



Australian Government

Department of the Environment, Water, Heritage and the Arts

Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal, NSW
PO Box Q290
QVB Post Office NSW 1230

Dear  Mr Cox

State Water Corporation Price Review 2010

The Department of the Environment, Water, Heritage and the Arts (DEWHA) welcomes the opportunity to make a submission to the IPART review of State Water Corporation's bulk water prices for the regulatory period commencing 1 July 2010.

The Commonwealth *Water Act 2007* (the Water Act) implements a number of key reforms to improve water management in Australia, with a particular focus on the Murray-Darling Basin. The Water Act builds on earlier reform initiatives and in particular the National Water Initiative (NWI). The NWI commits all Australian governments to a number of best practice water pricing arrangements that promote the efficient use of, and investment in water infrastructure and government resources devoted to the management of water.

In relation to bulk water storage and delivery services, these commitments include basing prices on cost recovery for water services to ensure business viability, moving towards upper bound pricing where practicable, ensuring sufficient revenue streams to allow efficient delivery of the required services, and giving effect to the principles of user-pays and pricing transparency. I note that IPART's bulk water pricing principles are consistent with this. I further note that IPART is also required to take into account the impact of price determinations on customers.

Under the Water Act the Australian Competition and Consumer Commission (ACCC) is responsible for advising the Commonwealth Minister for Climate Change and Water on the water charge rules. The ACCC has provided its final advice to the Minister on the water infrastructure charge rules (available at www.environment.gov.au/water).

The Minister is currently considering the advice and has requested that the ACCC provide further advice on the accreditation of state regulators under the rules. Once the Minister makes the rules, they will apply to regulated charges levied by water infrastructure operators – including irrigation infrastructure operators and bulk water operators.



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The ACCC's advice recognises that transitional measures are integral to assist the smooth introduction of the new pricing arrangements under the water charge rules. In recognition of the significant lead up period to making a pricing determination, the advice proposes that for parties with determinations expiring in the 12 months following the commencement of the rules, the subsequent price determination should be undertaken in accordance with the existing arrangements.

As State Water's current price determination is expected to expire within 12 months of the rules being made, the ACCC advice is that IPART would be responsible for undertaking the 2010 determination under its existing arrangements.

DEWHA is confident that the IPART process will ensure that State Water's charging arrangements for the 2010 determination period will continue to be consistent with NWI commitments.

DEWHA has a number of other more specific comments.

Billing of usage charges at point of transfer

DEWHA is concerned with State Water's proposal that IPART approve the billing of usage charges at the point of transfer if the purchaser does not have an account with State Water, with allocation assignment effectively being deemed usage.

DEWHA's concern is that State Water's proposal is effectively a barrier to trade with the additional cost being reflected in the traded price of water. While the usage charge might generally be considered a small proportion of the market price for water allocations, this is likely to vary significantly by valley and season, with the potential to create trade distortions. According to Waterfind¹, temporary water prices in the Murray-Darling Basin fluctuated between \$280 and \$524 per ML in 2008/09. Purely for illustrative purposes, using this range and State Water's proposed 2010/11 usage charges of \$20.01 per ML in the Lachlan Valley, the usage charge varies between seven and four per cent of the trade price.

NSW Water Metering Scheme

With water becoming scarcer across Australia, it is vital that more accurate measurement is used to support management decisions and to assist more efficient water use. The NWI requires that metering should be undertaken on a consistent basis and that adequate measurement, monitoring and reporting systems are in place.

Under 'Water for the Future', the Australian Government's \$12.9 billion strategy to secure the long term water supply of all Australians, the government has agreed in principle (subject to due diligence) to provide up to \$221 million to the NSW Metering Scheme, including up to \$90 million for improved metering in regulated river systems. The scheme will improve the accuracy of metered extractions, minimise water theft, provide greater security of water delivery to existing entitlements and deliver water savings to the environment by installing improved and low maintenance meters, connected via telemetry.

¹ 2008-09 Annual Murray-Darling Basin Water Market Report

DEWHA supports State Water's proposal that the on-going efficient operating, maintenance and replacement costs be recovered from users through an IPART-determined Metering Service Charge. DEWHA agrees with the proposal by State Water to levy the charge on Works Approvals in recognition of the incentives this would provide to rationalise meters and drive users toward more modern irrigation layouts. DEWHA further supports the proposed transitional arrangements for phasing-in the Metering Service Charge, reflecting the progressive roll-out of meters under the NSW Metering Scheme and subsequent changes to costs for State Water over the coming determination periods.

I understand the Commonwealth Environmental Water Holder, a statutory office-holder in this Department, is making a separate submission to you addressing matters of direct relevance to his functions.

Should you require any further information on any matters raised in this submission please contact Ms Isabelle Arnaud, Director, Water Market Section on (02) 6274 1420 or isabelle.arnaud@environment.gov.au.

Yours sincerely



James Horne
Deputy Secretary

19 November 2009