

18 November 2005

Dear Sir/Madam

This submission is provided jointly by the Inland Rivers Network (IRN), WWF-Australia (WWF), Total Environment Centre (TEC) and the Nature Conservation Council of NSW (NCC), referred in the document as the Conservation Groups.

In April of this year the Conservation Groups prepared a submission to IPART, outlining its general position on water pricing, which supports pricing policies that reflect the full economic and environmental cost of water. Establishing an appropriate charging regime will encourage water users to reduce extractions, improving the ecological integrity of our rivers. The Conservation Groups consider that the general position outlined and specific comments made in its previous submission remain relevant to this submission.

In this submission the Conservation Groups are simply asking for the responsible agencies to implement and IPART to support implementation of pricing to fully recover the costs of water delivery and resource management as obligated under the National Water Initiative (NWI).

If you need clarification of any of the points raised in the attached submission, please contact us

Yours Sincerely

Amy Hankinson
Coordinator
Inland Rivers Network
coordinator@irnsw.org.au
Ph. 9212 5112

Tony Trujillo
Economic Policy Officer
WWF Australia
ttrujillo@wwf.org.au
Ph. 8202 1245

Cecile van der Burgh
Freshwater Campaigner
Nature Conservation Council of NSW
cvanderburgh@nccnsw.org.au
Ph. 9279 0955

Leigh Martin
Urban Campaigner,
Total Environment Centre
Level 2, 362 Kent Street Sydney 2000
leigh.martin@tec.org.au
Ph 9299 5599



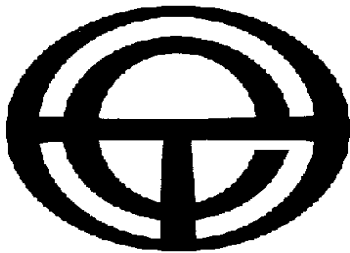
Submission to:
The Independent Pricing
and Regulatory Tribunal,
NSW

2006 Bulk Water Price Review

A Submission prepared jointly by the:

Inland Rivers Network
WWF-Australia
Nature Conservation Council of NSW
Total Environment Centre

November 2005



Total Environment Centre

IPART Submission 2006 Bulk Water Price Review

In April of this year the Conservation Groups (WWF, NCC, IRN) prepared a submission on the Bulk Water Prices 2005/06-Issues Paper. That submission detailed the Groups' general position on water pricing and commented on specific issues raised by IPART. In addition comments were provided on other issues considered relevant to pricing such as scarcity pricing, demand management and impacts on the consumptive pool.

The submission supported establishing an appropriate pricing regime that will encourage water users to reduce extractions, thereby improving the ecological integrity of our rivers. Initially this would entail timely implementation prices that fully recover costs as obligated under the National Water Initiative (NWI). Historically water has been an under-priced or un-priced resource, encouraging over-extraction of water from our river systems, leading to rapidly escalating environmental costs in terms of increased salinity, loss of species and adverse biodiversity impacts. Appropriate pricing of this valuable resource is an important step in balancing the economic and environmental value of water.

Other key points made in the previous submission were that:

- Pricing should reflect usage to the extent practicable. It is understood that many of the costs of agencies responsible for delivery and in particular resource management of water do not relate directly to usage, so to meet expenses a combination of fixed and variable pricing is required. The Conservation Groups therefore support two-part consumption based tariffs.
- Sufficient funds should be provided to the Department of Natural Resources (DNR) for effective water resource management. Resource management costs must be based on scientifically determined needs for maintaining an ecologically sustainable river system and in meeting DNR's obligations under water reform agreements and legislation, in particular those detailed in the Water Management Act, support of the Catchment Management Authorities, and implementation of Water Sharing Plans. NSW is also required to comply with commitments agreed to nationally under COAG and the NWI.
- In general, the Conservation Groups support the use of impactor pays for determining the user share of water costs. It is important that delivery and infrastructure costs associated with the management of environmental water be included in the cost based charged to users. It is clear under the impactor pays principle, that the need to incur any costs for restoring river flows is due solely to extraction of the water for commercial purposes in the first place and no costs of operating or maintenance of infrastructure for impoundment or extraction of water should be paid for by the community. Charges should also apply to all water uses, including for domestic and stock use.

- The water reform process has resulted in a considerable transfer of value to water users by strengthening their water rights and the introduction of water trading. Therefore, even under the beneficiary pays methodology, resource management costs protecting the value of those secured water rights would support these costs being borne by users.

The updated 2006 pricing submissions have now been provided by State Water Corporation (SWC) and the Department of Natural Resources (DNR), with IPART requesting comments from stakeholders. The Conservation Groups consider that the general position outlined and specific comments made in its previous submission remain relevant to this submission and need not be repeated.

In this submission the Conservation Groups (including TEC) are simply asking for the responsible agencies to implement and IPART to support implementation of pricing to fully recover the costs of water delivery and resource management as obligated under the National Water Initiative (NWI). In their current submissions neither the DNR nor SWC have prepared a price path showing full recovery of costs.

- For SWC and DNR to prepare a price path required to achieve full recovery of costs.
- For SWC and DNR to commit to implement the price increases necessary to achieve full cost recovery over the price path detailed.
- To clearly identify those valleys in which users are considered incapable of paying the costs of water delivery and management. For these valleys, to outline the reasons full cost recovery cannot be achieved and the amount of continuing government subsidies required, with alternatives to continuing to provide subsidised water seriously investigated.

Implementation of Full Cost Recovery

In 1994 the COAG Water Reform Framework established the principle of full cost recovery for water. This principle was reaffirmed in the National Water Initiative guidelines. In the past ten years there has been some progress but NSW has been unable to set water prices to achieve full recovery of costs.

Forecast recovery of WRM costs -DNR

Currently the DNR is only pricing water to recover 38% of water resource management costs attributable to users (Table D2). Consistent with NWI requirements, DNR proposes achieving full recovery of user costs over the upcoming price path, stating that this would mean large increases for some users in some valleys.(p.36) In its submission, DNR has estimated its total costs and the user share of 2006/07 costs but has not provided a pricing schedule detailing the level of cost recovery expected either for 2006/07 or any subsequent year. (p.56)

The Conservation Groups consider that it is essential that the DNR forecast a price path that details the increases required to achieve full cost recovery. A long term price path will provide information to users on expected price increases and allow them to adjust their activities accordingly. It will also indicate the level of subsidy provided by the government and identify valleys where cost recovery will be difficult to achieve.

Forecast recovery of delivery costs-SWC

Currently SWC is recovering approximately 67% of user costs (Figure 10.2). SWC's current submission proposes equitable pricing of water to achieve commercial viability. It is premised on achieving recovery of efficient full costs over a five year period. In order to achieve full cost recovery over this period, SWC has indicated that it would need to progressively increase prices until 2010-11. Until it is able to recover its expenses and become a self sustaining enterprise, the Government is expected to continue to subsidise SWC's operations. (pp.134-5). SWC has also has proposed the option of constraining price increases but this option will not meet its NWI obligations or comply with the aims identified in its submission (p.113)

SWC has provided a schedule (Table 10.5) detailing the price increases by valley required to fully recover costs by 2006/07. While this schedule illustrates the impact of immediately increasing prices to recover costs, it does not provide a realistic price path for achieving full cost recovery over time. The Conservation Groups had previously requested that both SWC and DNR detail the increases that would be required to meet full cost recovery obligations and commends SWC for at least forecasting the pricing required to immediately implement full cost recovery.

Impediments to more rapid cost recovery

While some water price increases have been implemented in the past, both the responsible agencies and IPART have supported a gradual increase in prices due to their impact on the irrigated agriculture industry. In their current submissions both DNR and SWC have committed in principal to achieving full cost recovery but hedged the timing of that commitment by highlighting the difficulty of implementing the required price increases. SWC has indicated that immediate recovery of water delivery costs will lead to "significant and unsustainable" price increases in some valleys, (p.113,134), while the DNR noted that in some valleys imposing full cost recovery may be unrealistic, in which case cross-subsidisation or CSO's may be required. (p.31)

While the Conservation Groups recognise that in some valleys immediate implementation or even a phased implementation will have a significant impact, this issue should not prevent implementation of full cost recovery over the current price path.

When considering the impacts of price rises on the irrigation industry, it is important to note several points:

- Price of water is low relative to its market value:
 - Market Value- Temporary Trade (SWC-p.126).....\$40/ML to \$290/ML
 - Delivery Cost (SWC)
 - Usage.....\$1/ML to \$12/ML
 - Fixed.....\$3/ML to \$9/ML
 - Resource Management Cost (User share currently 65% (DNR p.22,31))
 - Regulated (Avg).....\$ 1.51/ML
 - Unregulated (Avg).....\$ 5.30/ML
 - Groundwater (Avg).....\$ 3.47/ML

- Water is as key production input for the irrigated agriculture industry, but the cost of water represents a small cost relative to the overall costs of the industry. SWC noted IPART’s comments on its recent submission stating that “... bulk water only makes up a small proportion of customers’ bills, and this limits their responsiveness to price changes.” (p.126) In addition the Socio-economic study by NSW Agriculture in 1991 (referred to in SWC’s Oct 04 submission) showed that water is only a small percentage of agricultural input costs.

- Review of the data provided in SWC’s submission (Table 10.4 and 10.5) reveals that price increases required to recover costs will only significantly impact a small proportion of water users.

The Murrumbidgee and Murray valleys consume over 70% of irrigation water supplied. These valleys pay very little for water delivery and are not significantly impacted by the price rises. The Murrumbidge valley currently pays \$3.11/ML for its general entitlement and less than \$1/ML as a usage charge. With immediate pricing changes to achieve full cost recovery, the cost of general entitlements will drop to \$1.64/ML, with usage costs increasing to \$2.92/ML. The Murray valley currently pays \$4.02/ML for its general entitlement and \$1.09/ML as a usage charge. Under immediate pricing changes to achieve full cost recovery, the cost of general entitlements will drop to \$3.78/ML, with usage costs increasing to \$5.76/ML. In addition this illustrates that high percentage increases from a low base are not necessarily indicative of large dollar increases.

It is evident that immediate implementation of full cost recovery only has a major impact on the Peel, North Coast and South Coast Valleys. These valleys account for relatively low volumes of water consumption, together accounting for less than 0.5% of water usage for SWC. The DNR has also identified high water resource management costs per ML for these valleys.

Full Cost Recovery in the current price path

The Conservation Groups consider that a reasonable goal for NSW is to achieve full recovery of costs for all valleys in the current price determination period. While SWC indicates that it expects to achieve full cost recovery over the next five years, the figures provided show that this could be realistically achieved over the next 3 years by 2008/09. The aim should be to recover prices to the upper bound level, including a return on capital on post 1997 assets by 2008/09.

A few valleys have been identified as being unlikely to be able to fully recover costs and recovery for unregulated water sources will require metering for usage based charges. The level of on-going subsidies should be identified for these valleys and alternative strategies need to be considered. The option of either reducing services or decommissioning the water infrastructure rather than continue providing heavily subsidised water to these valleys must seriously evaluated. If the community determines that continuing subsidies to some users is justified, these subsidies should be paid directly to specific users rather than through reduced prices to all users. Any such determination must be on the basis of over-riding community benefit, in a transparent and accountable manner.

Subsidising prices encourages uneconomic and inefficient use of water. It is evident that the majority of water users in the irrigated agriculture industry are well able to pay the costs of water delivery and management of the resource to assure its long term sustainability, particularly in light of the considerable gains achieved by irrigators through the securing of water rights and the ability to trade those rights. As noted above bulk water prices represent a relatively minor component of production costs for water users.

We are concerned by the use of ‘capacity to pay’ as a basis for setting prices to users. This acts as a subsidy to businesses from the public and represents a major barrier to the implementation of full cost pricing.