
South Coast	1.75	1.23	0.52	20%	20%

(a) Prices to be adjusted by the year on year percentage change in the Consumer Price Index (weighted average of 8 capital cities, Australian Bureau of Statistics) relating to March quarter of preceding year.

Impact on Customers

The revised tariff structure substantially improves the equity of bulk water charges between customers. They also retain the capacity to control and reduce their water bills through the usage component of the tariff. For irrigators, the change to the new tariff will occur progressively as metering and monitoring are implemented. For town water supply agencies and industrial customers, the change would take effect from the commencement of the new price path in 2001/02.

DLWC believes that, in the long term, town water supply agency and industrial customer charges should be higher than charges for irrigators because of their priority of access to water during periods of low river flows. DLWC intends to address this issue in its next pricing submission, by which time annual entitlements for all unregulated river customers should indicate their access rights to water during high, medium and low flow periods.

The impact of the revised tariff structure on unregulated river customers will largely depend on:

◊ the size of the fixed charge (which varies from $2.43/ml to $0.89/ml);
◊ the size of the entitlement volume; and,
◊ the amount of the entitlement volume used.

From information contained in the NSW Water Supply and Sewerage Performance Comparison Report for 1999/00, the impacts of the revised tariff for selected sized town water supply agencies - measured by the change in share of business income - are shown in Table 3. The analysis is based on customers using their full entitlements.

Table 3: Impact on Town Water Supply Agencies of Revised Unregulated River Prices

Town Group (number of properties)	Town Water Supply Agency (& Valley)	1999/00 Business Revenue	1999/00 Bulk Water Usage	2000/01 Bulk Water Bill ($01/02)	2000/01 Bulk Water Bill as a % of 1999/00 Business Revenue	2003/04 Bulk Water Bill ($01/02)	2003/04 Bulk Water Bill as a % of 2003/04 Business Revenue
		$'000	ML	$	%	$	%
>10,000	Gosford (Sydney South Coast)	13,000	17,000	16,534	0.1	54,600	0.4
2,001-10,000	Deniliquin (Murray)	1,500	3,440	1,765	0.1	8,916	0.6
801-2,000	Warren (Macquarie)	371	530	597	0.2	2,007	0.5
200-800	Barraba (Peel)	308	280	339	0.1	899	0.3

Summary

The revised two part tariff structure for unregulated rivers proposed by DLWC (Table 2 above) substantially reduces variations in the fixed component of the tariff between valleys. For the new structure to be implemented effectively, all customers would be placed on the same tariff structure commencing 2001/02. The 2001/02 fixed charge contained in the draft determination remains unchanged in the revised tariff structure to ensure IPART's price cap is not exceeded.

The revised tariff structure is based on achieving:

◊ greater equity between customers;
◊ improved cost reflectivity in the fixed and variable charge components; and,
◊ a relatively higher usage charge component to provide customers with incentives to manage usage and minimise bills.

13. **Licence Fee Restructure** (s7.5, p51; determination, p105)

The structure of bulk water licence fees has not changed for many years. DLWC's pricing submission noted that restructuring of these fees was necessary but could not be undertaken during 2001 because the process would conflict with implementation of the WMA.

The WMA requires establishment of water use approvals as a separate instrument from the water access licences. All interests in current licences must be confirmed before an access licence will be issued. DLWC is in the process of validating these licences and developing the new access licensing system.

The new licensing regime is not expected to commence until mid to late 2002. In the interim, the licensing provisions of the Rivers and Foreshores Improvement Act, 1948 and the Water Act, 1912 remain in force.

In 2002, DLWC intends to undertake a consultative process for developing a submission to IPART on licence fees, with a submission likely to be made in September 2002.

14. **New or Additional Charges** (determination, p106)

DLWC seeks a revision to this section of the draft determination. The first paragraph states that 'prices or charges for bulk water services provided by the Water Administration Ministerial Council which are not referred to in this determination, are to remain at 1996/97 levels'.

It is considered that the abovementioned statement should be deleted. It does not adequately clarify charging arrangements and appears to be inconsistent with the 1997/98, 1998/99 and 1999/00 pricing determinations. It is noted that determinations between 1997 and 2000 removed a number of charges in existence in 1996/97 from the determination process and changed the way other charges were to be applied. On the other hand, the statement in the draft determination may be interpreted to the effect that these charges are to remain as specified in the 1996/97 determination.

DLWC believes that paragraph 3 of the section has the affect that, amongst other charges, DLWC can continue to charge the Pindari Dam Levy at the rates negotiated with customers.