



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
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Dear Mr Cox

NSW Office of Water Bulk Water 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 bulk water prices for the New South Wales Office of Water (NOW) 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 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, and give effect to the principles of user-pays and achieve pricing transparency and cost recovery for water planning and management.

In relation to water planning and management (WPM) activities, these commitments include bringing into effect consistent approaches to pricing and attributing the costs of these activities, as well as reporting publicly on those costs. To this end, Commonwealth, state and territory governments have developed pricing principles to assist jurisdictions to implement the NWI water pricing commitments consistently. The NWI pricing principles were endorsed by Australian Governments through the Natural Resources Management Ministerial Council in April 2010. An extension to the scope of the principles to enable them to apply in the Basin will be considered at the next meeting of the Council of Australian Governments (COAG). I recommend that IPART implements the pricing principles in its review of NOW's prices.

Under the Water Act the Australian Competition and Consumer Commission (ACCC) is responsible for advising the Commonwealth Minister for Climate Change, Energy Efficiency and Water on the water charge rules. The ACCC provided its advice to the Minister on the water planning and management (WPM) charge rules in July 2009.



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On 2 June 2010, the Minister issued a public notice indicating her intention to proceed with making WPM charge rules. The proposed rules include a transition period until 30 June 2011. The rules will require the publication of information about charges for WPM activities levied by Basin state governments, including agencies acting on their behalf.

DEWHA has a number of more specific comments.

Proposal to introduce additional new types of licences

NOW has proposed in its submission to incorporate additional types of licences under the water management charges determined by IPART. This would include proposed new licence types to be issued by NOW covering, in particular, water extraction from sources outside the current licensing framework such as floodplain harvesting or Great Artesian Basin conveyance licences. It would also provide for the imposition of conditions on licences to create a sub-category of licence to recognise use for environmental watering.

The Commonwealth supports the proposal by NOW for the introduction of floodplain harvesting licences to bring these extractions into a licensing framework which parallels that of other NSW water users. Under 'Water for the Future', the Commonwealth has committed \$50 million to support the NSW Government's implementation of improved management of floodplain harvesting, subject to a due diligence assessment. The NOW submission, however, is not clear on whether the proposed application fee would be imposed on existing floodplain extractors when they transition to a licensed entitlement, or only to new applications for floodplain licences.

The *Water Management Act 2000* allows for the recognition of a sub-category of licence for environmental water termed 'adaptive environmental licences'. The Commonwealth understands that there are already licences of this sub-category in existence. However, significant Australian Government investment in infrastructure projects over the coming years is likely to increase the number of licences in this sub-category.

NOW proposes that licences with these conditions will retain the category and characteristics of the original licence (including water entitlement security characteristics). In addition, where the licence arises from an infrastructure project, it would be created with characteristics of an existing category that best reflect the nature of the water saving. It would therefore appear that licences with adaptive environmental conditions will not form a new category of licence per se, but will rather be a sub-category with specific conditions of use applied to the existing licence type.

The Commonwealth supports the application of charges to this sub-category of licences on the basis that these licences are subject to charges consistent with those applied to other licences of the same category and characteristics (regardless of the environmental condition).

The Commonwealth would not support the imposition of charges for adaptive environmental licences which differ from those applied to other non-conditioned licences of the same category if this would disconnect the licence charges from the costs incurred in storing and delivering water to users of the same category.

It is, however, not fully clear from the NOW submission whether their proposal is that such licences will be subject to a differing charge as seemingly indicated on page 34, or whether as indicated on page 61 that licences in this sub-category will be “required to pay water management charges as per the category of their licence”.

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 has agreed in principle (again subject to due diligence) to provide up to \$221 million to the capital costs of 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.

DEWHA supports NOW’s proposal that all on-going efficient operating, maintenance and replacement costs be recovered from users through an IPART-determined Metering Service Charge. This would be consistent with the approach proposed by State Water.

We support NOW’s proposal for a meter servicing charge as set out in its submission to IPART of 4 May 2010. We note that on Page 7 of its submission, NOW is proposing that, during the life of the next determination, customers will be required to fund planned maintenance, unplanned maintenance (not covered by meter warranty), remote meter reading and data information processing. We agree with this approach on the basis that all new meters will be covered by warranty in the period of this determination. However, for future determinations, we believe that a meter servicing charge should also cover meter replacement, as suggested by the NOW submission on page 5.

Compliance and enforcement

The Commonwealth is investing significantly to make water available to the environment and improve river and wetland health in the Basin. A rigorous compliance and enforcement approach is needed to ensure this water is not unlawfully diverted from legitimate water users and the environment to unauthorised private consumption.

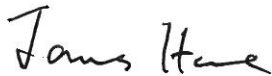
Appropriate compliance and enforcement regimes are linked back to reforms identified in the NWI. Building on these reform commitments the Commonwealth, States and Territories, through COAG, have developed the National Framework for Compliance and Enforcement Systems for Water Resource Management (Framework).

To implement the Framework the Commonwealth has committed \$60 million to improve water compliance and enforcement activities nationally. To access this funding, all jurisdictions have drafted project plans, outlining activities that will be undertaken over the next five years, to meet the requirements of the Framework.

The Commonwealth expects the Framework, including the project plans, to be considered at the next COAG meeting. States and territories are expected to meet any commitments outside the funding provided by the Commonwealth. DEWHA supports NOW recovering appropriate costs over and above costs being funded by the Commonwealth from users through IPART-determined charges.

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
5 July 2010