

4 April 2005

Reference: C1/17423
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Dr Michael Keating AC
Chairman
Independent Pricing & Regulatory Tribunal
PO Box Q290
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Dear Dr Keating

BULK WATER PRICES FROM 2005/06

Hunter Water Corporation has reviewed the Tribunal's September 2004 issues paper and the February 2005 submission by the NSW Department of Infrastructure, Planning and Natural Resources (DIPNR).

The Corporation notes that DIPNR is seeking an interim determination to cover the 2004/05 and 2005/06 years. I also note that the water resource management costs DIPNR recommends as a basis for the interim determination are indexed costs from the 2001 determination. As a result, there is no new information at hand on which to base any substantive comment on the cost base for bulk water charges.

Thus the Corporation accepts the proposals, outlined in the Overview to the DIPNR submission, to increase current charges by 2% for 2004/05 and for 2005/06 charges to be based on water resource management costs indexed, at or below the relevant rates of inflation, as interim measures for covering 2004/05 and 2005/06 only. However, the Corporation also notes that the indicative water resource management costs presented in Appendix 4 of the DIPNR submission do not appear to consistently reflect this approach.

I note also that the Tribunal's issues paper states that the Tribunal will need to ensure that the costs of licensing activities are not also being reflected in normal bulk water prices (section 4.3, page 21). The distinction between which of DIPNR's costs is recovered by bulk water charges and which is recovered by separate annual management charges (for licensing and related activities) or service agreements remains unclear in some aspects. Some examples of possible overlaps are outlined in the attachment to this letter.

Hunter Water has paid water management charges since 1999/2000 and these have varied between \$7,000 and \$152,000 per year. While the varying licensing workloads for DIPNR, such as conducting major water management licence reviews, account for much of the variation, a significant escalation in the charges over the period is still apparent. Details of annual payments made by Hunter Water since 1999/2000 charges can be provided to the Tribunal if required.

Appendix 1 to the DIPNR February submission does provide a useful description of the products and activities that are covered by bulk water charges. However, some products

and activities listed in that appendix also appear to be charged by other mechanisms or the annual management charge.

Two areas of possible cost recovery overlap between water management charges and bulk water charges are DIPNR bulk water products PA100 "Surface Water Quantity Data Collection and Archiving" and products PB230 and PB430 relating to licence surveillance and compliance checking. Appendix 1 to the DIPNR submission indicates these products are paid for through bulk water charges.

However, as discussed in the attachment to this letter, some of the costs of these services are being charged to Hunter Water via the annual water amendment charge and/or separate service agreements.

If the Tribunal's Secretariat require further information on these matters, Hunter Water's contact on this submission is Andrew Amos, telephone 49799581.

Yours sincerely

KEVIN YOUNG
Managing Director

Hunter Water Corporation Submission to Review of Bulk Water Prices

Hunter Water Corporation has reviewed the Tribunal's September 2004 issues paper and the February 2005 submission by the NSW Department of Infrastructure, Planning and Natural Resources (DIPNR).

Interim Determination

The Corporation notes that DIPNR is seeking an interim determination to cover the 2004/05 and 2005/06 years. I also note that the water resource management costs DIPNR recommends as a basis for the interim determination are indexed costs from the 2001 determination. As a result, there is no new information at hand on which to base any substantive comment on the cost base for bulk water charges. Thus the Corporation accepts the proposals, outlined in the Overview to the DIPNR submission, to increase current charges by 2% for 2004/05 and for 2005/06 charges to be based on water resource management costs indexed, at or below the relevant rates of inflation, as interim measures for covering 2004/05 and 2005/06 only. However, the Corporation also notes that the indicative water resource management costs presented in Appendix 4 of the DIPNR submission do not appear to consistently reflect this approach.

Costs of Licensing Activities

Hunter Water also notes that the Tribunal's issues paper states that the Tribunal will need to ensure that the costs of licensing activities are not also being reflected in normal bulk water prices (section 4.3, page 21). The distinction between which of DIPNR's costs is recovered by bulk water charges and which is recovered by separate annual management charges (for licensing and related activities) or service agreements remains unclear in some aspects. Some examples of possible overlaps are outlined in the attachment to this letter.

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Appendix 1 to the DIPNR February submission does provide a useful description of the products and activities that are covered by bulk water charges. However, some products and activities listed in that appendix also appear to be charged by other mechanisms or the annual management charge.

Section 194 of the Water Act 1912 provided guidance to the coverage of water management charges. However, this section of the Act predates IPART's setting of bulk water charges applicable to Hunter Water and some of the items listed in the Act are now covered by bulk water charges. These items, therefore, should no longer be included in the water management charge.

For example, "monitoring of extractions" is listed in s194 for coverage by water management charges but, on the basis of the information in Appendix 1 to the DIPNR submission, it would seem that the costs of this function are now covered by bulk water charges (see subproducts PC230, PC250, PB230 and PB430 in Appendix 1). All these subproducts could be classed as part of the extraction monitoring function. In this context, the listing of the coverage of a "water management charge" in the Act and the subsequent coverage of some of those items by bulk water charges may give rise to some confusion about how the costs should be charged and hence overlaps in charging. There appears to be no similar provision to s194 in

the Water Management Act 2000 other than section 114, which does not make any distinction between management charges and bulk water charges.

Two areas of possible overlap between water management charges and bulk water charges are product codes PA100 "Surface Water Quantity Data Collection and Archiving" and product codes PB230 and PB430 relating to licence surveillance and compliance checking. Appendix 1 to the DIPNR submission indicates these are products paid for through bulk water charges.

Hunter Water historically has contributed to the cost of surface water quantity data collection for the Williams River and paid the full cost of a number of gauging stations. This is entirely reasonable because some of these stations were installed at the request of the Corporation's predecessor authority to provide data for future source investigations.

However, the main gauging station for the Williams River is Glen Martin (station 2100010) and this station services a variety of uses including management of irrigation licences on the Williams River and flood warnings. This latter use of the station is demonstrated by the flood warnings issued by the Bureau of Meteorology for on its web page for the high-flows experienced on 24 March 2005 (see attachment 1). It is also worth noting that the gauge is integral to the operation of the Williams River low-flow accreditation scheme – a new and innovative scheme for irrigators whereby best practice farm management accredits farmers for access to flows in the river not accessible by other licence holders.

Until now, Hunter Water has paid 50% of the costs of operating the Glen Martin station in recognition that, while it is the major user of the gauge, streamflow data from this gauge is used for other purposes. This cost has been paid by a separate service agreement with DIPNR. However, by letter dated 23 November 2004, DIPNR has advised that from 2005/06, Hunter Water will be charged the full operating cost of this gauging station. Clearly there are other users of this gauge and bulk water charges provide a mechanism for collecting the costs of its operation from other extractive users at least, as indicated by the inclusion of subproduct PA100 in Appendix 1 to the DIPNR submission.

It therefore appears to Hunter Water that this is an area where the coverage of bulk water charges and other DIPNR charges is blurred. Given that bulk water charges (via subproduct PA100) collect revenue to cover surface water quantity data collection from the other extractive users on the Williams River, the justification for DIPNR's proposal to now charge Hunter Water 100 per cent of the costs of operating the Glen Martin station is questionable. In fact, it is questionable whether Hunter Water should pay for any of the cost of this station (as the principal gauge for the Williams River), other than through the bulk water charges paid by Hunter Water in line with IPART's determinations. As the major extractor on the Williams River, Hunter Water would continue make the largest proportionate contribution to the costs of operating this gauge if these costs were met solely by bulk water charges.

A similar issue arises in terms of checking compliance with licence conditions. Subproduct codes PB230 and PB430 in Appendix 1 state that checking compliance with licence conditions and analysing water use data is part of these subproducts and therefore the cost of these functions is met from bulk water charges. The licences issued to Hunter Water require the Corporation to provide an annual compliance report and water extraction data to DIPNR. DIPNR's most recent advice to Hunter Water (papers relating to a water management charges meeting on 8 March 2005) indicate that the "licence administration" component of the water management charges includes the costs of "reviewing the annual compliance report". Again, it would appear to Hunter Water that there is overlap between the stated coverage of bulk water subproducts PB230 and PB430 and the coverage of the annual water management charge advised to Hunter Water by DIPNR on 8 March 2005.