



Independent Pricing and Regulatory Tribunal
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16 April 2010

NSW OFFICE OF WATER
SUBMISSION TO IPART ON DRAFT DETERMINATION FOR STATE WATER CORPORATION

In general terms, the NSW Office of Water supports the approach taken by IPART in its Draft Pricing Determination for the water delivery services of State Water for the period 1 July 2010 to 30 June 2014.

However the Office wishes to make the following comments:

Increase in prices for bulk water charges

The Office supports IPART's overall approach to set prices that recover the efficient level of costs for bulk water supply. This approach recognises that the increasing complexities and resources required to provide water in Australia's supply constrained environment combined with the necessity to manage competing interest for water from a wide range of stakeholders. The Office also supports the continuing impactor pays principles in establishing the prices resulting from these costs.

Murray Darling Basin Authority (MDBA) costs

The Office acknowledges IPART's concern about the lack of transparency to water users of the MDBA costs. However IPART's proposal to impose an efficiency factor on these costs implies that NSW organisations such as State Water and the Office have some measure of control over these costs and can impose constraints on the MDBA.

The institutional and governance structure is such that the MDBA is a Commonwealth Government Authority established under the Commonwealth *Water Act 2007*. A contribution to the funding of the MDBA is made by each State that is a signatory of the Murray Darling Basin Agreement including NSW under a pre-determined formula. Any changes (i.e. such as reduced payments) to MDBA payments have to be agreed by all parties.

This governance structure means that the imposition by IPART of an efficiency factor on the MDBA costs cannot be applied by the NSW Government on the MDBA. As a result, any proposed efficiency factor on the MDBA can only be borne via a reduction in the agency's costs (i.e. State Water or the Office), which IPART as part of its pricing determination would have already set at an efficient level. The imposition of this will result in failure to recover the agencies true costs as required under the National Water Initiative pricing principles.

Capping of bills in North Coast, South Coast, Peel and Hunter valleys

The Office recognises IPART's desire to ensure that price changes do not adversely affect the financial viability of farms in these valleys. However, in imposing this constraint it is critical that

transparent and simple rules that can be efficiently implemented are established by IPART including the impacts of:

- Trading of water allocations and entitlements.
- Licence adjustment that may be imposed.
- Conversion general to high security licences.

Smoothing of revenue requirements

The Office is supportive of IPART's approach of smoothing revenue needs by adopting NPV neutral principles.

4 Year price path

The water business of State Water is very different from that of the Office of Water. While a 4 year price determination is supported for State Water, it is reiterated that the Office of Water faces a much more complex and uncertain environment for water management which makes a 4 year determination for bulk water charges inappropriate for the Office.

Metering costs

IPART's decision to introduce a metering service charge for regulated river water users is welcomed as it reflects the cost of the emerging and increased requirements for water management in Australia. As part of its aim to improve the efficiency of water usage, the Commonwealth Government is funding the installation of improved water meters that would otherwise be the responsibility of users to install. These meters will allow the capture of critical consumptive information which will assist in improved water delivery and management. It is important that users recognise that whilst the capital cost of a specific number of meters is being funded by the Commonwealth Government under the Water for the Future program there are significant ongoing operation and maintenance costs. The Office is seeking a similar monitoring service charge to apply to metered unregulated river and groundwater users from 2012.

Revenue volatility allowance

The Office, like State Water, has been impacted by significantly lower than expected water usage as a result of the drought, and therefore a consequent reduction in income from water usage charges than was forecast by IPART in the current determination period.

The Office fully supports a mechanism to address this and thereby improve the financial sustainability of the water businesses. IPART has included a component in the revenue needs for State Water that is quantified by recovering the holding costs of the loss of revenue in the preceding price determination.

The Office considers that for its own revenue, regulating prices to recover a much higher proportion of revenue as a fixed charge is a better option for financial sustainability and better reflects water business costs.

Yours sincerely



David Harriss
Commissioner, NSW Office of Water