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28 January 2010

Independent Pricing and Regulatory Tribunal
IPART NSW
PO Box Q290
QVB Post Office
NSW 2000

Attention Amanda Chadwick

Dear Amanda,

RE : Stakeholder submissions to IPART's Review of 2010 Bulk Water Prices

Please find attached MidCoast Water's submission on bulk water prices in response to the NSW Office of Water's comments.

We would welcome any opportunity to further discuss the submission with IPART when public hearings into the matter are held.

Please don't hesitate to contact me should you require further information regarding this submission.

Yours sincerely

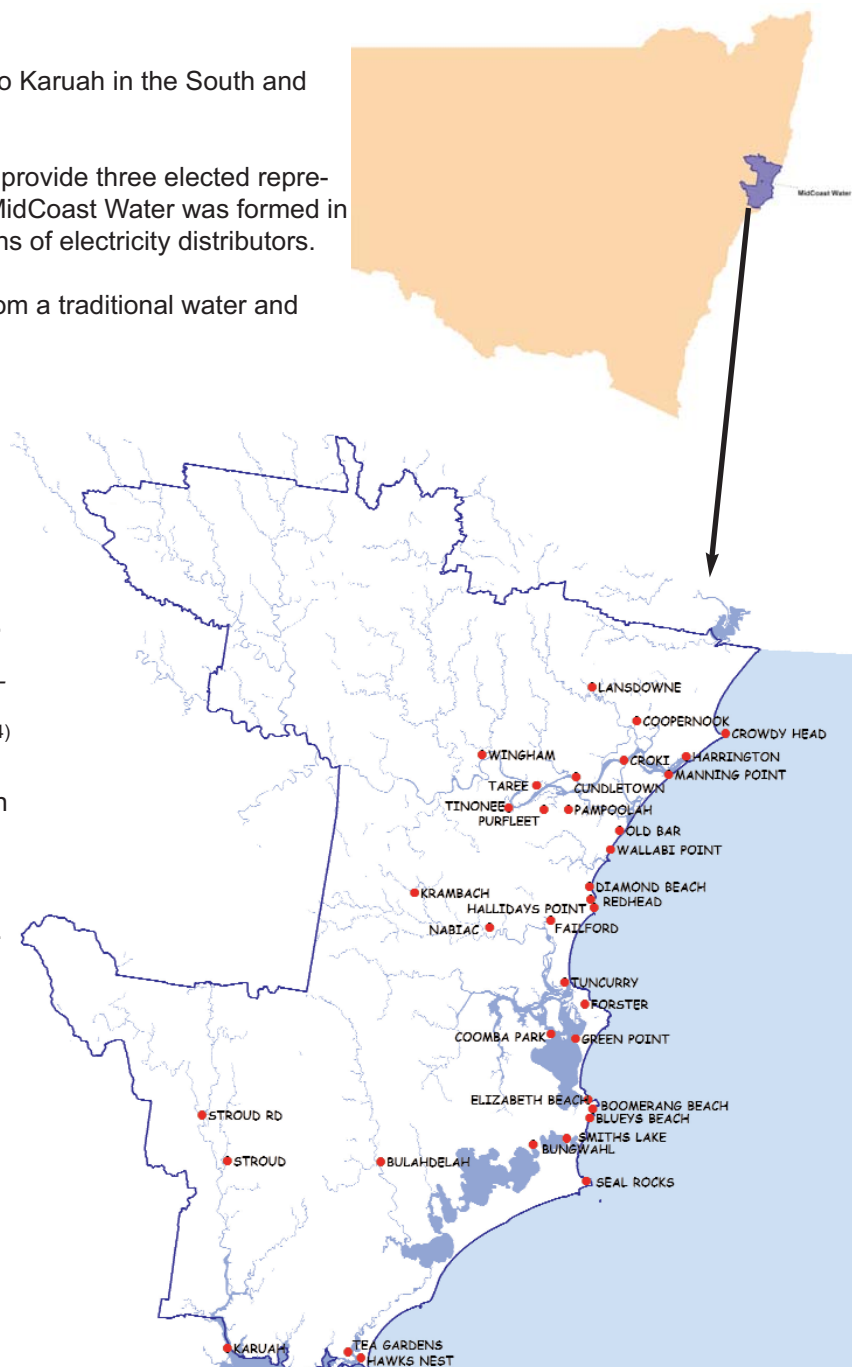
Neil Hanington
General Manager



Response to the New South Wales' Office of Water's submission to IPART's Review of 2010 Bulk Water Prices

January 2010





Our catchment management activities:

MidCoast Water one of the largest water extractors on the North Coast for both surface and ground waters. We operate three surface water supplies and one groundwater supply, with a further groundwater aquifer under development.

MidCoast Water takes its obligations to the catchments in which it operates seriously. We invest in our own surface water and groundwater monitoring, and this includes laboratory analysis as well as data-loggers for both water level and quality. MidCoast Water operates a NATA accredited water quality laboratory.

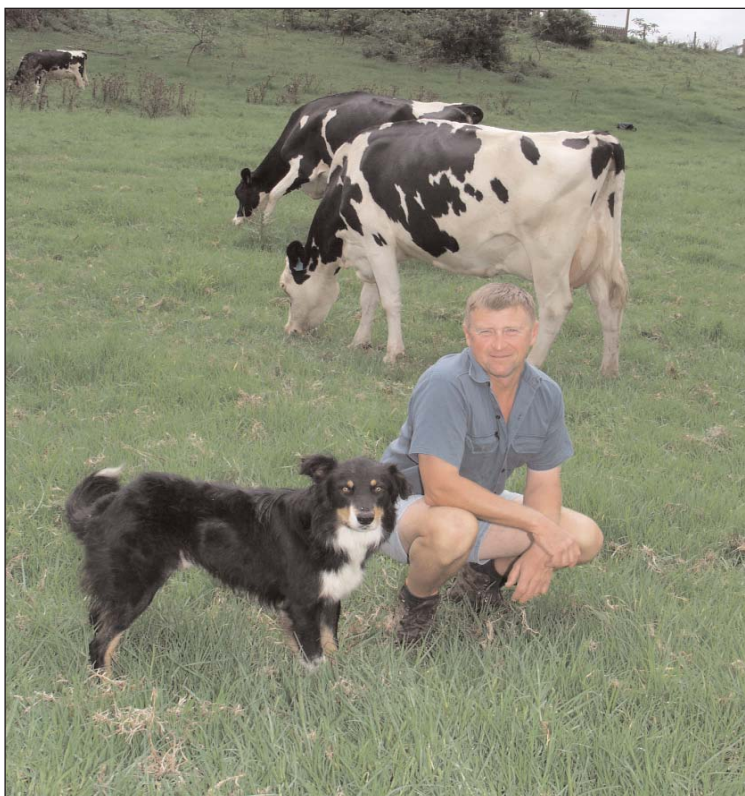
We also partly fund the Office of Water's river gauging stations. We continue to fund our own water quality and environmental research program which the Office of Water has been aware of and involved in, and environmental flow investigations.

We continue to fund on-ground farm improvements as well as farmer education programs to allow improved management of farming activities and impacts on water quality and quantity.

This funding provides for:

- Fencing
- off-river stock watering
- dairy waste management
- erosion control
- improved farm management – water and energy efficiency

In the absence of external assistance to quantify the extent of rural extraction in our catchment, we are working with rural extractors to convert to metered supplies. The installation of these rural meters is priced at \$3200 per meter.



The main issues:

The North Coast of NSW is an area where water is generally plentiful. As such it is difficult on a supply v demand basis to substantiate the higher water costs allocated to this region.

The basis of the Office of Water's pricing is based on administration of water licenses and data collection costs. In our view, this methodology places no value on other benefits water offers, or water scarcity.

The proposed fixed charge system offers no whole of water cycle management solution and provides no real incentive for water efficiency.

The NSW Office of Water's submission details operating costs in section three for the North Coast as 'under expended' – ie that the North Coast is subsidizing other areas.

The North Coast of NSW represents an area with plentiful water resources and an area which has short and limited droughts. In dry periods MidCoast Water and local water users have a strong history of working cooperatively to manage extraction, with no input from the Office of Water.

Most of the water infrastructure and recovery of the environment works discussed are outside the North Coast and therefore should not be funded by the North Coast.

The fixed tariff charge undermines MidCoast Water's efforts to encourage local rural extractors to convert to metered use to allow for the collection of real data for the purpose of environmental flow evaluation and for extractors to partly fund the meters through reduced usage charges in wet periods by a reduced licence fee.

We believe MidCoast Water undertakes many of the roles the Office of Water claims in its submission.

MidCoast Water funds Office of Water river gauging stations and environmental flow evaluations for surface and groundwater, as well as water quality monitoring within our area of operations.

MidCoast Water believes a holistic water pricing structure should be developed to reflect water efficiency, the true value of water and its scarcity.

Customer service committees, operated along the lines of that of State Water, are a vital way in which the Office of Water can ensure it is working with their customers – the water users of NSW.

MidCoast Water would like to acknowledge that it appreciates the pressure and the lack of resources the department is facing.



Our submission: in brief

In this submission MidCoast Water plans to address the following issues, raised in the NSW Office of Water’s submission to IPART on the Review of 2010 Bulk Water Prices.

- 1. Section 2.2.4 dot point 2&4 page 16
- 2. Section 3.6. 3.6.1-3.6.13 page 25-31
- 3. Section 5 5.3 CO1-C09 page 39-42
- 4. Section 11 & 12 page 58-73
- 5. Section 11 & 11.1 page 58
- 6. Costs on the North Coast – the highest cost per megalitre of any area.
- 7. The need for customer service committees



Our submission: in detail

1. Section 2.2.4 dot point 2 & 4 page 16

Operational implications of a proliferation of basic landholder rights to access water and water re-allocation should not be shared costs but paid by the individual license holders on demand.

2. Section 3.6. 3.6.1-3.6.13 page 25-31

3.6.1 Water Information

MidCoast Water funds five Office of Water gauging stations to the value of \$36,000 per year, associated with water sharing plans.

We believe providing the Bureau of Meteorology and the State Emergency Services with real time data is a government community service obligation and should not be funded by the extractors.

3.6.3 Monitoring of environmental flows

MidCoast Water is evaluating environmental flows for the Manning River. The Office of Water has access to this information – which is funded by MidCoast Water.

Specific research projects outlined in dot point 2 of 3.6.3 all fall outside of the North Coast area of service and as such should not be funded by extraction fees from this area.

3.6.5 Water licensing and compliance

We believe that completing license compliance inspections, unlawful works and penalty notices should not be funded by all users. These are specific licence issues that should be funded by the individual licence holders involved.

3.6.6 Water trading

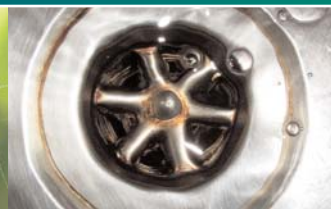
Again we believe that the assessment of applications is the responsibility of the individual license holders and as such should be funded by those holders. Formalising agreements with the Commonwealth and other States is a community service obligation that should be funded by the State.

3.6.8 Water modeling

MidCoast Water has undertaken modeling of both surface and groundwater which is typically a condition of licence and has included whole of catchment usage.

3.6.9 Drought response

This is discussed in point 5 (below), however in summary represents a very small activity on the North Coast.



3.6.10 Water infrastructure and recovery for the environment

All of these activities are outside of the North Coast region and as a result should not be included in costs associated with the North Coast's charges. MidCoast Water requested from the Office of Water in December 2009 a detailed breakup of the derived cost per megalitre for the North Coast, but has been unable to obtain this information.

It should be noted that MidCoast Water also requested details in the pricing for town water supplies and again has been unable to obtain this information. This is hardly a transparent pricing structure and does not facilitate the verification of any claims.

3. Section 5.3 CO1-CO9 page 39-42

Our comments in relation to the statements in CO1-CO9 are as follows:

CO1 surface water monitoring

It is not clear why additional stations are required in the North Coast. The area as discussed in point six (6) below may well be over-serviced.

MidCoast Water funds five river gauging stations and this includes six visits per year.

CO2 groundwater monitoring

The groundwater sources on the east coast of Australia are very small and create little opportunity for use. The groundwater resources that have any size are typically used for town water supplies.

In this regard, the water authority undertakes all monitoring and the costs associated with maintaining the monitoring bores.

CO4 surface water and groundwater analysis

MidCoast Water collects its own water quality data with the Office of Water having limited water quality collection sites in our region.

CO5 water modeling and impact assessment

Climate modeling has already been undertaken by the Hunter Regional Group of Councils for the Hunter and Mid North Coast.

MidCoast Water has its own catchment models for both surface water and groundwater and is unaware of any models that the Office of Water have for this region.

CO6 water management implementation

MidCoast Water is undertaking research into the risk to groundwater dependent ecosystems for coastal groundwater systems. Any such studies the Office of Water is undertaking have been funded by external grants.

CO7 water management planning

Again increased minor and major projects should not be funded by the existing licence holders, the proponents of the development should fund any application process through a specific fee. For example any projects resulting from mining applications should be charged to that industry.

CO9 water licensing administration

There is little drought experience on the North Coast to justify any costs.



4. Section 11 & 12

page 58-73

Sections 11 & 12 of the Office of Water’s submission indicates the Office of Water’s costs are essentially fixed and suggests a totally fixed price structure for all unregulated rivers and on regulated rivers the option of a 70/30 fixed/variable pricing arrangement.

MidCoast Water operates in an unregulated river environment. Along with other water utilities in NSW, we have to operate on a ratio of 25/75 fixed/variable based on the Office of Water’s own ‘best practice guidelines for water utilities’.

Currently the Office of Water operates on a 60/40 fixed/variable ratio and is now indicating it would like to move towards a 100 per cent fixed structure.

We believe the Office of Water should comply with its own recommended best practice guidelines.

MidCoast Water, and other extractors, are strongly opposed to fixed licence fees which provide absolutely no incentive for water efficiency – which should be the outcome we all work towards achieving.

5. Section 11 & 11.1

page 58

Sections 11 & 1.1 indicates the Office’s activities increase during periods of low water availability and have lost revenue over the past six (6) years.

The North Coast of NSW represents an area with plentiful water resources which has short and limited droughts.

It is difficult to argue that drought management is anything but a minor part of the management in the North Coast.

MidCoast Water and local water users work cooperatively to manage extractions in dry periods. Historically there has been limited input from the Office of Water.

The basis of the Office of Water’s pricing is based on administration of water licenses and data collection costs. This methodology places no value on the other benefits water offers or water scarcity.

The charges offer no whole of water cycle management solution and provide no real incentive for water efficiency based on a fixed charge.

The fixed tariff charge undermines MidCoast Water’s work to encourage local rural extractors to convert to metered use to allow collection of real data for the purpose of environmental flow evaluation.

The fixed tariff provides no incentive for the farmers to partly fund the meters through reduced usage charges in wet periods by reducing their licence fees.



6. Costs on the North Coast – the highest cost per megalitre of any area

MidCoast Water funds much of the Office of Water’s infrastructure and resource monitoring in our region. In fact we fund a lot of the activities the Office of Water claim to undertake.

A lot of the other activities the Office undertakes are specific to catchments outside of the North Coast.

There is no information to claim the proposed charges for the North Coast are valid.

In the unlikely event that the charges are valid then the question needs to be asked: ‘is the area of the North Coast over-serviced by infrastructure for the small level of water extracted?’

7. The need for customer service committees

The submission does not appear to allow for the establishment of customer service committees.

At the present time there is only minimal contact between the Office of Water and its customers.

The model used by State Water is very successful and has provided State Water’s customers with an excellent vehicle of engagement.

If the Office of Water wishes to become a service provider then customer service committees need to be established.



In summary

- MidCoast Water is firmly of the belief that a holistic water pricing structure should be developed to reflect water efficiency, the true value of water and its scarcity.
- MidCoast Water funds a lot of the Office of Water's infrastructure as well as its own catchment monitoring, modeling and catchment management works.
- In an area where water is in abundance it is difficult to justify the highest licensing fees in the state.
- Fix fee licensing will not provide any incentive to obtain water efficiency and is non compliant with the Office of Water's own best practice guidelines for water utilities.
- Customer consultative committees should be established in order to improve relationships between the Office of Water and its customers. The State Water model should be adopted.
- The Office of Water also needs to explain how it manages the separation of its regulatory and customer service roles

MidCoast Water would appreciate an opportunity to further discuss the submission with IPART when the public hearings are held.

