

Comments on Draft Report on Bulk Water Prices Discussion Paper DP49

The draft paper should be welcomed for the clarity in its itemisation of the components of costs of water supply.

We support the IPART decision that compliance capital expenditure be converted into an annuity, which is then included in the cost base (p23).

Legacy versus forward looking costs

IPART has accepted ACIL's proposals that current bulk water users not be charged for costs incurred after 1 July 1997 that are construed to be a legacy of previous inefficient maintenance practice. The reason IPART gives is that this is an extension of the concept that capital items created before 1 July 1997 not be permitted to provide a capital return (p31).

A capital return is usually accepted as it represents the profit forgone if it had been invested in a another investment. IPART has argued previously that capital investment in river regulation infrastructure has been made for political rather than commercial reasons, so there was no opportunity to invest in other parts of the economy.

This decision is analogous to an enterprise with all its capital being sold on the basis that its capital was sold for a peppercorn. Thus the buying entity has no requirement to provide for a return on investment on the capital.

That the capital infrastructure is in disrepair does not affect the reasons for a zero capital return. But it does require the capital infrastructure to be upgraded. These costs may be a legacy of previous management but that doesn't mean they shouldn't be incorporated into present day prices.

If they were not, how would an efficient enterprise be able to continue to trade?

We disagree with IPART's contention that

1. it does not intend to charge current bulk-water users for costs that are a legacy of previous inefficient maintenance practice
2. bulk water users should not be burdened with increased costs that are a legacy of a change in community standards

Today's business activities are different to those twenty years ago. One of the reasons for this is that community standards have changed. In competitive markets, consumers have redirected their expenditure when community standards have changed.

In the bulk water industry, there has been little change in the standards consumers have wanted from bulk water. It is only recently that a number of irrigators and townships have desired water provided to them in an environmentally benign way. A much higher percentage of the general community has wanted an ecologically non-damaging way of providing bulk water.

Because provision of bulk water is a monopoly activity does not justify a claim that the users of bulk water be excluded from the costs incurred from a change in community values.

Prices and Demand Management

In discussing how increased prices would affect farm incomes, IPART points out that DLWC expects to derive 68 percent of its total revenue in 2000/01 from entitlement charges (p38).

Analysis of bulk water charges on regulated rivers suggests that this will continue. Table 1 shows changes in the high security, general security and usage charges for selected rivers.

Table 1

	2000			2001			% change		
	High Sec	Gen Sec	Usage	High Sec	Gen Sec	Usage	High Sec	Gen Sec	Usage
Border	4.43	3.03	3.53	4.89	3.27	3.81	10.38375	7.920792	7.932011
Gwder	4.26	2.83	3.3	4.56	3.03	3.53	7.042254	7.067138	6.969697
Lachlan	5.2	3.46	3.97	5.62	3.74	4.29	8.076923	8.092486	8.060453
Macquarie	4.37	3.36	4.54	4.37	3.36	4.54	0	0	0
Murrumbidgee	3.39	3.22	0.84	3.47	3.3	0.86	2.359882	2.484472	2.380952

Although the Tribunal considers that price of water has a supplementary role in encouraging demand management (p66), practically it sees no role for pricing. If IPART persists with this view, it should establish a review to ascertain whether its views are well considered.

Dietrich Willing
For Friends of the Earth Sydney
Ph 02-8293 3083