Tamworth Regional Council

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23 November 2005

The Chair
Independent Pricing and Regulatory Tribunal of NSW
P O Box Q290
QVB Post Office NSW 1230

Dear Sir

Subject: Review of Bulk Water Prices from 2006/2007

Council appreciates the opportunity to provide 'initial' comment at this phase of the review process and would be interested to contribute further as the review progresses.

Council considers that the effectiveness of this phase of public submissions has been restricted by the limited time provided for lodgement.

The submissions from the State Water Corporation and the Department of Natural Resources are extensive documents with significant impact on this Council. It is considered that insufficient time has been provided for staff and elected representatives to adequately review and address the issues and policy matters raised in these submissions and to seek advice and consult with effected stakeholders.

Council sought an extension of time for lodgement of our submission and is disappointed that the Tribunal was unable to extend the date on which submissions were due. Accordingly and as suggested by the Tribunal, Council has provided this initial submission which briefly outlines the Council's concerns. The Tribunal have advised that there will be further opportunity for comment at a regional workshop which will be held in late January 2006.

Council trusts that the comments provide constructive input to the review process and would be interested to contribute further as the review progresses.

Yours faithfully

Glenn Inglis
General Manager

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TAMWORTH REGIONAL COUNCIL

Submission to:

THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL

BULK WATER PRICES FROM 2006/07

November, 2005

TAMWORTH REGIONAL COUNCIL

'INITIAL' SUBMISSION TO IPART
REVIEW OF BULK WATER PRICES FROM 2006/2007

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INTRODUCTION

Tamworth Regional Council was proclaimed in March 2004 with the amalgamation of the former Barraba, Manilla, Nundle and Parry Shire Councils and Tamworth City Council.

Tamworth Regional Council covers an area of approximately 9,600 square kilometres and has a population of 54,250. The Council area encompasses all of the Peel Valley and portion of the Namoi Valley (upstream reaches).

The Peel Valley is a sub-catchment within the Namoi River basin but is treated separately in the State Water Corporation submission. The Peel Valley comprises approximately 10% of the area of the Namoi catchment.

Council sources water from regulated rivers, unregulated rivers and groundwater to provide town water supplies to the townships of Attunga, Barraba, Bendemeer, Kootingal/Moonbi, Manilla, Nundle and Tamworth City.

Water for the Attunga, Kootingal/Moonbi, Nundle and Tamworth City water supplies are sourced from the Peel Valley and the other schemes source water from the Namoi Valley.

On average, approximately half of Tamworth City's water is drawn from the Council owned Dungowan Dam (via pipeline to the City) and half from Chaffey Dam via an inlet works on the Peel River. Council has a High Security entitlement of 16,400ML from Chaffey Dam and over the past 10 years has drawn an average 5,200 ML from this source.

Council directly contributed 25% of the original estimated construction cost of Chaffey Dam and was granted a contract for supply of the High Security entitlement from the Dam. This contract represents the long-term secure water supply for Tamworth and was entered into as an alternative to Council constructing its own, stand alone water supply dam. This High Security entitlement of 16,400 ML represents 95% of High Security water entitlement in the Peel Valley.

Council is vitally interested in the significant changes that are occurring with natural resource management, water resource management and water reforms across Federal, State and Regional areas

Council has undertaken, and will continue to develop water conservation, water efficiency and demand management measures.

As a consumer of regulated, unregulated and groundwater sources, Council's town water supply schemes are significantly impacted by the submissions from the State Water Corporation (SWC) and the Department of Natural Resources (DNR).

Council is concerned with increases in water prices and charges for water resource management activities. Any increase in charges by external authorities effectively removes that money from the community and reduces the ability of our community to undertake important water and sewerage projects.

Following the amalgamation, Council has identified a number of water and sewerage projects that require construction/upgrading over a relatively short time frame. These works include upgrading of water supply systems to acceptable standards, sewerage augmentation and the provision of sewerage schemes to address health and environmental issues.

Any significant increases in costs, through water and natural resource management charges, will diminish our ability to undertake these works and delay projects. IPART also needs to be aware of and consider that the State Government's reduction/withdrawal of funding through the Country Towns Water Supply and Sewerage Program (CTWSSP) is having a very real impact on Tamworth Regional Council and Council's across the State, to undertake much needed water and sewerage works. The extent of this funding withdrawal is estimated to have cost Council in the order of $21.5M. This has significant longterm economic, environmental, health and community amenity implications.

In addition to the above, Council is also extremely concerned with the socio-economic impact that any proposed price changes may have. Apart from the direct economic impact on our operations we are concerned at the possible consequences on commercial users and irrigators in the Peel Valley and the communities within our Region.

Council is aware of the difficult groundwater reforms and adjustments in adjoining Local Government Areas within the Namoi Valley.

State Water has advised that a socio-economic assessment of the proposed price changes has not been undertaken nor are we aware of any assessment by DNR. In light of the extensive increases proposed by State Water and the other Namoi Valley adjustments with groundwater allocations, it is imperative that the impact of these proposed changes be assessed prior to any implementation. Council cannot express this key concern strongly enough, that it is of critical importance that IPART not consent to the introduction of such momentous price increases in the complete absence of some reasonable socio-economic impact assessment.

Any socio-economic assessment needs to encompass changes occurring with groundwater and other water resource and natural resource management issues. The assessment should not be done in isolation as the combined impact of the various changes could have a "multiplier" effect that results in irreversible adverse consequence for the northern inland river region of the State.

Council requests that IPART ensure that a thorough socio-economic assessment be carried out. The assessment may reveal that there are particular valley or sub-valley idiosyncrasies that IPART need to consider and provide for in this review.

INITIAL COMMENTS

Initial comments which briefly outline Council's concerns in respect to the State Water Corporation Submission and DNR's Submission are provided separately for clarity.

STATE WATER CORPORATION SUBMISSION

Recovery of Costs

It is noted that one of the main themes of the SWC submission to IPART is the recovery of efficient full costs over 5 years in all regulated valleys, progressing towards upper bound pricing.

SWC acknowledge that this immediate full cost recovery would lead to significant and unsustainable price increases in some valleys. Council contends that full price recovery for a number of valleys, over 5 years or even an extended period, would not be feasible and is totally unacceptable.

Pricing Options

It is noted that since 1996 the Tribunal has adopted a valley-based approach to pricing. Given the passage of time and the vast water industry changes, there are questions to this approach, particularly with the proposed diverging valley prices in State Water's submission.

In May 2004 the Namoi-Peel Customer Service Committee resolved to push for uniform statewide bulk water pricing. Subsequently the Namoi-Peel CSC wrote to IPART (15 July 2004) indicating that the CSC was in favour of state wide bulk water pricing.

The letter in part states:-

> *"IPART has made water pricing determinations for each valley and this has shown a lot of variation. Some Valleys such as the Namoi-Peel have had higher price determinations than other valleys.*
>
> *The Namoi-Peel CSC strongly feels there is greater merit in having a single state wide price for water. This includes spreading the cost of delivery of water over all entitlements uniformly.*

Using this method, operating cost increases can be absorbed with minimum price increases which can be accepted easily by all water users."

The application of efficient economic costs may be estimated for the business as a whole or may be applied to particular segments of the business.

It is considered that the question of state-wide versus valley prices should be re-examined. Is the valley prices approach touted by State Water the fairest or should the spreading of costs more widely be considered.

Given that capital works spending on major assets within valleys tends to be uneven it is suggested that state-wide pricing would be a method of spreading these particular 'spiky' costs across the water users and provide more even and predictive prices which would facilitate longer term planning.

Other infrastructure dependent industries such as electricity and telecommunications do not fluctuate their prices in areas where major capital or higher operational costs are incurred. Why impose this limitation on the water/irrigation sector, and in time can individual valleys sustain prices to fund uneven capital expenditure on major assets?

A prime example is the dam security upgrade program that is focusing on Keepit and Chaffey dams (both in the Namoi basin). Currently this work is being funded by the Government, but in future it is expected that these costs would be the responsibility of extractive users.

The costs of providing fish passage and mitigating impact of thermal pollution could also be distributed over all valleys as works progressively occur across the State.

Alternatively, is there merit in a pricing structure for inland valleys and other options for coastal valleys given that State Water have identified cost recovery issues in the North Coast and South Coast Valleys?

Unconstrained Prices

State Water's proposed price path to full cost recovery requires significant changes to the methodology of past price determinations and thus requires close scrutiny by IPART to assess the validity and long term impacts of the proposal.

The price path from 2006/07 is said to reflect cost increases and changes to cost estimates in the Total Asset Management Plan (TAMP). The TAMP needs to be analysed to determine whether it is realistic/achievable.

The variation in Valley to Valley costs across the State is significant. For the NSW Inland Rivers, in the third year of the pricing proposed (2008/09):-

- High Security Entitlement would vary from \$1.72 (in the Murrumbidgee) to \$38.78 (Peel) – a 2,155% price differential;
- General Security Entitlement would vary from \$1.33 (Murrumbidgee) to \$7.76 (Namoi) – a 483% price differential;
- Usage Charges would vary from \$3.54 (Murrumbidgee) to \$88.07 (Peel) – a 2388 % price differential.

Council considers the price increases to be unsustainable and unacceptable. These increasing and diverging prices reinforce the need to reassess the valley based pricing mechanism and seriously consider alternate options.

Impact of Unconstrained Prices

The proposed General Security charges for the Namoi Valley are significantly higher than the other inland river systems and would thus place users in the system at a severe disadvantage.

Council pays a High Security Entitlement charge on 16,400ML per annum plus a Usage charge. Based on current charges and the average annual use of water from Chaffey Dam, the 2005/06 cost would be approximately $237,000. Under the proposed price structure the same quantity of water would cost $1,095,000 in 2008/09. A variation of this magnitude is astounding, unsustainable and totally unrealistic. The impact on low income and pensioner groups in particular would be extremely significant.

Higher water costs of the magnitude proposed (and the differential between northern and southern inland valleys) will reduce the potential for growth of rural industries in the area and may therefore impact on the growth potential for industry generally in Regional NSW.

What will be the consequences in the higher priced valleys?

Return on Capital

The inclusion by SWC of a Return on Capital is being questioned in many quarters.

The justification in moving to upper bound pricing appears to be confused. It is our understanding that the National Water Initiative seeks “continued movement towards upper bound pricing for all rural systems, where practical”.

Clearly, the unconstrained prices as presented, on a valley basis, are not practical or viable. Also of concern is that this Return on Capital is based on the Regulatory Asset Base (RAB) which is another “grey” area.

At page 9 of SWC’s submission the Customer’s share of Return on Assets for 2006/07 is $20.2m, in a total Customer Share of $67.8m (ie 30%).

Within the Peel Valley the Return on Capital increases from $331,000 in 2006/07 to $933,000 in 2008/09. The cost of seeking this Return on Capital based on average usage (14,675 ML/yr) would be $22.56 per ML in 2006/07 and rising to $63.58 per ML in 2008/09.

Alternatively, the cost of obtaining this Return on Capital on total HS & GS entitlement (48,155 ML) would be $6.87/ML in 2006/078 and rising to $19.38 in 2008/09.

Alarmingly, to say the least, figures such as this in the Peel Valley demonstrate the requirement for serious scrutiny of this matter and reinforces the need for an alternate approach to valley based pricing.

Examples such as the Peel are prime indicators of previous “legacy” decisions which make full cost recovery impossible in a number of valley systems. An alternate pricing mechanism or transparent subsidy/customer service obligation must be considered.

High Security and General Security Charges
State Water proposes the setting of new High Security to General Security entitlement ratios in a number of valleys. State Water claim that the basis for this proposed change in ratios is that the High Security Entitlement charge should better reflect the value of High Security water over General Security water.

For the Peel Valley the ratio calculated by State Water is a massive 13.46. As Tamworth Regional Council holds the majority of High Security water in the Peel (95%), this constitutes a major shift in entitlement charges from General Security users to Council. Council is greatly concerned as it appears that Council is now being called upon to shoulder an inequitable burden of the costs associated with the provision of water to users within the Peel Valley.

Council rejects this proposal from State Water as totally unacceptable. We believe that the information provided and the methodology used for determining the proposed ratios is flawed and requires careful scrutiny by IPART.

Council has a number of doubts as to the validity in the determination of these ratios. The following points highlight our concerns:

- According to State Water the entitlement charges for high security are currently no greater than 1.7 times the charges for general security in any valley. Table 10.3 indicates a range from 1.1 (Murray and Murrumbidgee) to 1.7 (Peel)
- The proposed ratios for this determination range from 1.17 (Murray) to 13.46 (Peel). Excluding the Peel the range is from 1.17 to 4.94 (Macquarie). Wouldn't the determination of these ratios be the responsibility of DNR in the development of the WSP's
- State Water proposes that the differential in price between high and general security entitlements be based on the conversion factor in the Water Sharing Plans (WSP) multiplied by the number of years State Water is required to store water for High Security users. Council is aware that whilst the WSP's for the Namoi and Gwydir valleys have been completed there has been no determination of the conversion factor between general and high security licences.

  How has the proposed ratio for these and other valleys been determined and are the ratios correct?
- The Peel Valley (which constitutes approximately 10% of the Namoi river basin) does not have a WSP. Council previously requested advice from State Water on how the proposed ratio was determined and have been advised as follows:

  > *"The "High Security Access Premium" is the general security entitlement divided by the plan limit available to general security. The use of this access premium for water charges would lead to equal charges for equal volumetric access. That is, a licence holder who wanted access to an average 100ML of water in the Peel Valley would need either 100ML of high security, or 100x6.73=673ML of general security licence.*

If the high security access charge was set at this ratio then under either licence option the customer would pay the same charges and State Water would recover the same revenue. However, although the volume and charges would be comparable, the high security licence gives access in all years, including drought years, while general security licence would only get an average of 100ML/yr by taking more water in high allocation years to counter the low or nil access in drought years."

The figure of 6.73 is then multiplied by 2 (two years storage) to obtain the proposed ratio of 13.46

Council fails to see how "general security entitlement divided by the plan limit available to general security" is a measure of water value. The use of General Security entitlement in this calculation is also an issue, particularly in the Peel Valley which is over allocated. The greater the over allocation, the greater the distortion by using State Waters methodology adopted for the Peel Valley.

The basis for the ratios appears on any reasonable and impartial assessment to be based on State Water revenue rather than any real measure of water value.

- The above methodology/explanation is not included in the SWC Submission.
- Apart from State Water's omission of the methodology for the Peel Valley they also adopt different approaches in other valleys such as the North Coast and South Coast valleys, the Patterson sub-system and the Murray and Murrumbidgee valleys. In the Murray/Murrumbidgee valleys they have excluded the storage factor in determining the High Security premium.
- Based on the High Security Entitlement prices proposed by State Water, Council would have to bear a massive increase in entitlement charges from $189,000 in 2005/06 to $703,000 (2006/07). An increase of $514,000 in the first year.
- High Security Entitlement in the Peel Valley is 17,277 ML and General Security Entitlement is 30,878 ML. Revenue from entitlement charges are indicated in the table below.

2005/06		2006/07		2007/08		2008/09	
HS	GS	HS	GS	HS	GS	HS	GS
199,030	155,930	740,490	98,190	779,190	103,440	670,000	88,930

This clearly indicates:

- The increase in total entitlement revenue over the period – even with the reduction in the proportion of fixed revenue changes in 2008/09 ($355,000 to $759,000)
- The significant increase in charges to HS entitlement holders (3 fold increase)
- The significant reduction in charges to GS and holders (virtually halved)

As Tamworth Regional Council holds approximately 95% of the HS entitlement in the valley this is basically a massive cost shift from GS entitlement holders to TRC.

- Council also considers that a full explanation should be provided on the additional costs State Water claim are attractable to High Security water i.e. additional evaporation losses, opportunity costs and transmission losses.
- Another question that arises is that if High Security users are to be charged for the period of storage, then is the same principle to be applied to 'carry-over' storage for General Security and similarly the additional evaporation and transmission losses?

  To be consistent and fair with all users this would be necessary.

Council believes that the above points highlight just some of the anomalies with State Water's proposal in respect to the High Security/General Security ratio. It is requested that IPART have an independent assessment of this issue undertaken and develop an appropriate and highly transparent methodology for determining the ratio for each valley.

The 'Building Block' Approach

State Water is recommending that the cost recovery approach be based on the "Building Block Approach" and that IPART move away from the annuity approach that was previously considered by IPART to be the more appropriate method.

In view of the complexity of this proposed change by State Water (including a Regulatory Asset Base) it is considered that analysis and subsequent initial comment at this time is beyond the general resources of water users to undertake. Accordingly we would request IPART to undertake or engage independent consultants to review State Water's proposal and provide objective comment on the proposed "Building Block Approach" as compared with the previously preferred annuity methodology.

It is acknowledged that significant effort in time and resources has been devoted to developing the annuity in the first place. State Water need to justify the requirement for this change and demonstrate sustainable advantages to be gained by consumers.

Reviewing the Regulatory Asset Base

Following on from the previous comment we found that the information provided on the Regulatory Asset Base (RAB) was "challenging" to follow and without detailed information and background knowledge of State Water's operations it is extremely difficult to make 'informed' comment on this matter.

Council requests that IPART undertake a comprehensive review of State Water's proposal and provide the results to customers for information and comment. It is indeed difficult to adequately comprehend these pricing reviews if the methodology changes markedly from one review to the next.

Given that the Building Block Approach is critically subject to the appropriate setting of an initial RAB, we have identified some questions for consideration:-

- What is an acceptable rate of return for the bulk water industry?
- Is the basis for the RAB split between government and water users fair?

- How was the RAB determined for each valley?
- Could IPART carefully consider the RAB split between valleys as there appears to be anomalies with a low RAB for example in the Murray and higher RAB's in far smaller valleys.
- What assets are included for each valley and what is the government and water user split for each valley?
- What impact does the RAB have on the proposed prices for each valley?
- Is the valley split the most appropriate approach and what other options should be considered?

Fixed and Variable Revenue in Regulated Rivers
It is interesting to see that State Water proposes to establish a pricing structure whereby the ratio of fixed revenue (or entitlement charges) to variable revenue (or usage charges) will be 60:40 across the State.

Most other authorities are moving to a lower percentage of revenue from fixed or access charges and a higher percentage of revenue from usage charges. (i.e. electricity and telecommunication industries).

Within NSW the Government's "Guidelines of Best Practice Management of 'Water Supply and Sewerage" (May 2004) requires Local Water Utilities to recover at least 75% of residential revenue from usage charges and at least 50% of non-residential revenue from usage charges.

Does the suggested move by State Water send the wrong signal to users in respect to water efficiency, demand management etc.?

What practices are adopted in other States and elsewhere and what alternatives are available and practical?

Usage Charges Estimated on Flows of One Standard Deviation below Average
The proposal by SWC to calculate the usage charges by assuming the usage at one standard deviation below average use is very conservative, will unnecessarily push up the price of water, and place additional financial impact on water users.

Utilising such a low usage base has the potential for significant over-recovery of costs during average seasons. There is no explanation provided for the selection of one deviation below the average.

This concept requires close scrutiny by IPART and also raises the question of how SWC proposes to treat years of over-recovery and under-recovery of costs.

Operational and Capital Expenditure
The review of SWC's October 2004 Submission undertaken by Marsden Jacob Associates and Cardno recommended operational and capital expenditure levels significantly below that being proposed by SWC.

They indicated that in previous years actual expenditure in both areas was below the forecast level of expenditure and that there was opportunity for refining these expenditures.

Given the outcome from the previous review it is considered essential that a similar review be undertaken for this round of submissions and provided for public comment.

Cost Sharing
The appropriate proportioning of costs for various functions needs to be carefully examined and discussed with the stakeholders. It is considered that the community benefit for many of the SWC and DNR functions are being underestimated and consequently the water users are bearing an inequitable share of these costs. It is requested that a thorough review be undertaken by IPART or an independent consultant.

Wholesale discounts
The current discounts received by wholesale irrigation customers (estimated at $5.5 M per year) do not appear to be appropriate. At a previous determination the former DLWC argued that they were not justified and now State Water holds the same position.

Given that the original grounds for discounting do not apply, removal of the discount would be appropriate and any need for data provision should be via an established commercial agreement with either State Water or DNR.

Is there a need to phase out the discount over a number of years? The majority of discounts are to the Murray and Murrumbidgee valleys which have the lowest prices and economies of scale to absorb the removal.

Water Users' Capacity to Pay Section
State Water acknowledges that it is aware that water users' ability to sustain the price rises proposed is an important question, but they have not investigated the ability to pay, or undertaken any creditable or reputable attempts to truly assess the impact of price rises on water users.

As a responsible organization, thorough research of the potential impacts, should have been included as part of their price development process. State Water is relying on IPART in this regard.

State Water is well aware of the stressed economic situation in many valleys and to propose a pricing structure, which includes such significant price rises, without adequate assessment of the impact is extremely remiss and is of concern.

Murray-Darling Basin Commission cost and financing basis
The financing arrangement between the States for the MDBC is relatively complex. It would appear that the Commonwealth Government is funding 25% of the Natural Resource Management and Murray Works Capital Programs, none of which is being recovered or reflected in Murray Valley prices. This is effectively a direct subsidy for Murray Valley users which is not provided to other valleys.

State-wide pricing would eliminate this inconsistency and it is recommended that IPART give further consideration to this matter.

Implications of Corporatisation
State Water has identified a large additional increase in annual costs attributable to corporatisation. The net increase per annum appears high and warrants review. One would have expected that the corporate governance costs would be reduced through corporatisation.

Socio-economic assessment
Council has been advised by State Water that a socio-economic assessment of the proposed price changes has not been undertaken. In light of the extensive price increases proposed by State Water and other Namoi Valley adjustments with groundwater allocations, it is imperative that the impact of these proposed changes be assessed prior to any implementation.

An independent socio-economic assessment needs to encompass changes occurring with groundwater and other water resource management issues. The independent assessment should not be done in isolation as the combined impact of the various changes could have a "multiplier" effect that results in irreversible adverse consequences for the northern inland river region of the State.

DEPARTMENT OF NATURAL RESOURCES SUBMISSION

The DNR submission covers costs associated with water resource management (WRM) and bulk water services to unregulated rivers and groundwater customers. As the lead agency in water resource management in NSW it was expected that the DNR submission would provide some direction with respect to functions and responsibilities in the area of WRM.

In DIPNR's previous submission to IPART they identify issues of significance with respect to future directions in WRM services. At that time DIPNR noted that there had been significant changes to institutional arrangements for natural resource management, including WRM, across the State as the following paragraph highlights.

> *"DIPNR is currently restructuring its service delivery functions and devolving various responsibilities to Catchment Management Authorities (CMAs), the Natural Resources Commission (NRC), the Natural Resources Advisory Council (NRAC) and the NSW Water Innovation Council (WIC). Whilst this process should yield efficiency gains over the medium term, these entities have yet to be fully established and currently have only limited operational capacity. In addition the NWI requires changes in the way water entitlements are managed and how other WRM activities are undertaken. As these changes are implemented, the impact of DIPNR's WRM activities and costs will become clearer."*

It is extremely disappointing that there is still this lack of clarity. Again we find that this pricing determination is being undertaken in an environment of uncertainty and Departmental change.

It is difficult to make any truly informed assessment of the DNR proposal based on the undetermined responsibilities and future direction in WRM services. This is a challenge for IPART and all stakeholders.

Given this evolving situation, will it be possible to set prices for DNR for any reasonable period or will it in fact be necessary to review their progress on a yearly basis until the direction and responsibilities are clarified?

Water Resource Management activities

In respect to WRM activities it is felt that many of these activities have very close association/linkages with catchment management functions and natural resource management across the State and thus the Community/Government should accept a greater share of these costs. Since the 2001 IPART determination there has been a substantial shift toward catchment management and natural resource management activities and therefore we request that IPART re-assess the sharing of these costs.

Costs of WRM activities

It is often difficult to clearly determine the extent to which the need to undertake WRM activities arises from the actions of water users. Council considers that a very careful assessment is required to ensure that there is a clear connection with WRM activities prior to costs being assigned to water users. There are many other beneficiaries of WRM activities.

Council is of the view that until DNR is able to clearly indicate/define its role with WRM activities, given that they are the lead agency in this area, then their charges should not be increased.

Socio-economic assessment

Council is concerned that a socio-economic assessment of the proposed price changes has not been undertaken. It is imperative that the likely social and economic impacts of the proposed changes be assessed prior to any implementation.

Cost Recovery

The necessity and practicality of moving to full cost recovery is questioned. The appropriate and equitable allocation of costs is an essential pre-requisite.

Return on Capital

Council questions the return on capital and the RAB upon which this is proposed to be based. It is requested that IPART investigate this area of concern.

Future WRM Costs

The increase in future WRM costs appear in many circumstances to be attributed to the provisions of various Acts, WSP's, new commitments under the National Water Initiative and State Government requirements. Council requests that IPART undertake a thorough and independent assessment of these requirements and associated costs including the revised cost sharing arrangements proposed by DNR.

The proposed changes to cost sharing arrangements, if adopted by IPART, would result in significant increases in the share of WRM costs allocated to water users, as indicated in the following table.

Water Resource Management Cost Shares 2005-06 and 2006-07

Water Source	Total Cost $M		Proposed Government Share $M		Proposed User Share $M		User Share as Proportion of Total Costs %	
	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06	2006-07
Regulated rivers	21.40	23.28	11.02	5.26	10.38	18.02	58%	78%
Unregulated rivers	18.90	17.26	15.29	1.94	3.61	15.32	24%	89%
Groundwater	10.60	14.73	6.62	1.08	3.98	13.64	29%	95%
All water sources	**50.90**	**55.27**	**32.93**	**8.28**	**17.97**	**46.98**	**38%**	**85%**

*2001-02 WRM forecast costs inflated by CPI to 2005 values (refer DNR Submission, Table C1)

Tariff
The proposal that WRM costs be recovered solely through an access charge on megalitres of entitlement is supported.

Wholesale Discounts and Security Premiums
The removal of wholesale discounts and security premiums from DNR's WRM tariffs is also supported.

Council trusts that the comments provide constructive input to the review process and would be interested to contribute further as the review progresses.