



Submission to:
The Independent Pricing
and Regulatory Tribunal,
NSW

Bulk Water Prices 2005/06
Issues Paper

A Submission prepared jointly by the:

Inland Rivers Network
WWF-Australia
Nature Conservation Council of NSW

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INTRODUCTION

This submission is provided jointly by the Inland Rivers Network (IRN), WWF-Australia (WWF) and the Nature Conservation Council of NSW (NCC) (referred to in this submission as ‘the Conservation Groups’).

The submission is provided in two parts, the first outlining the Conservation Groups’ general position on water pricing, and the second focusing on specific responses to the Independent Pricing and Regulatory Tribunal (IPART) 2005/06 Bulk Water Prices issues paper.

GENERAL POSITION ON WATER PRICING

The Conservation Groups support pricing policies that reflect the full value of water. Others argue that this is achieved through robust trading, however the Conservation Groups have always been concerned such an approach represents significant wealth transfer and provides windfall gains to many users.

Establishing an appropriate pricing regime will encourage water users to reduce extractions, thereby improving the ecological integrity of our rivers. 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.

The Conservation Groups support COAG’s and the NWI’s requirements that the full cost of water delivery and management, including environmental costs, be incorporated into the price of water.

- All water resource management costs, by whatever agency incurred should be included in the cost base. Although these costs do not represent the total cost to the environment of water use, including them in the cost base as a partial proxy is a significant step forward in users bearing the costs of environmental impacts of water extraction and use.
- Resource management costs should be equitably allocated to users. The Conservation Groups consider the impactor pays principle, which allocates costs to users based on the contribution each user makes to creating the costs or the need to incur the cost, as providing the best method of allocating resource management costs to users.
- Full cost recovery, including a return on assets, (upper bound costs) should be required on water supplied by new water supply infrastructure. The ability to recover full costs on new infrastructure should be assessed prior to approving construction. Jurisdictions have generally targeted recovery of “lower bound” costs, which exclude asset costs. The rationale for excluding these costs has been the difficulty of

determining the asset's value and the inequity of charging current users for infrastructure built by the government in the past in the pursuit of uneconomic development goals. However, this argument does not provide a basis for excluding the cost of *new* assets from the price charged to users. Under current policies the National Competition Council permits construction of new infrastructure if it is shown to be economically viable; but the project is not required to demonstrate that it is capable of fully recovering costs. If the price for water that needed to be charged to recoup the costs of recently approved dams in Tasmania and Queensland were to be absorbed by users, it is unlikely that these works would have proceeded.

- Community Service Obligations should not be used as a basis for subsidising water prices, neither should artificial limits on price increases be established to protect agricultural enterprises. If the community determines that in some cases assistance in adjusting to price rises should be provided, programs should be established to deal with these issues directly rather than distorting efficient water investment and use decisions.
- It is important that the price of water relates to water usage, so that adjustments to prices result in changes to the amount of water used. Two-tier pricing can be effective, combining a fixed charge for the water entitlement and a charge related to usage. The Conservation Groups considers that greater weight should be given to the variable component of the two-tier pricing structure in order to provide a greater incentive for users to respond to price changes.
- Historically water entitlements have allowed irrigators to access water at minimal cost. Most jurisdictions do not fully recover the cost of providing water, with many not even recovering direct costs. The introduction of perpetual tradeable water access rights has allowed water users to achieve significant economic and security gains by transferring their entitlements either on a temporary or permanent basis. In effect this has provided the mechanism to crystallise a significant transfer of wealth from the community to the private sector by allowing water to be transferred from low to high value users. Since the community owns these assets there is a strong argument that they should get at least a proportion of this increased value.

The Conservation Groups urge consideration of including an environmental levy in the price of water charged to users in order to recover a return to the community and provide a better indication of the value of water. The funds provided should be used to address the environmental impacts of water extraction and use, including restoration of river flows. It is recognised that a research levy has been incorporated in the past, and that there were positive and negative aspects to the way that operated and was perceived by the community. Such an environmental levy would need to be developed with that experience in mind to ensure it was established and managed appropriately.

Comments on the Bulk Water Prices 2005/06 Issues Paper

This section responds directly to specific issues raised by IPART in its Bulk Water 2005/06 Issues Paper. The Conservation Groups' response focuses on those issues related directly or indirectly to environmental impacts.

Establishing efficient costs

4.1 Costs of river operations activities

4.1.1 Operating expenditure

The Tribunal welcomes comments on:

- 1. The efficiency of the projected operating costs outlined in State Water's submission*
- 2. Whether there is scope for State Water to achieve further efficiency gains over the next price determination period.*

Conservation Group comments:

1. No comment
2. No comment

4.1.2 Capital expenditure on long-lived assets

The Tribunal welcomes comments on:

- 3. The projected capital expenditure program outlined in State Water's submission, and the outcomes that it is expected to achieve*
- 4. The prudence of State Water's past capital expenditure.*

Conservation Group comments:

3. No comment
4. No comment

Funding by users through an annuity or sinking fund approach

The Tribunal welcomes comments on:

- 5. What approach to funding capital expenditure should be adopted when pricing water services to ensure that capital expenditure requirements can be met.*
- 6. An appropriate rate of return for State Water.*

Conservation Groups comment:

5. The Conservation Groups favour the "rate of return approach" to funding capital expenditures by State Water. Under this approach capital would be committed as needed. All new capital expenditure is required to provide for future asset consumption and provide a return on the capital invested. This approach will meet the requirements of the National Water Initiative with regards to moving towards achieving *upper bound pricing* for rural water systems. The "rate of return approach" is also the method universally adopted by corporate businesses in meeting and assessing required capital investment.

6. The appropriate rate of return for capital investment by State Water should be the weighted average cost of capital based on the capital asset pricing model. As a State Owned Corporation, State Water is required to maintain its financial viability. To achieve this it must achieve an adequate return on its capital investment. In its “building-block” approach, State Water has proposed that a rate of return of 6% be achieved on its regulated asset base despite this being “..slightly below shareholder expectations and that targeted by other NSW water sector businesses.” It is unclear from State Water’s submission as to why this lower rate is required as a transition measure. More importantly from the Conservation Groups’ perspective, this could set a precedent, justifying investment by State Water in new water infrastructure at below its capital cost, in effect subsidising its construction.

4.2 Costs of WRM activities

4.2.1 Operating expenditure

The Tribunal welcomes comments on:

- 7. whether there is a connection between the provision and use of water services and the WRM activities usually undertaken by DIPNR, and if so, the strength of this connection*
- 8. the efficient costs of providing WRM services*
- 9. the role of the CMAs in relation to WRM services*
- 10. DIPNR’s proposal to set WRM prices from 1 July 2005 to 30 June 2006 based on the current prices plus a CPI increase.*

Conservation groups comments :

7. There is a direct connection between the provision and use of water services and the need for WRM activities. WRM activities are most often directly related to disruption of the river system due to the need to supply water to agriculture businesses for irrigation. DIPNR in outlining their water service and WRM responsibilities rightly identify that...

“the most significant threatening process for most water sources in NSW is the regulation of flows and extraction of water. Most of DIPNR’s WRM activities are undertaken to manage, minimise or reverse the direct and indirect impacts arising from these two processes.” (DIPNR, 2005 page 3).

Much of WRM expenditure results from extraction and river regulation. Highly regulated and/or highly exploited water sources require a great deal of WRM support in terms of monitoring of flows through gauges, bores and meters, regulation and compliance monitoring of extraction, monitoring of water quality and salinity etc through sampling and testing, modelling to determine sustainable extraction against climate, environmental flow rules and other factors, management of accounts associated with extraction, flood management planning, water sharing plan operation, operation of infrastructure (weirs and regulators etc), fish passage construction and assessment, etc. Water sources without the burden of significant extraction do not require the same management effort from DIPNR as the stresses and associated degradation tend to be less. The connections between water resource use and water resource management are strong and direct and pricing should adequately reflect the strength of the connections. This connection should be clearly a part of licencing requirements, ensuring that water

users are aware that freedom to use water according to access and use licences comes with responsibilities, which include contributing to management of associated externalities.

DEC and DPI – Fisheries also have WRM responsibilities: DEC as co-signatories of the water sharing plans and being responsible for ecosystem conservation and servicing groups such as the Ramsar Land Managers Network and DPI – Fisheries who are responsible for fish passage, aquatic habitat and threatened species conservation. Bulk Water Pricing needs to recognise and incorporate this expenditure which is a direct result of river regulation and bulk water extraction. State Water’s Operating Licence requirements reflects that the relationship to the operator incorporates a much broader set of regulators than DIPNR alone. Pricing processes must also reflect this, so that the full extent of costs is known.

The Conservation Groups support use of the “impacter pays” principle to determine the proportion of costs to be absorbed by users. See comments in response to issue 11 for further discussion of this issue.

8. Before the efficiency of WRM activities can be assessed the effectiveness of current WRM activities must be determined. Objectives need to be set for achieving WRM goals with effectiveness referring to how well an instrument achieves this objective. ACIL Consulting was previously commissioned by IPART to determine the appropriate level of resource management expenditure for DLWC. ACIL was not able to arrive at a definitive result but concluded that the current estimates of DLWC’s costs were likely to be understated. The Conservation Groups consider it to be essential that the appropriate level of resource management costs be determined. Priority should be given to funding adequate scientific research to establish base line data and ensure that resource management decisions are not only cost efficient but provide effective environmental outcomes. There is a great deal of research available and this should be collated and used to determine where information gaps exist and where data collection should be targeted. The results of the Natural Resources Commission State Wide Standards and Targets will no doubt influence and hopefully drive aspects of WRM in NSW. We consider that it is impossible to appropriately manage the water resources of the state without determining what needs to be spent to ensure sustainable water management.

The Conservation Groups have a concern that a drive to determine an “efficient” base for allocating natural resource management costs will result in a reduction of necessary expenditures addressing the environmental impacts of water extraction and use. Such assessments should clearly be matched with findings from state and national state of the environment reports, and the National Land and Water Resources Audit, as well as indicators determined as part of the State Water Operating Licence Review.

9. Given the restructuring of DIPNR and the establishment of CMAs, many of the WRM activities formerly undertaken by DIPNR will become the responsibility of the CMAs. There is currently some uncertainty as to the particular WRM activities to be undertaken by each group. It is important that changes in organisation responsibility do not reduce the level of WRM activities undertaken for maintaining sustainable river systems. The

Conservation Groups have some concern that the structure of CMAs is not conducive to getting the best environmental outcomes as in some CMA areas the boards are heavily influenced by the interests of local water users.

WRM costs should not be limited to those incurred by DIPNR but should include all resource management costs of water management activities undertaken by other agencies (see previous comments). In the past the Tribunal has indicated that it does not have a mandate to consider costs incurred by agencies other than DIPNR and State Water. Under the current restructuring DIPNR is devolving many of its WRM responsibilities to other agencies as well as CMAs. The Conservation Groups feel that consideration needs to be given to establishing a process to recover these costs since DIPNR is not the only agency with statutory responsibility for river management and all costs of the NSW government in managing water resources should be included in the cost base for determining cost recovery from users.

10. Given the uncertainty involved in the restructuring of DIPNR, the Conservation Groups would support maintaining 2005/6 WRM costs at 2004/5 levels in real terms. It is noted that pricing has been set based on estimated costs. The DIPNR medium term pricing proposal to be submitted will provide the cost basis for 2006/7. However if actual 2005/6 costs turn out to be significantly higher than anticipated and current research shows that prices are likely to be underestimated, consideration should be given to passing these on as a catch-up component in the next scheduled price rise or as a mid-term adjustment that looks to a longer term increase across one or more determinations.

5. Allocating efficient costs between users and the community

The Tribunal welcomes comments on:

- 11. whether there are new arguments against the cost sharing approach used for the last determination*
- 12. what costs should be considered as 'legacy costs'*
- 13. what cost sharing arrangement should apply to compliance-related capital expenditure*
- 14. whether there is a connection between water extraction and the various WRM activities, and the extent of this connection.*

Conservation group comments:

11. ACIL Consulting has recommended and the Tribunal has accepted that users should not bear the costs of pre-1997 water infrastructure. Forgiveness of this "legacy cost" has provided irrigators a significant financial benefit, providing them services of assets valued at over \$2 billion at no cost.

In its submission, State Water presents a new argument against writing off the total value of its major assets, as of 1997, for regulatory purposes. In essence, State Water contends that assigning those assets a value of zero means that its existing assets cannot be used to develop of the rate of return it needs to maintain profitability. State Water proposes a "line in the sand" regulatory asset base (RAB) of \$300 million set to achieve a

commercial revenue stream that will recover operating costs, provide a return on assets and maintain its credit rating.

The Conservation Groups agree with State Water's proposal. While it still drastically understates the ongoing benefit water users derive from past investment, it at least constitutes some movement toward upper bound pricing, and to that extent moves toward National Water Initiative goals. At the same time, by setting a RAB of only \$300 million, when cost of replacing those assets is considerably more than \$2 billion, the proposal recognises that some pre-1997 investment was for non-commercial objectives.

ACIL also recommended that current and future costs be allocated using the impactor pays principle. The Conservation Groups supports the impactor pays principle as the primary basis of allocating water resource management costs to users. The impactor pays principle allocates costs to users based on the contribution each user makes in creating the costs or the need to incur the cost. If water users undertake actions which reduce environmental impacts and resource management costs incurred to address them, these savings are passed on to them under the impactor pays principle. This provides water users with a strong financial incentive to reduce environmental damaging activities.

12. In previous submissions the Conservation Groups have indicated that legacy costs should be restricted to cases of poor maintenance only, with environmental compliance costs treated as current costs and allocated on an impactor pays basis.

13. The Conservation Groups have also in the past opposed the "line in the sand" approach adopted by the Tribunal, which in essence absolves current users from costs related environmental damage due to pre-1997 activities. However, given that the Tribunal now accepts this general principle, we feel that environmental compliance costs post 1997 should be borne by users.

There may also be a case where some capital costs to meet pre-1997 standards should either be shared with users or consideration should be given to decommissioning the applicable infrastructure. State Water has forecast that a significant level of capital expenditure will be required for dams to comply with dam safety requirements and that these costs will be 100% government funded as they are judged to be complying with pre-1997 standards. Upgrading of the Keepit Dam, which supplies water to cotton growers in the Namoi valley is expected to cost over \$65 million. In cases of a major dam upgrade, where it is likely that the life of the dam will be extended, the Tribunal should relax its "line in the sand" ruling and consideration should be given to sharing these costs with users. The rationale used to exempt users from paying for past infrastructure costs was that these costs were a result of poor investment decisions initiated by the government. If the government is to bear the cost of major upgrades to infrastructure these should be shown to be both economically and financially viable. If not, serious consideration must be given to decommissioning the dam or reducing dam holding capacity rather than making the additional investment. The danger is that major upgrades are in effect a means of replacing existing water infrastructure without determining whether replacement is justified on either economic or environmental grounds, with users not compelled to bear a share of the costs.

14. See discussion above under point 7.

6. SETTING PRICES

6.1 Determining appropriate price structure

6.1.1 Two-part tariff

The Tribunal welcomes comments on:

15. whether a two-part tariff should apply for both WRM and river operations activities on regulated rivers.

Conservation Groups comment

15. The Conservation Groups support tariff structures based, to the greatest extent possible, on water usage so that prices provide users an incentive for adjusting their use of water. Basing tariffs entirely on the volume of water used would provide the maximum incentive for reducing extractions. However it is understood that both DIPNR and State Water need to assure that a proportion of their revenue does not vary from year to year as the volume of water used changes. We therefore would support a two-part tariff for both WRM and river operation activities, with as large a variable component as practicable. State Water has proposed that 40% of revenue are use charges with 60% being fixed entitlement charges.

Balance between high security and low security entitlement charges

The Tribunal welcomes comments on:

16. the appropriate balance between high security and low security entitlement prices.

Conservation group comment

16. No comment

Introducing two-part tariffs in unregulated rivers

The Tribunal welcomes comments on:

17. the progress of converting to volumetric licences and applying the two part tariffs on unregulated rivers

18. how prices for extractive users on unregulated rivers should be set if volumetric licences have not been established and metering is not in place

19. the percentage of entitlement extractive users on unregulated rivers receive in an average year.

Conservation Group comments

17. A high priority should be given to converting unregulated rivers to volumetric licenses. However it is very important that the formula for conversion be in line with sustainable resource management and not create over-allocation. Current area based licenses provide irrigators an incentive for using an excessive level of water since use is

unrestrained and unrelated to cost. Once metering is installed licenses should be adjusted as soon as possible. DIPNR plans to implement a two part tariff but argues that a fixed entitlement charge to be discussed in its mid-term pricing proposal may be more appropriate.

18. No comment

19. No comment

6.1.2 Discounts for wholesale irrigation customers

The Tribunal welcomes comments on:

20. whether wholesale discounts are still appropriate if so, what level of discount for wholesale customers is appropriate.

Conservation Group comments

20. The Conservation Groups support State Water's proposal to discontinue discounting water to wholesalers. Discounts were previously justified by DIPNR as provided in return for information from wholesalers that assisted DIPNR in performing its functions. When State Water takes over the supply of water, discounts should be discontinued and if information provided by wholesalers is valuable, it should be paid for directly rather than through a reduction in prices.

6.2 Determining appropriate level and rate of change for prices

The Tribunal welcomes comments on:

21. what transition path and rate of increase is reasonable for prices in valleys where prices are not yet at full cost recovery level.

Conservation Group comments:

21. 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 not yet achieved full recovery of costs. State Water proposes a long-term price path with price increases of approximately 10% /year, with price rises capped at 25% /year for general security and 50%/year for high security water. Prices proposed by State Water in 2005/06 will still result in a government subsidy of \$13.2 million, representing 25% of the users' share of costs. Although State Water forecasts a reduction in required subsidies, it will not achieve "full cost reflectivity" in *most* valleys until 2010. It appears that "full cost reflectivity" refers to achieving the lower bound pricing level which excludes a return on assets, with the transition to upper bound pricing considered in the future.

The Conservation Groups consider that a reasonable goal for NSW is to achieve full recovery of costs for all regulated valleys in the current price determination period. The aim should be to recover prices to the upper bound level, including a return on capital on post 1997 assets by 2008. It is worth noting that the price charged for

water, despite recent increases remains significantly below its value to water users as indicated by the value of traded water.

Because of the low base price of water, its percentage increase may not be the most accurate way of determining its impact on users and therefore the practicality or otherwise of price rises. In most cases the cost of water represents a very small proportion of farm costs. IPART should consider other methods of determining the ability of irrigators to absorb water price increases, such as looking at total impacts as a proportion of input cost. Further, it is very important that price rises are not restricted to arbitrary maximum increases based a percentage change or impacts on marginal farming enterprises. Structural adjustment payments can be made, over a transition period, to those farms who show that they are heavily impacted by price rises, but subsidised water should not be provided to successful enterprises well able to absorb the additional cost.

The North and South Coast have been identified as valleys that are unlikely to be able to fully recover costs. The level of on-going subsidies should be identified for these valleys and alternative strategies need to be considered. State Water must seriously consider the option of either reducing services or decommissioning the water infrastructure rather than continue providing heavily subsidised water to these valleys.

Subsidising prices encourages uneconomic and inefficient use of water. If the community determines that continuing subsidies to some users is justified on an equity basis, these subsidies should be paid directly to specific users rather than through reduced prices to all users. Subsidies should only be provided for a limited transition period, aimed at facilitating structural adjustment by irrigators most impacted by the necessary price increases.

Other Conservation group comments:

Scarcity Pricing

The State Water Submission discusses the issue of scarcity pricing of bulk water in NSW. Historically water entitlements have allowed irrigators to access water at minimal cost. NSW has not yet achieved recovery of its lower bound costs. The introduction of tradeable water rights has allowed water users to achieve significant gains by transferring their entitlements either on a temporary or permanent basis. In effect this has provided the mechanism to transfer a massive amount of wealth from the community to the private sector by allowing water to be transferred from low to high value users.

Even though the water market is small the market price for traded water provides an indication of its scarcity value. In many cases permanent water is traded for in excess of \$1000/ML (in drought, over \$2000/ML), with temporary trades of water worth around \$50-\$200/ML. Irrigators pay substantially less to gain access to this water. The price of general security water in State Water's submission ranged from \$4-\$15 /ML.

The community owns this resource, and the community should get at least a proportion of the dramatic increase in its value made possible from water reform. As current methods of pricing still fail to capture the greater portion of the environmental costs caused by water extraction and use, it would seem only fair that the share of value transferred to the community could be used to address the environmental issues caused by water use. It should be noted that this is at odds with the CoAG principle which is focussed particularly on ensuring that government does not exploit monopoly power of water. However, it must be argued that the context for this has changed given developments in recent years. There is a large difference between not exploiting power, and providing a major transfer of wealth from the community to particular individuals. Certainly, IPART should commission research into the nature and extent of this wealth transfer, so it can become part of the public debate. In support of this, it should be noted that a report prepared by the Centre for International Economics (2004) for Queensland verifies the existence of a scarcity value for water and provides a rough approximation of its value. It also makes a case that a proportion of this value should be recaptured for the community. While the report indicated that returning the full scarcity value of water would present numerous difficulties, returning some proportion of this value should not.

As a minimum, the Conservation Groups would recommend that an environmental levy be included in water pricing to recover some return to the community and provide a better indication of the value of water. The funds should be used to address the environmental impacts of water extraction and use, including restoration of river flows in catchments where this is an issue. Consideration should be given as to whether this levy could contribute to the CMAs' resource management activities and therefore remain locally based, if this led to more support for the charge. A charge of say \$5-10/ML, which is only likely to recover a small proportion of the scarcity value but is capable of funding a significant benefit to the community in terms of a more sustainable river system. Although the level of this charge does not accurately represent the full scarcity value of water, it radically errs on the side of undervaluing scarcity and environmental costs, so there should be little argument that the lack of certainty in setting the correct level unfairly burdens water users. If anything, a levy at this level is too low. However, the introduction of a levy would also need to take into account the overall transition to increasing costs.

Setting prices for a proportion of allocated water using an auction process might also be considered as an alternative to a water levy. This would allow the market price to be determined for a proportion of available water. A transition path could be established, beginning with a small percentage of water being auctioned (say 20%), gradually increasing the percentage over time.

In addition data should be gathered to provide a basis for implementing further price increases to recapture a reasonable proportion of the scarcity value of water. Additional market price information will become available as trading expands. Given the large gap between the present market value of water and the price of water, there appears to be considerable scope for some increase in the price of water. The analytical challenges and lack of data necessary to determine a *precise* scarcity value should not preclude implementing an immediate price increase. State Water's argument that scarcity pricing will adversely impact the efficiency of the water market is unconvincing. Economic

decisions on the allocation of water are currently being based on its market price, in effect its net trading cost (trading price plus cost). Implementing a scarcity charge will only transfer a portion of the value of the water from the vendor to the community.

Demand management

In its submission, State Water states that its operational role is to deliver the specified amounts of water to the environment and to users, and within that framework to maximise the volume delivered to users. This raises several issues.

The first issue, which State Water touches on briefly, is related to system efficiencies. If State Water can find system efficiencies it can increase the volume deliverable to customers, according to its submission. While this statement may be true in some circumstances, it should be subject to several caveats.

It is important to note that some infrastructure improvements can deprive the environment of water. For example, if State Water would line a leaky channel and reallocate the water to consumption, the net result is a loss to the environment by eliminating seepage that in most systems makes its way back to the river. In such a case, the solution is not necessarily to abandon lining the channel. It might make sense to line the channel and reallocate the savings to the environment, or line it and split the savings between the environment, consumption, or scrap the channel altogether. The answer will depend on costs, who is paying, and the particularities of local groundwater/surface water interconnection.

The important point is that any system “efficiencies” should be closely examined to ensure that they do not harm the environment. If a given project reduces seepage and groundwater returns to the environment, then any “savings” should be discounted by the amount lost to the environment.

The second issue is that the current pricing structure gives State Water incentives only to increase consumption, and to the extent there are incentives toward efficiency, those incentives are to find efficiencies for the purpose of increasing consumption. Such a one-sided set of incentives fails to take into account State Water’s legislative directive to operate in an environmentally sustainable manner. The Conservation Groups recommend that IPART consider introducing an environmental levy, as discussed above, to provide a counterbalance to State Water’s incentive to increase consumption.

Impact of changes in consumptive pool

State Water in its submission raises the issue of the need to adjust pricing to compensate for increased environmental flows and commensurate reductions in the level of water consumed due the implementation of the NWI and the Living Murray Initiative. Both of these initiatives aim at restoring environmental flows to the river systems either through the purchase of water from existing entitlement holders or through improvements in water use efficiency. The result will be that less water will be available for irrigation.

The Conservation Groups consider that only consumptive use of water should be subject to water delivery and WRM charges. Environmental water, which stays in the system does not require delivery to users and is a solution to WRM problems. The proposed reductions in consumptive use will take place gradually over a number of years allowing both State Water and DIPNR time to adjust charges to the estimated level of consumptive use.

There is some discussion of holding purchased entitlements to environmental water in water trusts. Entitlements may be traded to consumptive users in periods that water is not necessary for environmental purposes. Once entitlements are transferred to consumptive use they should be subject to normal delivery and WRM charges. The Conservation Groups agree with State Water that the tribunal should allow adjustment of prices based on changes to the water entitlement base due to the restoration of environmental flows.