

Submission to IPART on Bulk Water Pricing

Friends of the Earth is generally supportive of the DLWC submission to increase bulk water prices by a maximum of 20 percent each year over the next three years. This would raise to 82 percent user attributed costs at the end of the third year recovered from users. We would expect further increases after this three year period and a review of user attribution of DLWC activity within the next three year period.

We do have a few concerns about what is full cost recovery, views on the amount of price increase and the relationship between price of extracted water and environmental flows.

Full Cost Recovery

A. In its 1998 determination, IPART determined the cost sharing ratios of DLWC's bulk water related activities. DLWC had proposed a matrix for sharing its costs. The Tribunal's Secretariat developed its own proposed cost sharing matrix and conducted a series of regional workshops to discuss it with stakeholders.

We request IPART review the current cost sharing ratios before the next determination, so as to elaborate and clarify terms such as

1. the beneficiary of a DLWC activity - when is an activity supportive of the extractor and when it an activity supportive of the general community. Is an activity supportive of the environment subsumed under the general community or is it a beneficiary in its own right?

B. IPART in its 1998 determination used the "line in the sand" concept in determining what capital resources deserved a rate of return. New capital assets deserved a rate of return. We have no argument with DLWC's proposal for a 7 percent rate of return.

What should be asked is when does maintenance of dams and weirs become a capital asset? Does the refurbishment of Hume dam on the Murray River to stop a crack in the dam wall deserve a rate of return? Does work to comply with revised earthquake frequencies deserve a rate of return? This type of major maintenance work extends the life of the dam past its initial lifetime estimate, thereby deferring the construction of a new dam. We ask that the Tribunal make a determination on when expenditure on an existing capital asset is considered to be an expenditure that deserves a rate of return.

C. We note that the Total Asset Management Plan does not include details on which of its fixed assets it intends to demolish and when. We expect that some of its weirs will be demolished in the next three years.

We ask the Tribunal to make a determination on the cost-sharing principles and the cost-sharing ratios for the demolition of DLWC owned dams weirs and regulators and those privately owned where DLWC becomes involved.

We ask the Tribunal to ask DLWC which of its water assets it intends to demolish in the next three years and to incorporate into bulk water prices the user component of the cost of such demolition.

The Amount of Price Increase

A. We note that DLWC proposes to increase both fixed charge entitlement costs and usage charges (see table 5.1 in DLWC's submission) by approximately the same percentage value. We ask the Tribunal to reduce the fixed charge percentage increase and increase the usage charge increase using the principle of user pays. We ask the Tribunal to apply the Demand Management principles used in metropolitan water pricing determinations to bulk water pricing.

B. Our view is that reasonable bulk water prices will be achieved when in a semi "good year" the average cost of water (the DLWC price) equates to the marginal cost of water (ie the average of all trades in the water year).

We ask the Tribunal to consider this assertion in formulating its views on what they consider should happen to prices in future determinations.

We consider that DLWC should be encouraged to increase the viability of trading of water by ensuring that it is easy for all licence holders to participate in the market. Electronic trading should be encouraged.

The Price of Extracted Water and Environmental Flows

A. We support DLWC's request that the ongoing strategic management costs for rivers and groundwater be included in full cost recovery. This type of activity falls within the view expressed by IPART in its 1998 determination in section 7.5.

"The Tribunal believes that the costs of complying with the new environmental standards are legitimate costs of doing business where they are caused by water usage, and should be paid for, in part, by licensed water users."

B. The new Water Management Act makes it more possible for the government to manage NSW rivers and watercourses in an ecologically sustainable way. One of the tools at its disposal is the provision of environmental flows. We are of the opinion that the recent history of water extraction has over-committed NSW rivers. To manage these rivers sustainably, greater volumes of water at ecologically useful times for its inhabitants and natural dependants must flow. This will reduce the volumes available for extraction compared to the present.

We ask the Tribunal to declare that they will not countenance arguments that price increases should be muted because of a reduced volume of water available for extraction due to changed environmental flow rules.

Dietrich Willing
Ph 02-9396 2966

I am available to speak at the public hearings if you so wish to invite me.