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The Hon Phillip Costa MP
Minister for Water
Minister for Regional Development
Level 34, Governor Macquarie Tower
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SYDNEY NSW 2000

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Dear Minister,

2010 BULK WATER DETERMINATIONS

In July 2009, IPART wrote to you to advise that it had released Issues Papers for its review of prices for State Water Corporation and the Water Administration Ministerial Corporation and that IPART intended to conduct these two reviews in parallel.

I regret to advise you that IPART has been forced to 'stop the clock' on the review of prices for the Water Administration Ministerial Corporation following correspondence from the Department of Environment, Climate Change and Water that it would be unable to provide its submission by the due date of 11 September.

In the course of this review, IPART has provided considerable support to the Department to assist it to meet that deadline. I met with the Director-General and the Deputy Director-General on 23 April 2009 to discuss IPART's timetable and requirements for this review. On 15 May, IPART wrote to the Department to provide detailed and early advice of the information that the Department was required to include in its submission and also to provide copies of IPART's tariff model.

In the course of the 2005 and 2006 bulk water reviews, issues were raised by IPART regarding the timely provision of complete information by the then Department of Infrastructure, Planning and Natural Resources and the Department of Natural Resources. In that context, it is a matter of great concern that the Department, now the Department of Environment, Climate Change and Water, is unable to provide its submission by the due date.

As set out in its letter dated 24 August 2009, the Department's reasons for the latest delay mainly relate to the absence of finality on a number of matters involving the Commonwealth Government and the Commonwealth Water Act. These matters have been known for some time and in some cases it is difficult to envisage that additional information will become available between now and the Department's revised time for its submission.

In any event, the 'no net cost' provisions of the Water Act were included to enable the Department to recover additional costs it incurs due to the Act from the Commonwealth. On a number of matters, State Water is similarly affected by the level of uncertainty but State Water has developed strategies to address these uncertainties.

It is my observation that the principal stumbling blocks to the Department being able to make a timely and informed submission are the Department's lack of commitment and poor information and decision making systems. This is reflected in the lack of progress by the Department since the 2006 price determination and its inability to report fully and on a timely basis on its progress against the milestones established at that determination. This contrasts with the progress made by State Water over the same period in developing new information systems and its comprehensive reporting to customers on outcomes achieved.

As a consequence of the Department's delay, IPART will be unable to determine new prices for the Department by 1 July 2010. Rather, as provided for in IPART's 2006 determination, prices set by IPART for the period 1 July 2009 to 30 June 2010 will continue in nominal terms until such time as a new determination takes effect. That is, current prices will continue and will not be indexed for inflation.

To ensure that State Water is not penalised by the Department's delays the review of the State Water prices will continue as scheduled.

The Department's delay in making a pricing submission affects Government, stakeholders and IPART. Any price increase that may have been determined by IPART to apply from 1 July 2009 will be deferred with adverse consequences for the Department's and the Government's budgetary position. Further, analysis of customer impacts will now be more difficult as IPART and stakeholders will be unable to assess concurrently the combined impact on customers of State Water's and the Department's pricing proposals.

In addition, IPART was proposing to hold joint public hearings on State Water's and the Department's pricing proposals at several regional centres. The hearings for the two will now be required to be held separately. The holding of separate hearings will require IPART and stakeholders to incur additional costs and create significant inconvenience.

I intend that a copy of this and the Department's letter of 24 August be posted on the IPART website and copies forwarded to the Premier, the Treasurer and the NSW Irrigators' Council.

I remain deeply disappointed with the Department's inability to meet a deadline that has been known since 2006.

Yours sincerely



Dr Michael Keating, AO

Chairman

cc Ms Lisa Corbyn, Director General