

Office of the Chief Executive

TRIM Ref: D18/54651

Dr Peter Boxall AO, Chair
Review of Rural Water Cost Shares
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
Haymarket Post Shop
NSW 1240

Dear Dr Boxall

Thank you for the opportunity to provide a submission on the NSW framework for sharing the efficient costs of rural bulk water services (WaterNSW's rural services) and water management services (WAMC's services) between water customers and the NSW Government.

The Murray-Darling Basin Authority supports IPART's draft decision to continue to allocate the efficient costs of rural bulk water services between water customers and the NSW Government on the basis of the impactor pays principle.

We are pleased to see IPART continuing to apply rural water cost shares consistent with the Best Practice Pricing principles set out in the National Water Initiative, in which the parties agreed to full cost recovery for water services and pricing that includes environmental externalities.

We agree with IPART's definition of the impactor pays principle, that is, those that create the need to incur the cost should pay the cost. We also agree that the counterfactual for analysis is a world without high consumptive water use.

The recent independent investigation into NSW water management and compliance conducted by Ken Matthews highlighted a number of serious systemic failings in the way New South Wales was implementing and managing water compliance and enforcement. Since then NSW has increased compliance and enforcement resourcing by \$9.5 million in the short term, and has indicated that longer-term resourcing will be determined by IPART pricing determinations.

The MDBA fully supports IPART taking on this role. We note that for compliance to be effective into the future, pricing will need to be based on the efficient forward-looking costs associated with maintaining an effective compliance regime, including the operation and

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maintenance of compliance infrastructure and proper resourcing for compliance and enforcement functions.

The Commonwealth Environmental Water Holder (CEWH) is now a major user of the storages and delivery services provided by WaterNSW. The CEWH manages its environmental water holdings for the purpose of protecting and restoring environmental assets in the Basin. In coming years, there may be a need to invest in infrastructure or different delivery services to meet the needs of this new customer. Infrastructure operators are obliged to plan and manage their resource for multiple purposes and multiple users, including for agricultural, urban, recreational, industrial and environmental objectives. Planning and management costs are therefore incurred by and should apply to all entitlement classes, irrespective of the intended use of the water.

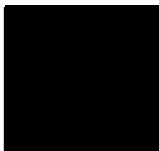
The National Water Initiative states that “in situations where full cost recovery is unlikely to be achieved in the long term and a Community Service Obligation is deemed necessary, the size of the subsidy is to be reported publicly and, where practicable, jurisdictions to consider alternative management arrangements aimed at removing the need for an ongoing Community Service Obligation.”

The Murray-Darling Basin Authority strongly encourages IPART to be fully transparent about the costs that are met through Community Service Obligations. This would greatly improve the transparency of the commercial cost of delivering public good outcomes and send clear signals on the real cost of the services provided by water authorities.

Lastly, the MDBA also notes that we have separately raised concerns with WaterNSW about their variable charges policy and possible inconsistencies with the Basin Plan Water Trading Rules. The MDBA would be interested in discussing our concerns further with IPART and WaterNSW as soon as this can be arranged.

Thank you for the opportunity to provide comments on IPART’s review of Rural Water Cost Shares. I look forward to having the opportunity to work with the NSW government on these matters. If clarification or further information is needed with respect to this submission, please contact Mr Colin Mues, Executive Director, Science and Knowledge Division on (02) 6279 0531.

Yours sincerely



Phillip Glyde

28 November 2018