

ED09/1166

Mr James Cox
Chief Executive Officer
State Water Corporation Price Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230



Dear Mr Cox

Re: Submission to the Review of Prices for State Water Corporation from July 2010

Please find attached a submission from the NSW Department of Environment, Climate Change and Water (Water for the Environment Branch) to the above Issues Paper.

The Department of the Environment, Climate Change and Water has become a significant water access licence holder, on behalf of the Minister for Climate Change and the Environment, through the NSW RiverBank program. Therefore we welcome the opportunity to provide a submission to IPART's Issues Paper.

We look forward to reviewing the Draft Determination and Report when it is released in 2010.

Yours sincerely,

 23/10/09

DEREK RUTHERFORD
Director, Water for the Environment



**IPART: Review of prices for State Water
Corporation**

**Department of Environment, Climate
Change and Water Submission**

October 2009

BACKGROUND

The Department of the Environment, Climate Change and Water (DECCW) acknowledges the role of State Water in the provision of bulk water services and the important role it plays in the delivery of water for environmental outcomes. DECCW also recognises the important role that appropriate water pricing and charges can play in improving water use efficiency and environmental outcomes in NSW.

DECCW has become a significant water access licence holder, on behalf of the Minister for Climate Change and the Environment, through the NSW RiverBank program and provides this submission in this context.

NSW RiverBank

NSW RiverBank is a \$105 million environmental fund set up by the NSW Government in 2005 to buy water for our most stressed and valued rivers and wetlands over five years. NSW RiverBank operates a market purchase mechanism that is assisting in improving the economic efficiency of water use through building and actively managing a portfolio of water access licences for priority rivers and wetlands. Importantly, it has provided a price signal in the water market that was previously absent for the environmental, cultural and social values associated with healthy riverine, floodplain and wetland ecosystems.

NSW RiverBank has taken a commercial approach to acquiring water from willing sellers within the existing water sharing and water management framework, without compromising the rights of existing water users. It provides a mechanism by which individual businesses can directly finance the improvement of on-farm water infrastructure, through the sale of a portion of their access licence, at a rate and scale which suits their business circumstances. It also provides an efficient small-scale mechanism for industry adjustment where individual businesses may wish to exit the irrigation industry.

NSW RiverBank is the first instance of an entity established by Government to improve the efficiency of water distribution and use through the purchase of water on behalf of the environment. To September 2009 more than 102.6 gigalitres of water entitlement has been purchased by NSW RiverBank for the environment within the Gwydir, Macquarie, Lachlan and Murrumbidgee valleys. Since 2008, water purchased by RiverBank has been released into a number of wetlands including the Macquarie Marshes, Lower Murrumbidgee (Lowbidgee) wetlands, and the Gwydir and Gingham wetlands. This adaptive environmental water has supported waterbird, fish and frog breeding events as well as improving the health and condition of severely stressed native wetland vegetation including River Red Gum, Black Box and Lignum.

DECCW welcomes the opportunity to provide a submission to IPART's Issues Paper *Review of Prices for State Water Corporation from July 2010* (IPART,

2009) and State Water's submission to this issues paper (State Water Corporation, 2009).

ISSUES FOR STAKEHOLDER COMMENT

1 The appropriateness of State Water's proposed service levels for the forthcoming determination period.

State Water provides a vital service to water users and the broader community in regulated river catchments in NSW. It is important that these service levels are maintained for all water users, including environmental water users such as DECCW and Commonwealth Environmental Water Holder (CEWH). DECCW recognises the initiative taken by State Water in the development of the Environment Management Plan (EMP; State Water Corporation, 2007), and will be keenly interested in State Water's intended review of this document to ensure that it achieves outcomes that support important environmental values in regulated rivers and their associated floodplains.

2 The appropriateness of State Water's forecast operating costs for the 2010 determination period, including the approach taken to allocate indirect operating costs (such as corporate overheads) between valleys.

Water delivery of environmental flows and environmental planning and protection are listed by State Water as part of their core activities. DECCW believes that State Water's future operating costs must continue to include contributions towards the development of infrastructure to manage environmental watering events. Both DECCW and the CEWH are significant water holders and, as such, make important contributions towards State Water revenue. Recently DECCW, with funding support from the Commonwealth Government, has made large investments in the construction of new regulators and other structures in order to improve the efficiency of environmental watering events. DECCW believes that as State Water's revenue from environmental water holders continues to increase, that the proportion of State Water's budget allocated to works associated with environmental water management should similarly increase. This expenditure should be separately itemised to allow for efficient review of this information at future reviews.

10 The usefulness of valley-based reports.

Valley-based reports are useful to DECCW given that it has water holdings in most of the inland regulated river systems within NSW and is represented on the valley-based Customer Service Committees.

11 Whether the cost sharing approach used in the 2006 Determination remains appropriate.

DECCW believes that the 'impactor pays' cost sharing approach used between users and government in the 2006 Determination is appropriate.

While the NSW and Commonwealth governments have purchased water for environmental use as a means of addressing the impacts of consumptive

diversions, they have done so to date with an acknowledgement of the costs of holding water access licences on equivalent terms to other water users.

16 Options for meeting the cost of providing water in valleys in which cost reflective prices may not be practical.

Under low water yield conditions, it will be challenging for State Water to remain financially viable. DECCW believes that minimum Government service levels (Community Service Obligation) must be maintained in all valleys, even if the delivery of these services is not cost-effective.

17 The appropriate balance between fixed and usage charges.

DECCW accepts that the existing 40/60 fixed/variable ratio remains appropriate in the context of the majority of water user's business needs. DECCW intends recovering a proportion of its licence charge liability by trading allocation periodically and recognises that this will be more practical within a 40/60 ratio scenario. A shift to the alternative 90/10 ratio would cause a disjunct between charge liabilities and allocation stream (ie revenue potential) which may represent a significant financial impact to all water users, including environmental water holders.

18 The impact of State Water's proposed prices on its customers

Based on future water consumption estimates (CIE, 2009), the proposed changes to entitlement and usage charges (State Water Corporation, 2009) adequately reflect the scarcity of water that is likely to continue to occur into the future. The proposed High Security premium also provides a more realistic reflection of the level of security of supply and the associated benefits of owning this type of entitlement.

21 The appropriateness of State Water's proposal to recover the cost of meter service provision.

DECCW believes that the provision and maintenance of high accuracy and tamper proof water meters is essential to the efficient and equitable use of a scarce resource. DECCW supports the shift from entitlement holder-owned meters to State Water- and government-owned meters and the proposed Metering Service Charge to ensure the ongoing integrity of the bulk water supply system.

24 Whether it is appropriate to maintain rebates to irrigation companies and districts (ICDs) and (25) The level of these rebates, if appropriate, and justification for this position.

DECCW accepts the basis of the existing rebates and, should they be retained, expects that they would be extended beyond large irrigation companies and districts to include large environmental water holders. Both DECCW and the CEWH are significant water holders and are likely to make increasingly large contributions towards State Water annual charges. DECCW believes that rebates should be extended to environmental water holders on a pro-rata basis due to the similar cost savings associated with the delivery of typically large volumes of water across few events outlined by the Centre for International Economics (2006) in support of the retention of rebates for irrigation companies.

REFERENCES

Centre for International Economics (2006), *Review of price discounts for wholesalers*, prepared for Independent Pricing and Regulatory Tribunal, March 2006.

Centre for International Economics (2009), *State Water consumption forecasts for the 2010 pricing determination*, prepared State Water Corporation, June 2009.

Independent Pricing and Regulatory Tribunal (2009), *Review of prices for State Water Corporation from July 2010*. IPART, Sydney.

State Water Corporation (2007), *Environment Management Plan 2006-2011*. State Water Corporation, Dubbo.

State Water Corporation (2009) *State Water Corporation Submission to IPART 2010 Pricing Determination*. State Water Corporation, Dubbo.