



## Department of Natural Resources

Office of the Director General

Y05\_4061

Mr James Cox  
Chief Executive Officer  
Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB Post Office Box 5341  
SYDNEY NSW 1230

Dear Mr Cox

### Submission to IPART to set Water Resource Management Charges from 1 July 2006

I refer to the Department of Natural Resources Water Submission to IPART to set Water Resource Management (WRM) Charges from 1 July 2006.

Since lodging the submission, a review of the WRM costing information prepared by Danu Consulting (engaged by Allens Consulting to undertake the costing component) has been undertaken in preparation for IPART's independent review of the costs.

This review has confirmed that a downward revision of \$2.1M is required to the forecast WRM costs of \$55.3M in 2006/07 and to the forecasts in subsequent years. In addition, a reduction of \$0.6M is required to the forecast licensing costs of \$12.2M in 2006/07 and to the forecasts in subsequent years. As you would be aware, the latter costs are 'licence holder driven' since they are predicated on transaction volume estimates rather than internal business costs.

The revisions reflect data compilation & cost coding adjustments undertaken by our Consultants rather than any change in the raw WRM costs provided by DNR.

I have attached a letter from Allens Consulting which provides details of the adjustments.

In addition, an addendum to the submission incorporating the revisions has been prepared, and a copy is attached for your assistance in the inquiry process.

The Department looks forward to assisting the Tribunal's consultants in the upcoming opex/capex review of WRM costs contained in the pricing submission.

Yours sincerely

  
**RICHARD SHELDRAKE**  
DIRECTOR GENERAL

## Addendum

### Department of Natural Resources Submission to IPART to Set Bulk Water Resource Management Charges from 1 July 2006

#### Preface

During the course of a post submission review, a number of small revisions have been made to the forecast costings contained in the September 2005 WRM pricing submission. There were also some small revisions in the submission text that referred to these costs.

The revisions principally lie with the WRM and licensing forecast costs for the period 2006/07 to 2010/11, and reflect data compilation adjustments arising from:

- incorrect formulae in several cells of the costing spreadsheets;
- WRM activities incorrectly coded to particular water sources; and
- model update adjustments.

The revisions reduce forecast WRM costs for 2006/07 by \$2.12 million and licensing transaction costs by \$0.57 million. The largest impact is on unregulated rivers WRM costs, which reduce by \$1.11 million.

Table 1 summarises the cost changes for each valley and water source for 2006/07. Changes of a similar magnitude apply to the other years and are tabulated in this addendum.

**Table 1: Summary of revisions to 2006/07 forecast costs<sup>a</sup>**

Valley	Regulated \$'000	Unregulated \$'000	Groundwater - highly managed \$'000	Groundwater - other \$'000	Licensing \$'000
Border	-10	0	10	0	-22
Gwydir	0	0	0	0	0
Namoi	0	0	0	0	0
Peel	0	0	0	0	0
Lachlan	0	0	17	10	-25
Macquarie	0	-229	250	10	-26
Far West	0	-426	713	-1 339	-222
Murray	0	-4	4	0	0
Murrumbidgee	0	0	0	0	0
North Coast	0	116	14	0	0
Hunter	-14	-14	26	26	0
South Coast	-41	-554	194	-875	-271
<b>Total</b>	<b>-65</b>	<b>-1 111</b>	<b>1 227</b>	<b>-2 167</b>	<b>-566</b>

<sup>a</sup>30 June 2005 dollars

**Corrections to body of the submission**

Page 6, replace third dot point with the following text. Corrections are italicised.

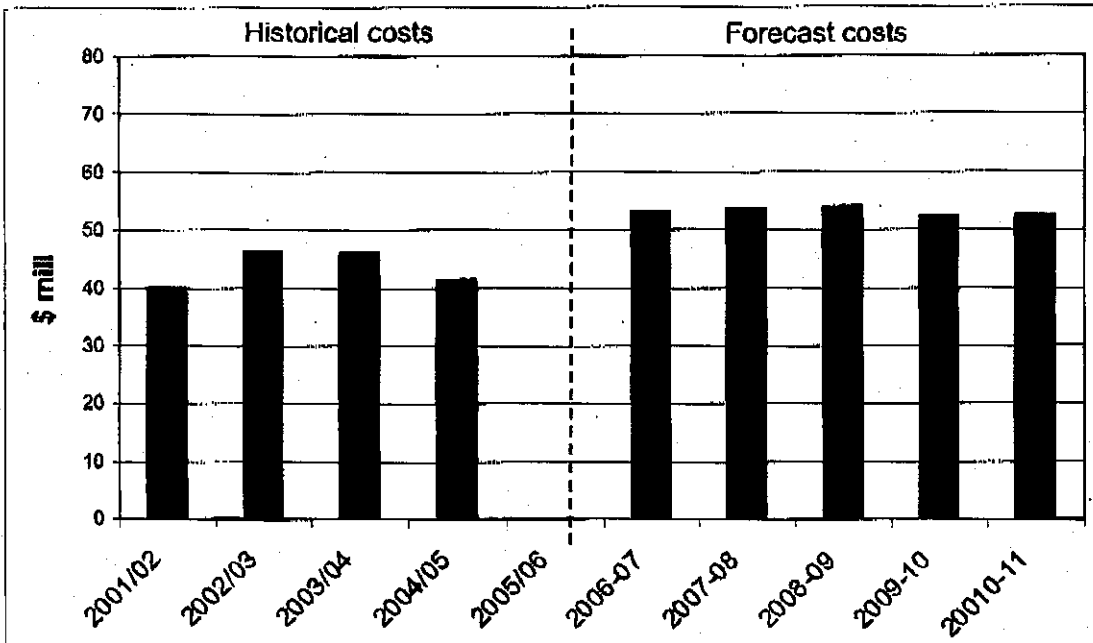
"WRM costs are forecast to fall within the range of \$52m to \$54m during the period 2006–07 to 2010–11. The WRM cost base has been predicated within a framework of (a) the full implementation of provisions under the WMA, particularly those relating to the water sharing plans (WSPs), and (b) new commitments under the NWI. Most of the increase in WRM costs is associated with redirecting 57 equivalent full-time positions within DNR to its WRM function based on 2004–05 levels, or 23 positions based on 2003–04 levels. The higher level of resourcing represents approximately three additional staff per region...Appendix 2."

Page 7, replace second dot point with the following. Corrections are italicised:

"As indicated in Figure ES1, there has been a generally increasing level of WRM costs over recent years. With the exception of 2004–05, the increase in costs for the three-year period 2003–04 to 2006–07 is under 19%, equivalent to an increase of six per cent a year. As WRM costs.... this level".

Page 7, replace Figure ES1 with the following chart:

**Figure ES1: Total WRM costs – historical and five-year forecast (2005 dollars)**



Page 17, 1<sup>st</sup> paragraph. Replace the third sentence with the following. Corrections are italicised:

"In total, it is estimated that an additional 57 EFTs will be required."

Page 18, the list of forecast direct EFTs for 2006-07 should be updated as follows. Corrections are italicised:

Regulated rivers	133
Unregulated rivers	97
Groundwater – highly regulated	56
Groundwater – other	11
Total	297

Page 18, third paragraph. Replace the third and fourth sentence with the following text:

In addition, an application has been made to the Commonwealth Government for \$4 million in funds from the Australian Water Fund to install additional hydrometric stations. Subject to these funds being approved, NSW proposes to contribute \$1.9 million towards this project – a cost that has been included in the cost projections.

Page 25, Update Table C2 with the following revised numbers:

**Table C2: WRM cost shares – 2006-07<sup>a</sup>**

Water source	Total cost \$'000	Proposed government share \$'000	Proposed user share \$'000	User share as proportion of total costs %	(PART 2001 cost share %)
Regulated rivers	23,215	5,257	17,958	77%	55
Unregulated rivers	16,153	1,855	14,298	89%	59
Groundwater	13,784	883	12,921	94%	97
All water sources	53,152	7,975	45,177	85%	65

<sup>a</sup> 30 June 2005 dollars

Page 36, Update table D2 with the following revised data:

**Table D2: Share of forecast 2006-07 WRM costs that would be recovered using current tariffs<sup>a</sup>**

Water source	Total WRM costs \$'000	Proposed user share of WRM cost \$'000	Current tariff revenue <sup>a</sup> \$'000	% user cost recovery (existing tariffs) %
Regulated rivers	23,215	17,958	10,383	58%
Unregulated rivers	16,153	14,298	3,605	25%
Groundwater	13,784	12,921	3,982	31%
All water sources	53,152	45,177	17,970	40%

Page 36, Second paragraph, replace 2<sup>nd</sup> and 3<sup>rd</sup> sentences with the following. Corrections in italicised font:

At current (2005-06) tariff levels, it is estimated that, in aggregate, WRM revenue recovered is equivalent to only 40% of costs attributable to users. Cost recovery is particularly low for unregulated rivers, being only 25%.

Page 39, 1<sup>st</sup> paragraph, commencing with 'In summary'. Replace the last sentence with the following text. Corrections are italicised:

'As a result of this increased activity, total transaction costs are projected to be \$11.7 million in 2006/07 (Table E3).'

Page 39, Update Table E3 with the following revised numbers:

**Table E3: Forecast licence transaction costs – real values<sup>a</sup>**

	2006-07	2007-08	2008-09	2009-10	2010-11
	\$'000	\$'000	\$'000	\$'000	\$'000
Licence transaction costs	11,662	11,845	11,605	11,608	11,609

### Corrections to tables in appendices

Page 52, Table A2.3 is missing a row containing the column totals. The totals should be inserted as follows:

**Table A2.3: Historical WRM operating costs – highly managed groundwater<sup>a</sup>**

	2001-02	2002-03	2003-04	2004-05
	\$'000	\$'000	\$'000	\$'000
Total	6,813	7,201	7,727	7,361

Page 72, Table A3.1: Cost Sharing Ratios by WRM Activity. Last row referring to Activity Code C11-02 and column titled "% pass through to users". The figure should read 80% not 100%.

The following series of tables containing the cost forecasts (pages 54 to 56) need updating with the revised data:

**Table A2.7: Projected WRM operating costs – regulated rivers<sup>a</sup>**

Valley	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000
Border	1,216	1,217	1,216	1,214	1,214
Gwydir	1,323	1,330	1,330	1,330	1,330
Namoi	1,280	1,280	1,280	1,280	1,280
Peel	306	186	186	186	186
Lachlan	1,882	2,304	2,394	2,147	2,168
Macquarie	2,218	2,900	2,665	2,571	2,623
Far West	-	-	-	-	-
Murray	8,135	7,764	7,560	6,983	6,982
Murrumbidgee	5,436	5,276	5,033	5,139	5,138
North Coast	422	422	422	422	422
Hunter	882	868	744	744	745
South Coast	116	116	116	116	116
<b>Total</b>	<b>23,215</b>	<b>23,661</b>	<b>22,944</b>	<b>22,131</b>	<b>22,203</b>

<sup>a</sup> 30 June 2005 dollars

**Table A2.8: Projected WRM operating costs – unregulated rivers <sup>a</sup>**

Valley	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000
Border	319	321	321	320	308
Gwydir	498	506	507	507	506
Namoi	341	342	343	342	341
Peel	82	82	82	82	81
Lachlan	730	817	895	865	913
Macquarie	721	802	874	854	899
Far West	2,674	2,705	2,728	2,741	2,739
Murray	498	539	560	575	573
Murrumbidgee	594	632	1,494	674	672
North Coast	3,244	3,292	3,383	3,448	3,443
Hunter	2,034	1,670	1,647	1,646	1,641
South Coast	4,420	4,621	4,624	4,694	4,688
<b>Total</b>	<b>16,153</b>	<b>16,330</b>	<b>17,456</b>	<b>16,748</b>	<b>16,804</b>

<sup>a</sup> 30 June 2005 dollars**Table A2.9: Projected WRM operating costs – highly managed groundwater <sup>a</sup>**

Valley	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000
Border	417	388	391	390	389
Gwydir	732	752	752	751	750
Namoi	1,104	1,202	1,202	1,202	1,201
Peel	261	264	264	264	263
Lachlan	1,305	1,281	1,320	1,322	1,327
Macquarie	2,015	1,894	1,929	1,904	1,911
Far West	1,231	1,119	971	973	972
Murray	1,379	1,383	1,386	1,387	1,386
Murrumbidgee	1,116	1,122	1,125	1,126	1,125
North Coast	1,067	1,119	1,132	1,140	1,137
Hunter	165	181	166	165	163
South Coast	897	914	926	931	928
<b>Total</b>	<b>11,680</b>	<b>11,599</b>	<b>11,564</b>	<b>11,554</b>	<b>11,552</b>

<sup>a</sup>30 June 2005 dollars**Table A2.10: Projected WRM operating costs – other groundwater <sup>a</sup>**

Valley	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000	2009-10 \$'000	2010-11 \$'000
Border	60	60	60	80	60
Gwydir	37	37	37	37	37
Namoi	60	60	60	60	60
Peel	25	25	25	25	25
Lachlan	423	500	306	306	306
Macquarie	328	443	328	328	328
Far West	-	-	-	-	-
Murray	36	36	36	36	36
Murrumbidgee	50	50	50	50	50
North Coast	197	197	197	197	197
Hunter	840	840	841	841	841
South Coast	39	39	39	39	39
<b>Total</b>	<b>2,093</b>	<b>2,286</b>	<b>1,978</b>	<b>1,998</b>	<b>1,979</b>

<sup>a</sup>30 June 2005 dollars

Table A2.11: WRM user cost shares – 2006–07<sup>a</sup>

Valley	Regulated rivers		Unregulated rivers		Groundwater – highly managed		Groundwater – other	
	Total \$'000	User share \$'000	Total \$'000	User share \$'000	Total \$'000	User share \$'000	Total \$'000	User share \$'000
Border	1,216	1,025	319	272	417	413	60	60
Gwydir	1,323	1,192	498	475	732	729	37	37
Namoi	1,280	1,105	341	287	1,104	1,099	60	60
Peel	306	261	82	72	261	260	25	25
Lachlan	1,882	1,590	730	639	1,305	1,300	423	423
Macquarie	2,218	1,887	721	629	2,015	1,619	328	328
Far West	-	-	2,674	2,402	1,231	896	-	-
Murray	8,135	5,386	498	439	1,379	1,341	36	36
Murrumbidgee	5,436	4,237	594	514	1,116	1,082	50	50
North Coast	422	375	3,244	2,980	1,067	1,040	197	197
Hunter	682	801	2,034	1,505	165	162	840	840
South Coast	116	102	4,420	4,085	897	885	39	39
<b>Total</b>	<b>23,215</b>	<b>17,958</b>	<b>16,153</b>	<b>14,298</b>	<b>11,690</b>	<b>10,827</b>	<b>2,093</b>	<b>2,093</b>

<sup>a</sup> 30 June 2005 dollars