



Dr P J Boxall AO and Mr J Cox PSM
Independent Pricing and Regulatory Tribunal of New South Wales
PO Box Q290
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IPART Draft Recommendations Review of Rural Water Charging Systems

Dear Dr Boxall and Mr J Cox

I wish to, on behalf of the NSW Office of Water (NOW), submit for your consideration our views on the draft recommendations to the Review of Rural Water Charging Systems as released by the Independent Pricing and Regulatory Tribunal (July 2012).

In relation to the billing of bulk water charges, NOW notes the proposal to trigger deferral of payment of water charges following two consecutive years of less than 5% allocations in regulated rivers. There are a number of issues that need to be taken into account with regard to such a proposal. During periods of extended low water availability, NOW's regulation and management of water resources requires increased resourcing and therefore any deferral of payment will lead to fiscal challenges to deliver required services.

As a Government agency, NOW cannot carryover funding from one year to the next to assist in any adjustment to such a deferral proposal. Alternatively budget supplementation from NSW Treasury would be required to address revenue volatility, but this may not be supported. The deferred payment impacts upon NOW need to be addressed.

In addition any move to deferral of payment of water charges during extended periods of low water availability should not occur automatically, but as an option for water users. Many users may prefer to pay their water charges annually or trade some of their allocation to avoid a significant bill with interest in the third year.

During the most recent extended drought, the trade of allocation water allowed irrigators to receive an income above that likely to be received from irrigated cropping. For example, the mean water price in the Murrumbidgee valley in 2007-08 and 2008-09 was \$495 per ML and \$375 per ML compared with the gross margin for rice was \$150/ML and \$260 per ML respectively.

IPART acknowledges the opportunity for irrigated enterprises to offset water charges through trading low water allocations and cite their analysis of the Murrumbidgee and Namoi regulated valleys where a 3% and 8% available water determination for each valley respectively would be sufficient to enable water charges to be offset by trade.

NOW also questions how deferral of a 5% or less available water determination in regulated rivers at the end of two consecutive financial years will align with quarterly billing cycles and how this would be applied at the end of the first year of less than 5% allocations.

IPART's recommendation that NOW develop equivalent deferral arrangements for unregulated river customers is difficult due to the significant flow variation that occurs between unregulated streams and within years within a river, the general absence of meters and the huge assessment and analysis task that would be required to apply such an approach to the hundreds of unregulated rivers. In an unregulated river it is the amount and timing of when flows meet or exceed the commence to pump level for that reach which are the key determinates of water availability - not water allocation announcements.

Unregulated river enterprises are by the nature based on highly variable flows and for the vast majority of unregulated river users the annual water charges are at the minimum bill of \$100. If a deferral approach was to be implemented in unregulated rivers, it would be more appropriate for any deferral after two years of low water availability to be at the request of individual users rather than application of a universal system.

Introducing charges for Basic Rights Holders is a matter that has been raised in IPART's last determination. NOW will examine the potential for such a charge, but issues such as the ability to identify all such users, the legal basis for charging for water taken under basic landholder rights, setting an appropriate charge and the cost effectiveness of pursuing these charges need to be addressed.

Similarly environmental contingency allowance accounts which occur in some regulated rivers are part of a general suite of planned environmental water that comprise the environmental flow rules in water sharing plans. These rules were introduced in acknowledgment of, and to offset the impacts of, regulation and extraction by consumptive users.

In closing, the application of a set deferred payment policy may not be the best approach to drought management and assistance for water users and Governments may prefer flexibility in the assistance offered.

If you wish to discuss any of the above matters raised in this submission please contact myself or Mr Stephen Elliott, Policy Manager on 6391 3640.

Yours sincerely



31/7/12

David Harriss
Commissioner, NSW Office of Water