

Contact: Joseph Caruana  
Phone: (02) 9354 1074  
Fax: (02) 9354 1106

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State Water Response to Water Administration  
Ministerial Corporation 2010 draft pricing review

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

29 November 2010

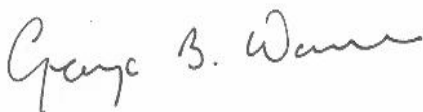
Dear Mr Cox

**State Water's response to the 2010 Water Administration Ministerial  
Corporation draft Determination**

State Water welcomes the opportunity to comment on the 2010 Water Administration Ministerial Corporation draft Determination. State Water's major issues of concern are detailed below.

If you wish to discuss please contact Joseph Caruana, regulatory analyst on 02 9354 1074, or [joseph.caruana@statewater.com.au](mailto:joseph.caruana@statewater.com.au)

Yours sincerely



George Warne  
Chief Executive Officer

## **State Water's response to the 2010 Water Administration Ministerial Corporation draft Determination**

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### **Efficiency targets**

State Water is perplexed at the determined ongoing efficiency improvement of 0.5 per cent applied to the NSW Office of Water's (NOW's) operating expenditure. By comparison, State Water is required to meet the following efficiency targets:

- 1.4 per cent in 2010/11;
- 3.2 per cent in 2011/12;
- 5.2 per cent in 2012/13; and
- 7.2 per cent in 2013/14.

The above efficiency targets are in addition to the 20 per cent reduction in operating expenditure achieved by State Water over the previous (2006/07 to 2009/10) determination period. Over the same period the Independent Pricing and Regulatory Tribunal (IPART) in the 2010 Draft Report state that NOW did not undertake or deliver the identified services set out in the 2006 Determination. In addition, the letter from Mr James Cox to Mr David Harris on 6 October 2010 states:

*"It is our observation that many of the then long-standing concerns raised in the Final Report of our 2006 Determination are yet to be comprehensively addressed by NOW. In the course of the 2011 review, the findings of our consultant PricewaterhouseCoopers and Halcrow Pacific support the conclusion that many of the deficiencies previously identified remain. In addition, the review has identified some new areas for improvement, particularly with regard to stakeholder consultation about planned and actual expenditure".<sup>1</sup>*

Further, the letter from Mr James Cox to Mr David Harris dated 20 January 2010 highlights major concerns with NOW's failure to provide IPART with accurate, timely and complete information to undertake the current pricing determination.<sup>2</sup> The delays ultimately resulted in IPART postponing the release of the NOW determination by 12 months. This was not the case for the 2010 State Water Determination.

State Water seeks clarification on the significant discrepancy between the efficiency targets applied to the 2010 State Water determination and the draft efficiency targets applied to the NOW determination. This discrepancy is especially confronting in light of the fact State Water demonstrated efficiency improvements over the previous determination period, whilst the above indicates this may not be true for NOW.

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<sup>1</sup> 6 October 2010, Mr James Cox to Mr David Harris, *Pricing of Water Management Services Provided by the NSW Office of Water*  
[http://www.ipart.nsw.gov.au/investigation\\_content.asp?industry=3&sector=6&inquiry=201&doctype=24,9&doccategory=1,1&docgroup=1](http://www.ipart.nsw.gov.au/investigation_content.asp?industry=3&sector=6&inquiry=201&doctype=24,9&doccategory=1,1&docgroup=1)

<sup>2</sup> 20 January 2010, Mr James Cox to Mr David Harris, *IPART's 2010 Price Review*  
[http://www.ipart.nsw.gov.au/investigation\\_content.asp?industry=3&sector=6&inquiry=201&doctype=24,9&doccategory=1,1&docgroup=1](http://www.ipart.nsw.gov.au/investigation_content.asp?industry=3&sector=6&inquiry=201&doctype=24,9&doccategory=1,1&docgroup=1)

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### **Metering service charges**

It is possible the definition of a Meter installed by the Water Administration Ministerial Corporation (Corporation) used by IPART in the draft Determination may prevent NOW from fulfilling the policy intent of recovering efficient costs of maintaining government-installed meters.

A Corporation Meter is defined in the draft Determination as follows:

*"Corporation Meter means an electromagnetic meter, a mechanical meter or a channel meter that is installed by the Corporation.<sup>3</sup>"*

It appears the intent of Schedule 4, clause 3.1 of the draft Determination is to characterise the extent to which the Corporation (and ultimately NOW) can levy meter service charges to recover the efficient costs incurred to maintain government-installed meters.

State Water notes the Corporation may prefer not to install meters if it succeeds in obtaining funding under the Metering Project for groundwater meters and those on unregulated rivers. Instead, NOW may contract State Water to own, install, read and maintain the meters, as well as issue bills. That being the case, the definition of a Corporation Meter under the draft Determination may preclude the Corporation from imposing any metering service charges under clause 3(a), and ultimately restrict State Water from collecting the service fee on the Minister's behalf.

State Water suggests the definition of a Corporation Meter be amended to read as follows:

*"Corporation Meter means an electromagnetic meter, a mechanical meter or a channel meter that is installed by, or on behalf of the Corporation."*

### **Area charges in unregulated rivers**

The draft Determination only provides for area based charges in the Far West. However, licence holders in other valleys are also currently charged under area pricing. For example, some licences in the Hawkesbury-Nepean catchment harvestable rights zone are billed on an area basis. While these licences have informally been allocated volume (megalitre) entitlements, the licences have not been amended with a formal volume condition, nor were the licence holders advised of volumetric conversion. As such, these licence holders are currently billed on an area basis until volumes for these licences are formally adopted.

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<sup>3</sup> October 2010, Independent Pricing and Regulatory Tribunal, *Water Administration Ministerial Corporation Water – Draft Determination*, page 19.

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State Water notes the Draft determination states:

*"IPART has received advice from NOW that there are a small number of users in other valleys who do not yet have a licence with specified entitlement (or user share). NOW has undertaken to address these anomalies before 1 July 2011."<sup>4</sup>*

State Water seeks clarification on how these customers will be billed if this issue is not addressed prior to 1 July 2011.

**Groundwater**

Maximum prices for groundwater under Schedule 3 of the draft Determination are currently set for river valleys. However, groundwater from any given bore may be sourced from different rivers and it is not possible to identify the source of the water. State Water therefore suggests IPART consider pricing by aquifers.

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<sup>4</sup> October 2010, Independent Pricing and Regulatory Tribunal, *Review of prices for the Water Administration Ministerial Corporation For the NSW Office of Water - From 1 July 2011 — Draft Report*, page 116.