

17th December 2004

James Cox  
Acting Chairman  
Independent Pricing and Regulatory Tribunal of New South Wales  
PO Box Q290  
SYDNEY NSW 2000

Dear Mr Cox

## BULK WATER PRICES FROM 2005/06

Reference is made to your letter of 15<sup>th</sup> September 2004 inviting comment on Bulk Water Prices in advance of the Bulk Water Prices Determination for 2005/06.

Thank you for the opportunity to contribute to price determination process. The following comments regarding the Bulk Water Issue Paper may be of assistance to the tribunal:

### **Licence Management Charges**

Macquarie Generation welcomes the prospect that IPART shall set maximum prices to be levied by the Department of Infrastructure Planning and Natural Resources on behalf of the Water Administration Ministerial Corporation, in particular licence management charges.

Macquarie Generation is the holder of a Water Management Licence, which attracts significant management charges. It is contended that these charges lack transparency. This was brought to IPART's attention in Macquarie Generation's submission to IPART prior to the 2001 Bulk Water Price Determination. At that time the Tribunal chose not to make a determination about these at that time.

From 2001 Bulk Water Price Determination Report, the Tribunal noted that the DLWC had negotiated annual management charges with Macquarie Generation. With respect to the Tribunal, it is contended that, although the Licence was negotiated, the Licence Management charges were not. The fees were levied in accordance with the Water Act 1912 to enable the Water administration Ministerial Corporation to recover costs incurred in managing the Licence.

The DLWC specified the areas that incur management charges, which include Licence Reviews, Compliance Monitoring and studies, Administration and Cost of Glenbawn Dam Services associated with Barnard Scheme. Macquarie Generation was not in a position to negotiate the relevance of these cost centres.

James Cox, Acting Chairman  
Independent Pricing and Regulatory Tribunal of New South Wales

Charges were subsequently levied by the DLWC as follows:

2001/01	\$84,000 (licence application)
	\$28,123 (management)
2001/02	\$75,305 (management)
2002/03	\$90,960 (management)
2003/04	\$64,740 (management)
2004/05	\$154,283 (estimated including \$57,782 for 5 year licence review)

As a consequence, an estimated total of \$491,411 will be incurred on licence management charges in five years since the Water Management Licence was issued in December 2000.

This is a significant variable cost, which is incurred without normal commercial practise of "offer and acceptance". As a consequence, it is desirable that charges are made under the terms of an agreed transparent process.

### **Bulk Water Pricing**

#### **Balance Between High Security and Low Security Entitlement Charges**

State Water, in its submission to IPART, propose to increase price between high security entitlements and general security. In the Hunter, State Water propose to increase the price of high security from 1.4 times general security price to 4.5 times the general security price. On the basis of the entitlement conversion rate and the number of years State Water hold the entitlement in storage. The Water Sharing Plan for Hunter River Regulated Water source defines the conversion rate between HS and GS entitlements as 3:1. It is understood this is based on technician factors associated with converting a given volume of water between the entitlements to reflect their equivalence in volumetric terms. If State Water's proposal is adopted the price ratio between entitlements is not aligned to the volume ratio which would have adverse financial implications in changing entitlement conversions. A desirable outcome is that the volumetric and price ratio should be the same in converting between entitlement categories.

#### **Determining Appropriate Level and Rate of Charge for Prices**

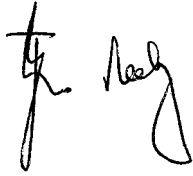
IPART has been pursuing the long-term goal of full cost recovery. As a consequence, bulk water prices have been increasing well above CPI since the late 1990's. It is noted from State Water Submission to IPART that they expect that the long-term price path involves annual price increases in the order of 10% per year for 10 years and subsequent increases will be less than 10% per year. This rate would appear reasonable provided an end date for cost recovery is defined. It is also noted from State Water's submission that they propose to increase average bulk water price to Macquarie Generation by an average of 19% from 2003/2004 to 2006/2007. In the latter two years the proposed price increase is 34% per year, which is considered excessive. Rate increases of 10% would be reasonable and the date of full cost recovery should be defined.

3.

James Cox, Acting Chairman  
Independent Pricing and Regulatory Tribunal of New South Wales

Thank you for the opportunity to provide these comments.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Neely', written in a cursive style.

JOHN NEELY  
MANAGER BAYSWATER