



Office of the Hon Katrina Hodgkinson MP

Minister for Primary Industries
Minister for Small Business

OM12/5744

Mr James Cox PSM
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
Level 8, 1 Market Street
SYDNEY NSW 2000

23 OCT 2012

Dear Mr Cox

Thank you for the Independent Pricing and Regulatory Tribunal's *Review of Rural Water Charging Systems*, completed in August 2012.

The NSW Government has now considered IPART's Final Report. I would appreciate if you could make the Final Report, along with the Government Response (attached), available on the IPART website.

On behalf of Minister Katrina Hodgkinson, thank you for the timely completion of this review.

Yours sincerely

Tim Scott
Chief of Staff

Encl.

NSW Government Response to the IPART Review of Rural Water Charging Systems

October 2012

IPART Recommendation	NSW Government Response
<p>1. For both State Water and NOW: in combination with the tariff structures in recommendation 3 and 4, provide regulated river customers the option to conditionally defer the payment of fixed charges, with interest, in times of low water availability:</p> <ul style="list-style-type: none">• The trigger for deferral to be set at 2 consecutive years of less than 5% of cumulative available water determinations(AWDs) at the end of the financial year when expressed as a percentage of the share component of a Water Access Licence• interest rate applied to the deferred water charges to be the prescribed rate at which interest is payable under section 101(7) of the <i>Civil Procedure Act 2005</i> (NSW), plus 2%• a deferral period of no more than 2 years.	<p>Agree</p>
<p>2. NOW to develop a conditional deferral of fixed charges policy for unregulated river customers, informed by the following:</p> <ul style="list-style-type: none">• for unregulated river customers that are on the minimum bill - the deferral arrangement is not available• for unregulated river customers that have meters installed and are subject to a water sharing plan - an option for customers to defer payment of fixed charges once there are 2 consecutive years where extraction is less than 5% of the long term average extraction limit (LTAEL) as defined in the water sharing plan• for unregulated river customers that do not have meters installed - the deferral arrangement is available subject to assessment by NOW on request from customers• interest rate applied to deferred water charges to be the prescribed rate at which interest is payable under section 101(7) of the <i>Civil Procedure Act 2005</i> (NSW), plus 2%• deferral period of no more than 2 years.	<p>Agree</p>

<p>3. Tariff structure for NOW:</p> <ul style="list-style-type: none"> Maintain the existing tariff structure (key tariff feature being 70:30 fixed to variable for customers where a meter is installed and 100% fixed charges where no meter is installed). 	<p>Agree</p>
<p>4. Tariff structure for State Water:</p> <ul style="list-style-type: none"> Maintain the current tariff structure (key tariff feature being 40:60 fixed to variable), combined with a volatility allowance. The volatility allowance should be calculated for the holding cost for an appropriate period, for example 1 year, under ACCC's annual review process. Maintain the rebate to large users (irrigation corporations). Consult with government environmental water holders on a higher fixed to variable tariff structure (90:10), before submitting the proposal to the ACCC for the 2014 price determination. State Water to also explore extending the higher fixed to variable structure to other specified customers in time. 	<p>Agree with qualifications. SWC will seek to maintain its existing tariff structure if it can be maintained in a commercially sound manner allowing it to maintain a consistent level of services to customers.</p> <p>SWC in their submission to the ACCC should seek to reduce or mitigate any large price shocks that may be experienced in times of low water availability, which may be experienced if IPART's recommendations are adopted in full, and may have potential to impact on farm business viability.</p>
<p>5. Government to pay State Water, until 1 July 2017, a community service obligation equivalent to the government's share of efficient costs as calculated using the same cost sharing ratios determined by IPART in the 2010 price determination for State Water. After that, IPART would review the cost share ratios and activities prior to every second ACCC determination (ie, every 8 years), starting in 2017.</p>	<p>Agree, noting that the review of cost shares should be complete well in advance of the completion of SWC's 2014 price determination period.</p>
<p>6. From 2014/15, progressively increase the average Peel Valley bill by 5% per annum until full cost recovery is achieved, with the residual of the full efficient costs not recovered from users in the interim period to be funded by a community service obligation.</p>	<p>Note, and defer final consideration until the completion of the coastal valley water price review which is due to be completed by October 2012.</p>
<p>7. State Water to perform a financeability analysis and if necessary, submit to the ACCC a case for a financeability allowance (a temporary adjustment to notional revenue that will be returned to customers in subsequent price determinations).</p>	<p>Agree that State Water should consider this recommendation</p>
<p>8. State Water to submit a case to the ACCC to revalue its regulated asset base to account for the change from a pre-tax to a post-tax building block model.</p>	<p>Agree that State Water should consider this recommendation</p>