



**SUBMISSION TO THE INDEPENDENT PRICING AND
REGULATORY TRIBUNAL OF NSW REVIEW OF THE WATER
ADMINISTRATION MINISTERIAL CORPORATION'S (WAMC)
WATER MANAGEMENT CHARGES**

DATE

June 2010

1. Introduction

The Local Government Association of NSW and Shires Association of NSW (the Associations) are the peak bodies for NSW Local Government.

Together, the Local Government Association and the Shires Association represent all the 152 NSW general-purpose councils, the special-purpose county councils and the regions of the NSW Aboriginal Land Council. The mission of the Associations is to be credible, professional organisations representing Local Government and facilitating the development of an effective community-based system of Local Government in NSW. In pursuit of this mission, the Associations represent the views of councils to NSW and Australian Governments; provide industrial relations and specialist services to councils and promote Local Government to the community.

The Associations thank the Independent Pricing and Regulatory Tribunal of NSW (IPART) for the opportunity to make a submission to its Review of the Water Administration Ministerial Corporation's Water Management Charges from July 2010.

Local Government in regional NSW provides water supply and sewerage services to their communities and councils, who extract or receive extracted water from regulated rivers, unregulated rivers and groundwater sources, will be subject to the NSW Office of Water (NOW)'s water management charges as determined by the IPART. There are currently 107 local water utilities providing water supply and sewerage services to communities in regional NSW, including 97 council-owned and operated local water utilities, four water supply county councils, and one water supply and sewerage county council. Local water utilities service over 1.8 million people – approximately 30% of the state population.

In its submission to the IPART, the NOW proposed significant increases in water management service charges throughout NSW necessitated by, according to the NOW, significant changes in the water management landscape and the substantially increased requirements by the Australian Government. Apart from cost associated with core water management activities, other costs contained in the NOW's submission include:

- Operational cost associated with the implementation of the Water Act (Cwth) 2007 and the water reform agenda (expected revision of water sharing plans to give effect to the Murray-Darling Basin Authority's basin plan; implementation of ACCC water market, charging and trading rules; delivery of Commonwealth environmental water holdings);
- Increased operation, maintenance and compliance costs associated with the Australian Government's capital expenditure commitment under the Water for the Future Plan of \$708m for water infrastructure program (State Priority Projects); and
- Cost of NSW's contribution to the Murray-Darling Basin Authority and the Border Rivers Commission.

Furthermore, the NOW proposes that the pricing structure should be based on 100% fixed costs (based on entitlement) or, at a minimum, 70% fixed (entitlement) to 30% variable (usage) reflecting the fact that the NOW's costs were virtually all fixed and did not vary from year to year as a result of water availability.

Comments

There are a number of issues arising from the IPART's issues paper and the NOW's submission that the Associations would like to raise:

Appropriateness of allocation of regulatory cost

The Associations oppose the proposal by the NOW to recover from councils/water users the cost of implementing the Australian Government's water reform, including cost associated with implementing the Water for the Future Program and the cost of the Murray-Darling Basin Authority. These costs should be borne by the Australian Government.

As a general principle, it is the Associations' view that costs associated with policy activities (e.g. negotiation on interstate water sharing arrangements, advice on strategies for the protection and enhancement of water courses, riparian corridors and groundwater dependent ecosystems) should be borne by government.

In the event that costs associated with the Australian Government's water reform are included, the IPART should take these costs into account when determining the length of the upcoming price determination period.

Return on assets

The Associations oppose the inclusion of a rate of return on capital (i.e. on the NOW's water management assets) on the basis that water management activities are a regulatory function of government and that it is inappropriate for regulatory functions to be performed on a commercial basis. That is, full cost recovery in this instance should not include a rate of return on capital.

Significant increases proposed by the NOW

The Association urge the IPART to reject or mitigate the significant increases in charges proposed by the NOW. The NOW proposes increases in regulated rivers by up to 267% and in most valleys by around 100%; and in unregulated rivers by up to 359% and mostly around 200%.

Local water utilities would need to pass through increases in water management charges to town water users through water supply charges. However, communities cannot afford such dramatic increases. Furthermore, IPART should also consider broader socio-economic impacts of such price increases on farmers and the regional economies that depend on agricultural production.

NOW's 100% fixed cost pricing proposal

The Associations oppose the NOW's proposal that the pricing structure should be based on 100% fixed charges (based on entitlement) and, instead, call on IPART to include in the pricing structure a usage based component. Predominantly fixed water services charges have detrimental economic and environmental affects as they discourage water conservation and the efficient use of this scarce resource. Including a usage based component would also be consistent with IPART's principles for the regulation of bulk water prices which include that pricing policy should promote the ecologically sustainable use of water and of the resources used to store, manage and deliver that water.

Furthermore, the Associations call on IPART to consider socio-economic impact on farmers and on regional economies that depend on agricultural production of farmers having to pay full, or predominantly, fixed costs without having any actual water allocation.

2. Conclusion

In summary, the Associations call on the IPART to consider their following positions:

- Opposition to the recovery from councils/water users the cost of implementing the Australian Government's water reform, including cost associated with implementing the Water for the Future Program and the cost of the Murray-Darling Basin Authority;
- Opposition to the inclusion in the NOW's charges of a rate of return on capital;
- Need for IPART to reject or mitigate the significant increases in charges proposed by the NOW; and
- Opposition to the NOW's proposal that the pricing structure should be based on 100% fixed charges and, instead, call on IPART to include in the pricing structure a usage based component.

The Associations hope their submission is of assistance and look forward to reviewing IPART's upcoming draft determination.