

Our Reference : CH4933/06

Dr Thomas Parry  
Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230

**Director General**

Dear Dr Parry

### **EPA SUBMISSION TO IPART REVIEW OF BULK WATER PRICES**

The EPA has reviewed the Department of Land and Water Conservation's submission to the Tribunal proposing price increases in bulk water charges from 1 July 2001.

The EPA supports progress towards full cost recovery based on the revised operating and asset costs. The COAG Strategic Water Reform Framework defines full economic costs as the sum of operating and maintenance expenses, administrative costs, replacement cost depreciation, the opportunity cost of capital and externalities. As expressed in past submissions the EPA recommends the inclusion of an environmental charge and believes this should be given serious consideration by IPART. The current exclusion of environmental costs in charges represents a financial subsidy to users as the resource is sold at less than its true cost.

External costs are defined to include but are not limited to resource management costs. While the EPA supports increased recovery of resource management costs this is not sufficient to ensure correct signals are being sent to users and to provide for the rehabilitation of environmental damage caused through water supply and use.

IPART has indicated in previous determinations that demand management and environmental objectives are best achieved through licensing and river regulation. IPART has also previously stated that because bulk water charges represent a small proportion of on-farm costs, incorporating environmental components in prices would not have an impact on water usage. The EPA does not support this premise, as no one tool or signalling device will be sufficient to encourage individuals to meet their responsibilities. According to research<sup>1</sup> undertaken for the High Level Steering Group on Water by the CSIRO a portfolio of signalling tools is required.

Signalling external costs is a means to encourage people not to create externalities. The inclusion of even a nominal environmental charge can be used to signal that all users share responsibility for resource degradation and increased resource protection. In the longer term, larger externality and resource management charges may be required to achieve the goals developed under the Water Management Act 2000.

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<sup>1</sup> CSIRO Land and Water, 2000, Exposure Draft - Draft Guidelines for Managing Externalities, High Level Steering Group on Water, June 2000.

The EPA supports the DLWC proposal for groundwater charges to be extended to licensees in the Great Artesian Basin (GAB) who choose not to enter into the 'Cap and Pipe the Bores' program. Water charges can be used as an incentive to change management practices for high yielding bores thus minimising wastage and protecting the resource.

Disallowing government owned entities to achieve positive rates of return for the provision of natural resources also represents a financial subsidy that can contribute towards environmental degradation. Because the resource is sold at less than its full cost, resources are put to inferior, low return or unsustainable uses. Therefore, the EPA supports DLWCs proposal for a return on new capital investment.

The EPA also considers that it is reasonable to recover part of the costs of water sharing plan development but notes that the Water Management Act 2000 provides for a range of water management plans. These include water sharing plans (which address environmental flow considerations) and other plans such as flood management, drainage management and water source protection. The form and content of these plans are yet to be developed. It is likely that the share of costs that should be borne by irrigators and other stakeholders from these plans will vary. It is thus recommended that the DLWC submission is revised to specifically refer to recovery of costs of water sharing plans with cost recovery of other types of plans to be further developed by DLWC.

The submission maintains a fifty percent cost recovery for the development of blue-green algae and salinity strategies but recommends no cost recovery of wetland strategies. All these strategies are needed in response to the impacts caused by water extraction and river regulation. The EPA therefore recommends that the costs of wetland strategies also have a fifty percent user share.

Finally, the submission states that capital expenditures designed to meet regulatory compliance and raised standards, including environmental protection works, should be recovered through a compliance annuity. However, the submission does not provide details of projected capital expenses for environmental works making it difficult to assess if State Water is allocating sufficient capital to deliver Government commitments. The EPA recommends that DLWC provide details of the criteria used for determining capital expenditure for environmental benefit in each valley. For example, reference to the relevant policies or management plans should be provided and in the future results of environmental audits should be made available to highlight progress and emerging priorities.

Yours sincerely

**LISA CORBYN**  
**Director-General**