

Sydney Catchment Authority Submission
to
The Independent Pricing and
Regulatory Tribunal's
Inquiry into
Bulk Water Pricing



SECTION 1 Introduction

The NSW government established the Sydney Catchment Authority to manage and protect Sydney's water catchment and to supply clean water. The Authority is a statutory authority established under the *Sydney Water Catchment Management Act 1998*. The establishment of the Authority was a recommendation of the Sydney Water Inquiry conducted by Mr Peter McClellan QC.

The Inquiry was charged with investigating the circumstances surrounding the contamination of Sydney's water supplies between July and September 1998. A key finding of the Inquiry was that Sydney's drinking water catchments had been seriously compromised and that Sydney Water did not have sufficient regulatory control of the catchments to effectively protect the quality of raw stored waters from which drinking waters are derived.

The Act confers upon the Authority the role of being a bulk raw water supplier but also confers the responsibility to effectively manage and protect the catchments utilised for harvesting and storage of water. These catchment areas cover 16000 square kilometres, extending from the north of Lithgow, south to the source of the Shoalhaven River near Cooma, and from the Woronora in the east to the source of the Wollondilly west of Goulburn.

1.1 Legislative Framework

1.1.1 The Sydney Water Catchment Management (SWCM) Act 1998

Under the SWCM Act the role of the Authority is to:

- a) Manage and protect the catchment areas and catchment infrastructure works.
- b) Be a supplier of bulk water.
- c) Regulate certain activities within or affecting the outer catchment area as well as the inner catchment area.

Its principal objectives are to:

- a) Ensure that the catchment areas and catchment infrastructure are managed and protected so as to promote water quality, the protection of public health and safety and the protection of the environment.
- b) Ensure that water supplied by the Authority complies with appropriate standards of quality.

- c) Conduct activities in compliance with the principles of ecologically sustainable development where the Authority's activities affect the environment.
- d) Manage the Authority's catchment infrastructure works efficiently and economically and in accordance with sound commercial principles.

The roles, objectives and functions to be undertaken by the Authority are authorised by means of an Operating Licence. This licence is granted by the Governor under section 25 of the Sydney Water Catchment Management Act 1998. It authorises the Authority to provide, construct, operate, manage and maintain systems and services, in order to achieve its objectives. The Authority's performance is audited every twelve months.

The Authority is required to operate in accordance with a Water Management Licence issued by the Department of Land and Water Conservation (DLWC). The Water Management Licence allows the Authority to extract and use water from identified water sources and water management works. It also specifies the quantity of water that must be made available for environmental purposes.

1.1.2 Memoranda of Understanding

Under the SWCM Act, the Authority is required to have Memoranda of Understanding with certain regulatory agencies including the Director General of New South Wales Health, the Water Administration Ministerial Corporation (DLWC), and the Environment Protection Authority (EPA). The Memoranda of Understanding between the Authority and the regulatory agencies have a number of common objectives which include:

- The establishment of a cooperative relationship between the parties.
- Development of consultative processes to consider strategic, operational and public health issues.
- The exchange of data and information.
- Dispute resolution.

SECTION 2 Current Settings

2.1 Prices charged by DLWC

The DLWC currently charges metropolitan water utilities; including the Authority for resource management activities. This charge is based on water usage.¹

In accordance with IPART's July 1998 bulk water price determination for metropolitan water utilities the Authority is currently charged \$1.80 per megalitre. During 1999/2000, the Authority's usage was 603 320 megalitres at a total cost of \$1,085,976.

Additionally, the Authority was recently charged \$420,000 by the DLWC as a Water Management Licence Fee.

The Licence fee covers the actual costs incurred by the Ministerial Corporation in dealing with the application for the Licence and is determined by the Minister for Land and Water Conservation prior to the issue of the Licence.

Section 194 of the *Water Act 1912* provides for the payment of water management charges to the Ministerial Corporation:

The charges so payable are to be fixed by the Ministerial Corporation, having regard to the Ministerial Corporation's costs in relation to:

- a) its conduct of reviews under section 193, and*
- b) its administration of this Act with respect to the water management authority, and*
- c) its monitoring of the extraction of water from, and the flow of water along, the rivers and lakes that are affected by the work and activities of the water management authority, and*
- d) its exercise of any other water resource management function with respect to the water management authority.*

Schedule 7 of the Authority's Water Management Licence states:

Part 9, of the Water Act 1912 contains provisions for the Ministerial Corporation to recover costs in managing the Licence...

Water Management Charges are the ongoing costs incurred by the Ministerial Corporation in managing the Licence. The costs associated with management activities are likely to vary from year to year, with higher costs being incurred in years when reviews and/or special studies or investigations are being carried out.

¹ IPART, Report No 7, 2000, *Department of Land and Water Conservation Bulk Water Prices from 1 July 2000*, p. 26.

Cost recoverable activities relating to managing the Licence are likely to include (but are not limited to):

- Statutory reviews (initial six month review and then every five years;) and other reviews if required;
- Monitoring and studies including audit and compliance monitoring; biophysical monitoring and special studies/investigations (if required);
- Administration including annual reporting, auditing, general day to day administration of the licence; other water management functions and determining water management charges.

2.2 Prices charged by the Authority

As illustrated in the tables below, the Authority’s revenue (and indeed any increases to revenue) over the price control period is to be relatively modest. Any increases will be consistent with the movement in the consumer price index (CPI) after deducting any impact for the introduction of the goods and services tax (GST).

2.2.1 Charges for Sydney Water

The price path for the Authority’s charges to Sydney Water, is outlined in the table below.

Table 2.1

Tribunal’s determined charges for Sydney Water					
(\$2000/01)	2000/01	2001/02	2002/03	2003/04	2004/05
Sydney Water Fixed Component (\$m)	57.6	57.6	57.6	57.6	57.6
Sydney Water Usage Price (\$/ML)	104	104	104	104	104

These prices resulted in a 2 per cent real reduction in charges to Sydney Water in 2000/01 compared with 1999/2000. Charges in the following years to 2004/05 are maintained in real terms.

2.2.2 Charges for Wingecarribee

Table 2.2

Tribunal's determined charges for Wingecarribee					
(\$2000/01)	2000/01	2001/02	2002/03	2003/04	2004/05
Access Charge	No access charge to be applied in this regulatory period				
Price to Wingecarribee (\$/ML)	60	68	77	86	94

The above charges equate to an annual increase of about \$120,000 in total charges to Wingecarribee by 2004/05 (based on consumption of 2 700 ML at \$94 per ML).

2.2.3 Charges for Shoalhaven

Table 2.3

Tribunal's determined charges for Shoalhaven					
(\$2000/01)	2000/01	2001/02	2002/03	2003/04	2004/05
Access Charge	No access charge to be applied in this regulatory period				
Price to Shoalhaven (\$/ML)	60	68	77	86	94

2.2.4 Charges for unfiltered and raw water

The Tribunal has determined that for the coming five years prices to the Authority's unfiltered water customers should align with the prices that it has determined for Sydney Water's unfiltered water prices. In addition, prices to raw water customers should remain frozen at the current total price of 44c/kL (usage only) over the five years.

2.3 Regulatory Environment

2.3.1 Water Licence

Schedule 5 of the Sydney Water Catchment Management Act contains a provision by which the Authority was deemed to have made application for a Water Management Licence under the *Water Act 1912*.

The *Water Management Act 2000* contained provisions to repeal Sections 25 (2)-(5) of the *Sydney Water Catchment Management Act 1998*. These clauses authorised the Authority to exercise the powers of the Water Administration Ministerial Corporation to the use, flow and control of water in its operating area. The *Water Management Act 2000* also

contained provisions to repeal Part 9 of the *Water Act 1912*, the part of the Water Act under which water utilities such as the Authority are licensed.

Following representations by the Authority that the repeal of the provisions referred to above would deprive the Authority of the right to harvest, store and supply water in the absence of a Water Management Licence, the DLWC advised the Authority late last year that it would defer proclamation of those provisions until 1 April 2001. This would enable discussions on the terms of a Water Management Licence to be finalised.

On 29 March 2001 the Authority received a copy of the Water Management Licence that the Department proposed to issue upon the payment of the Licence fee.

Also on 29 March 2001 the Authority received an invoice for the Licence fee provided for under section 188 of the *Water Act 1912*. That invoice amounted to \$420,000. Additional information was provided on a range of Departmental Job Numbers relating to the Department's Licence negotiation and preparation costs. These costs extend back to 1998 when Sydney Water began negotiating the Licence. This fee has been paid.

Key features of the Water Management Licence include:

- The Licence grants approval to the Authority to abstract water, to operate in-stream works and storages and to discharge from storages into rivers and streams.
- The Licence is conditional on the Authority providing flows for the environment and riparian users. The environmental flow requirements accord with the Cabinet decision that the Authority must pass up to 95th percentile flows through its storages.

The Water Management Licence has to be reviewed within six months of it being issued (Section 193 of the *Water Act 1912* refers). Public submissions in relation to the licence are to be invited. As outlined at 2.1, section 194 of the *Water Act 1912* provides for the payment of water management charges by a water management authority to the Ministerial Corporation.

Section 189 of the *Water Act 1912* provides that in determining the condition of a licence the Ministerial Corporation must have regard to the outcomes of the public exhibition process. The Ministerial Corporation must also give the Authority written notice of its intention to impose a condition and give reasonable opportunity for the Authority to make written submissions. The Ministerial Corporation must have regard to any submissions made.

Section 199 includes a right of appeal by the Authority to the Land and Environment Court in relation to a decision by the Ministerial Corporation to impose a condition on a Water Management Licence.

2.3.2 Water Management Act 2000

The new Water Management Act provides for four types of approvals for land-based activities that affect the quality or quantity of water sources. The four types of approvals are:

1. Water use approvals authorise the use of water at a specified location for a particular purpose.
2. Water management work approvals authorise the construction and use of works for water supply, drainage or flood management.
3. Controlled activity approvals authorise the holder to carry out a controlled activity in, on, or under waterfront land. ‘Controlled activity’ refers to a building, a work, landfill, removal of material etc.
4. Aquifer interference activity approvals authorise the holder to conduct activities that affect an aquifer. This approval is for activities that intersect groundwater, other than water supply bores.

For controlled activities and aquifer interference activities, the Act requires that the activities avoid or minimise their impact on the water source and land degradation and where possible, the land must be rehabilitated.

Part 4 section 114 of the *Water Management Act 2000* provides for the imposition of fees and charges by the Minister for the purposes of the Act.²

The Act establishes a Water Investment Trust. The Trust will promote, organise, carry out and fund projects in both the public and private sectors on a range of issues which overlap the Authority’s responsibilities. This includes research and development on water issues and restoration and rehabilitation of water sources and their dependent ecosystems.

The Trust may use the services of any staff or facilities of a government department or public authority. The Authority may be impacted by this requirement and will also be liable for payment of a levy to the Trust as an access licence holder.

Domestic and stock access licence holders now require an access licence and they have been accorded the same priority for access to water as major water utility access licence holders. It is unclear how this will impact on the Authority, as extractions for domestic and stock rights have not previously been quantified.

The Act includes a list of priorities for times of severe water shortages. Priority at times of severe water shortage is to be given to:

First priority: the needs of water utilities in terms of domestic water supplies, and basic landholder rights.

² Any fees and charges imposed by the Minister cannot exceed any relevant determination made by the IPART.

Second priority: the needs of the environment.

Third priority: water utilities for commercial water supplies, power utilities, and high security licence holders.

Fourth priority: other categories of access licences; water utilities other than domestic and commercial.

2.3.3 Memorandum of Understanding

As previously outlined, the Authority's Operating Licence requires it to negotiate a Memorandum of Understanding (MOU) with the Water Administration Ministerial Corporation (WAMC). The MOU outlines the basis for co-operative relationship between the Corporation as the manager of the water resources for the State and the Authority as a manager and protector of the inner catchment area and the outer catchment area (the catchment areas) and the catchment infrastructure works, a supplier of bulk raw water, and a regulator of activities within catchment areas.

The Corporation's objectives include that it ensure that water and related resources are allocated and used in ways which are consistent with environmental requirements and provide the maximum long term benefit for the State.

The principles relating to this MOU reflect Section 9.4 (Environmental Flows) of the Operating Licence. In addition, the MOU provides that:

- The Authority acknowledges that water released from its catchment infrastructure works will be managed as far as reasonably practical to minimise:
 - Adverse riverine impacts;
 - Environmental impacts;
 - Risk to public health and safety; and
 - Damage to property.
- The Authority and WAMC commit themselves to work co-operatively towards the management and protection of catchment areas in order to enhance water quality.

The MOU provides avenue for co-operative work between the Authority and the Corporation. Co-operative relationships facilitate outcomes for both parties.

2.3.4 Hawkesbury-Nepean Forum

In 2000 the Government considered the recommendations of the Healthy Rivers Commission's report into the Hawkesbury-Nepean River. The Government announced that the Hawkesbury-Nepean River Management Forum would be established to determine environmental flow regimes for the Hawkesbury-Nepean River.

The DLWC administers the Forum. The Minister for Land and Water Conservation has appointed Mr Graham Andrews as independent chair of the Forum.

The Forum is to make specific recommendations to the Minister for Land and Water Conservation and the Minister for the Environment on environmental flow provisions for inclusion in the Sydney Catchment Authority's Water Management Licence.

These recommendations are to draw on information gained from trial environmental flows that have been undertaken and propose further trials as needed.

The Forum is to seek advice from an independent expert panel, as constituted in the Authority's Operating Licence. The Authority's Operating Licence contains provisions that enable the Minister for the Environment to appoint an independent expert panel on environmental flows.

The Authority is continuing the trial environmental flow work that was commenced by the Sydney Water Corporation. A program of trial environmental flows for the Hawkesbury-Nepean River, downstream of the major water supply dams, were developed in consultation with the Environment Protection Authority, the DLWC and the Healthy Rivers Commission.

The DLWC have requested that the Authority fund the administration of the Forum.

SECTION 3 DLWC Pricing Proposals

3.1 Introduction

The DLWC submission proposes to increase bulk water prices in order to recover the full costs of bulk water service provision. Previous IPART determinations foreshadowed inclusion of all cost items in future determinations.

The DLWC submission is based on the following three principles:

1. *Prices should yield full cost recovery. Under the COAG framework, to which NSW is a party, pricing regimes should be based on full cost recovery and, ideally, the removal of cross subsidies that are not consistent with efficient and effective service use and provision.*
2. *The costs of service provision should be borne by those benefiting from the services. This is based on an equity principle which says that those who receive the benefits of consumption should pay for the benefits accrued.*
3. *Charges should be spread over time to minimise dislocation. (p. 3)*

In relation to full cost recovery, the DLWC submission proposes cost recovery for regulated; unregulated and groundwater services for:

- ongoing strategic management costs for rivers and groundwater (50 per cent cost share for river strategic management);
- water management planning (appropriate share, based on the established IPART cost sharing principles and ratios);
- annual implementation programs (appropriate share, based on the established IPART cost sharing principles and ratios);
- reporting (appropriate share, based on the established IPART cost sharing principles and ratios);
- water use compliance; and
- metering and monitoring (90 per cent share for unregulated rivers). (pp. 11-13)

Unregulated prices are proposed to be restructured to account for volumetric conversion of entitlement that has occurred and the implementation of metering and monitoring during the price term. (p. 26)

3.2 Current DLWC costs

Appendix 1 of the DLWC submission refers to Section 5 for information on separate identification of resource management actions and costs attributed to metropolitan water authorities and any other 'large' customers. However, the information contained in Section 5 is extremely general and broad and there is no specific dollar amount attributed to resource management actions for metropolitan water utilities.

Throughout the submission costs are disaggregated by water source, regional location and by function (regulator, operator and resource manager). This makes it extremely difficult for metropolitan water authorities such as the Authority to identify the costs associated with their water usage.

The tables below attempt to identify costs associated with the Authority’s use.

Table 3.1

Activity Unregulated Rivers	Annual Costs 2001/02 to 2003/04 (\$2001/02)	Reference in DLWC submission
Total Assets Costs	\$213 000	Table 4.2 p. 21
Metering and monitoring Costs	\$1 900 000	p. 23
Compliance costs	\$1 200 000 (for regulated rivers and for unregulated rivers)	p. 23.
Water management planning and annual implementation program	\$5 400 000 (for unregulated rivers and groundwater)	p. 23
Bulk Water User Product Costs	\$9 378 000 (2003/04 based on product cost estimates and proposed cost sharing ratios)	Appendix 4 Table 28
Bulk Water Product Costs 2003/04	\$17 673 000 (estimate 2003/04)	Appendix 4 Table 27

The DLWC submission states; “*Sydney Water impounds 2.7 million ML in eight storages in the Hawkesbury-Nepean system.*”(Appendix 2 (9) no page numbers) The Hawkesbury Nepean System is located within the Sydney/South Coast Region. The table below considers costs for unregulated rivers in this area. It appears the error of stating Sydney Water impounds water (rather than the Sydney Catchment Authority) is repeated in Table 30 in Appendix 4 which refers to the exclusion of Sydney Water and Hunter Water. The apparent exclusion of metropolitan water utilities from this data on costs makes it difficult to ascertain what the Authority is being charged for.

Table 3.2

Activity Unregulated Rivers Sydney South Coast	Annual Cost (\$2001/02)	Reference in DLWC submission
Five Year Bulk Water Compliance Expenditure (Unregulated rivers) Safety and Security	\$58 000 (2000/01 to 2004/05)	Appendix 4 Table 15
Five Year Bulk Water Compliance Expenditure (Unregulated rivers) Environmental	\$0 (2000/01 to 2004/05)	Appendix 4 Table 15
Bulk Water Annual Asset Costs	\$28 000 (2001/02 to 2003/04)	Appendix 4 Table 20
Bulk Water Total Cost	\$6 200 000 (2003/04 estimate)	Table 4.6.1 p. 24 & Appendix 4 Table 30
Full Cost Recovery Revenue	\$2 889 000 (2003/04 based on application of user cost shares proposed for the price path and exclude miscellaneous income; excludes Sydney Water and Hunter Water Corporation revenues)	Table 4.6.1 p. 24 & Appendix 4 Table 30
Proposed cost recovery revenue	\$613 000 (2003/04 based on cost recovery levels adjusted for proposed prices; excludes Sydney Water and Hunter Water Corporation)	Appendix 4 Table 30
Total Operating Expenditure	\$5 978 413 for year ended 30 June 2000	Appendix 2 9 (no page number)

3.3 Impacts of DLWC proposal on the Sydney Catchment Authority

A review of DLWC's submission has identified the following issues relevant to the Authority:

- DLWC propose to increase the price for metropolitan utilities from \$1.80/ ML to \$2.15/ ML from 1 July 2001; with further increases of 20 per cent per year (2002/03 and 2003/04) and linkage of the annual charge to changes in CPI. (p. 31)

During 1999/2000 the Authority's water usage was 603 320 ML (excluding transfer from the Fish River Water Supply Scheme) at a total cost of \$1,085,976. Using last year's usage this would rise to:

- \$1,297,138+ CPI in 2001/02 if the \$2.15/ ML proposal is accepted; and
- \$1,556,565+ CPI and \$1,870,292+CPI respectively if the subsequent 20 per cent increases per year are accepted.

The Authority was recently issued with a Water Management Licence by DLWC. The fee for this licence was \$420,000 to cover the administration and negotiation of the licence. No changes to licence fees are proposed in DLWC's submission.

DLWC propose to levy an additional \$1.49 million per year for the next three years on the Authority to fund a joint Aquatic Weeds taskforce. The proposal states:

There is an urgent need for funding to reduce the threat posed by aquatic weed infestations in the Hawkesbury-Nepean particularly alligator weed. This will be achieved through a comprehensive, integrated strategy developed by the Hawkesbury-Nepean Aquatic Weeds taskforce. The task force reports that the potential socioeconomic impact of alligator weed is alarming. Alligator weed has spread along 72 km of the Hawkesbury-Nepean river system below Warragamba Dam. It threatens agriculture, mining, fisheries and tourism. (p.31)

The DLWC submission states:

The Sydney catchment is projecting the need to increase water extractions dramatically in 5-10 years from now. The Sydney Catchment Authority is responsible for limiting increases in demand. The DLWC water management charge is necessary to undertake resource management activities because of the large extraction from the catchment. The extent of resource management activities is limited because of the level of resources. An increase in water extraction will result in a greater level of resource management. (p. 31)

3.4 Clarification of statements contained in the DLWC submission

As outlined above the DLWC submission makes a number of claims or statements concerning the Authority. One such statement is that the Sydney catchment is projecting the need to increase water extractions dramatically in five to ten years from now. Under the Authority's Operating Licence, the Authority is required to support Sydney Water's Demand Management initiatives which aim to reduce per capita consumption to 329 L/h/d by 2010 (currently 415 L/h/d).

Of all water extracted by the Authority, 99.4 per cent is supplied to Sydney Water Corporation. Current forecasts, contained in the Authority's Operating Licence is for a decrease in total water demand by Sydney Water Corporation, despite an increase in population.

The Authority will also be undertaking a project to identify leaks in the bulk raw water supply system and work towards minimizing wastage through any leakage.

The Authority, therefore questions the need to "*increase water extractions dramatically*".

Part 8 of the Authority Operating Licence requires the Authority to:

- manage demand consistent with the requirements in the Water Management Licence;
- manage (to the extent which the Authority is able) water conservation consistent with the demand management requirements in Sydney Water Corporation's operating licence; and
- consider as a priority, whether there exists any additional scope for cost-effective demand management strategies by Sydney Water Corporation in any consideration to augment supply.

These requirements illustrate that the Authority is not **solely** "*responsible for limiting increases in demand.*"

SECTION 4 Sydney Catchment Authority's Views

4.1 General

In general terms, the DLWC proposal does not allow the Authority to:

- Determine the legislative basis for the imposition of the charges.
- Directly determine DLWC's costs associated with the Authority's water usage.
- Ascertain the results or benefits associated with the proposed price increases.

4.1.1 Legislative basis for charges

As outlined at 2.1 above Part 9 section 194 of the *Water Act 1912* provides for the payment of water management charges by water management authorities to the Ministerial Corporation. The Authority also notes that Part 4 section 114 of the *Water Management Act 2000* provides for the imposition of fees and charges by the Minister for the purposes of the Act.³

The Authority requests clarification of the legislative basis for the imposition of the charges, in particular the levy for the Aquatic Weeds taskforce.

4.1.2 Information requirements

The Authority notes that Appendix 5 of the IPART Determination No 7, 2000 on the Department of Land and Water Conservation's Bulk Water Prices detailed information required from the Department for a medium term price path. This list includes "*Separate identification of resource management actions and costs attributed to metropolitan water authorities and any other "large" customers.*" (p. 31). The current submission does not appear to include this information. This lack of information precludes analysis to determine the efficiency or effectiveness of proposed action.

These issues are particularly relevant to the alligator weed proposal, which seems like a precise activity, yet does not have a clear outcome or contain any rigour or detail as to how the \$1.49 million p.a figure was either determined or what clear outcomes or benefits will result.

The Authority requests full details of where these charges will be expended to ensure that the DLWC's activities achieve improvements in catchment health.

³ Any fees and charges imposed by the Minister cannot exceed any relevant determination made by the IPART.

As outlined in 3.2 above, the Authority questions the assertion of a 'dramatic' increase in water extractions (p.31). It of course follows that increased use will result in increased revenue for the Department. This would tend to militate against the need to increase prices to the levels proposed.

4.2 Increase in water usage charge for metropolitan water utilities

The Authority accepts that as a metropolitan water utility it is subject to charges by DLWC for resource management activities. This charge is currently based on per megalitre of water usage.

However, the Authority objects to DLWC’s proposal to increase the price for metropolitan utilities from \$1.80/ ML to \$2.15/ ML from 1 July 2001; with further increases of 20 per cent per year (2002/03 and 2003/04) in real terms.

The table below outlines the impact of these increased costs on the Authority:

Table 4.1

Costs for water usage				
	Current	2001/02	2002/03	2003/04
Price per megalitre (SCA)	\$1.80	\$2.15 + CPI	\$2.58+ CPI	\$3.10+CPI
Total cost based on water usage of 603 320 ML (1999/2000 water usage)	\$1085 976	\$1 297 138 +CPI	\$1 556 565 +CPI	\$1 870 292 +CPI
Price per megalitre (Other users)*		\$1.97	\$2.37	\$2.84

*Proposed Unregulated River Volumetric Tariffs Entitlement Charges – no metering and monitoring for the South Coast.

The table also illustrates the difference in proposed prices for other unregulated rivers users in the South Coast area. According to the proposed prices the Authority is consistently charged nine per cent more than other unregulated river users in the South Coast area.

The Authority’s objection to the DLWC proposal is based on:

- **Lack of evidence within the DLWC submission to illustrate the nexus between the increased charges and the Authority’s usage.**

It is unclear as to why details of cost recovery revenues (Appendix 4 Table 30) exclude Sydney Water (presume they mean the Authority) and Hunter Water Corporation

revenues. The Authority questions if it is also excluded from cost data included in the DLWC submission. This information is required to give the Authority confidence that the second principle upon which the proposal is based (ie: that the Authority is a beneficiary of the activity) has been soundly applied.

The total operating expenditure for unregulated rivers in Sydney/South Coast is \$5,978,413 for the year ended 30 June 2000 (Appendix 2 (9)). The Authority's payment to DLWC for water usage for the 1999/2000 financial year was \$1,085,976. The Authority's payment represents almost one fifth of the DLWC's operating expenditure for that area during that year. It is not evident from DLWC's proposal as to whether or not cross-subsidisation may be occurring within river or area categories.

The DLWC submission states that in 1999/2000 the number of unregulated system licences was 10,373 represented by 9,097 customers. Hence the Authority accounted for 0.01 per cent of all unregulated system customers yet contributed 18.2 per cent to the total operating expenditure in that year.

- **The Authority's significant contribution to resource management in the catchments.**

The Authority will spend \$123 million over the next five years to better protect and manage Sydney's drinking water catchment areas. All expenditure attributed to the Catchment Protection Division will be on the catchment in some form. The total budget provision for the current five year period is \$131.75 million (operating and capital expenditure from draft Business Plan). The money will be used for:

- Developing the Authority's understanding of the catchment and its processes through research;
- Protecting the catchment from risks and rehabilitating existing harm;
- Implementing the Regional Plan;
- Engaging and communicating with the catchment community; and
- Management of the lands owned by the Authority (special areas plus other freehold holdings).

The Authority's activities are consistent with ensuring the long-term sustainability of environmental resources

The Authority's activities also include extensive monitoring activities. The Authority undertakes continuous water quality monitoring and sampling at 12 sites, (nine sites in the Hawkesbury, two in the Shoalhaven, and one in the Woronora rivers) which costs the Authority approximately \$200,000 per year.

These activities are required under the recently issued Water Management Licence and involves monitoring sites for continuous (15 minute) monitoring of temperature. The

Authority's Water Management Licence (S6:2) also requires the Authority to measure and record the information specified in the table below at the locations specified from the date of granting of the Licence.

Table 4.2

Attribute	Information Required	Location
Flow	Total daily extractions and diversions.	All reservoirs and weirs.*
	Daily releases and spills, release regimes and water offtake levels.	All reservoirs and weirs.
	Daily inflows to reservoirs and weirs.	Upstream of all reservoirs and weirs.
Inter-valley transfers	Daily consumption from Fish River Scheme.	Cascade Water Filtration Plant
	Daily consumption from Shoalhaven Scheme.	Burrawang Pumping Station

* Excluding compensation weirs.

Currently daily inflows to reservoirs and weirs are not measured upstream of all reservoirs and weirs. The Authority is seeking clarification from the DLWC on this requirement. The Authority estimates that it will take six to twelve months to determine and implement the appropriate measures.

Under the Licence (S6:3) the Authority must also ensure that:

- The information recorded in the table above is made available by online electronic access to the Ministerial Corporation, as soon as possible.
- An electronic copy of archived streamflow data recorded at all gauging station sites is to be provided to the DLWC (in a format compatible with its HYDSYS Database) every six months.

The Authority is also required to submit an Annual Monitoring and Compliance Report to DLWC. In summary this report must contain:

- an overview of the Authority's water management and supply activities;
- a scale map depicting the location of all water sources, water management works, bulk water supply infrastructure, sampling sites and gauging station and the monitoring program at each site; and

– compliance data.

Additionally, the report must be provided in electronic and hard copy in formats to be specified by the Ministerial Corporation.

4.3 Aquatic weeds taskforce levy

The Authority opposes DLWC’s proposal to impose an additional \$1.49 million per year levy for the next three years on the Authority to fund a joint Aquatic Weeds taskforce.

The table below outlines the impact of these increased costs on the Authority:

Table 4.3

Costs for water usage and Aquatic weeds taskforce levy				
	Current	2001/02	2002/03	2003/04
Price per megalitre	\$1.80	\$2.15 + CPI	\$2.58+ CPI	\$3.10+CPI
Total cost based on water usage of 603 320 ML (1999/2000 water usage)	\$1 085 976	\$1 297 138 +CPI	\$1 556 565 +CPI	\$1 870 292 +CPI
Aquatic weeds taskforce levy	\$ 1 490 000	\$ 1 490 000	\$ 1 490 000	\$ 1 490 000
Total	\$1 085 976	\$2 787 138 +CPI	\$3 046 565 +CPI	\$ 3 360 292 +CPI

The Authority highlights that the 20 per cent p.a increase coupled with the \$1.49 Million levy represents a 209 per cent increase (on the current costs) in payment to DLWC. Such a large increase over a relatively short time frame does not fit with the third principle upon which DLWC’s proposal is based; ie. that charges should be spread over time to minimise dislocation. Similarly such an increase is not equitable. The Authority understands that it is the only abstractor on the river being asked to pay this additional levy. The Authority would suggest that if aquatic weed is caused by water abstraction all abstractors should be levied.

The Authority’s objection to the DLWC proposal is based on:

- **Lack of evidence that the Authority caused the problem.**

The DLWC proposal fails to establish a case of nexus or causation between the Authority’s extraction of water in accordance with its Water Management Licence and the growth of alligator weed. It has been suggested that aquatic weed growth is more likely to be stimulated by the discharge of nutrient rich effluent and stormwater to the river than

upstream abstraction by the Authority. Nexus or causation is a necessary condition of cost recovery.

The growth of aquatic weeds downstream of Warragamba Dam is recognised as an issue. However, the Authority is not a major contributor to the existence of these weeds. It is of concern that there will be a substantial redirection of funds to something that is not a direct result of the Authority's activities and is outside the Authority's operating area.

In terms of downstream river health, the Authority is required to provide environmental releases from all its storages under the Water Management Licence issued by DLWC.

The annual release from all storages will be around 20,000 ML, which, on average, would have a value of \$4M per year. (Based on per ML charge to Sydney Water Corporation.)

In addition, the Authority undertakes continuous water quality monitoring and sampling at 12 sites, (9 sites in the Hawkesbury, 2 in the Shoalhaven, and 1 in the Woronora rivers) which costs the Authority approximately \$200,000 per year.

It has been established that the occurrence of alligator weeds and algal blooms are directly related to nutrient levels in the river water. It is more likely that Sydney Water's Sewage Treatment Plants, farming activities and stormwater discharges, are the sources of these nutrients, not the activities of the Authority.

If anything, through storage management practices, the Authority improves the quality of the water released to the downstream river. Additionally, the Authority considers aspects and impacts on the environment in all its activities.

- **Lack of evidence that the Authority will benefit from the work of the taskforce.**

The DLWC submission states that the beneficiaries should pay the full cost of service provided by DLWC. The Authority does not stand to directly gain from any operational initiatives by DLWC in downstream river reaches. Rather it is the downstream abstractors who will derive the benefits.

During 2000/01 the Sydney Catchment Authority contributed \$15,000 to the Hawkesbury Nepean Aquatic Weeds taskforce. Recognising that the Authority would not gain directly from operational activity downstream of its storages, the contribution funded strategic research on biological control of alligator weed in Argentina.

Imposition of the proposed \$1.49 million levy on the Authority may lead to the diversion of funds from the Authority's other resource management activities.

- **Inability of the Authority to pass on the increased costs.**

As outlined at 2.3, the medium price path for the Authority's bulk water was determined in 2000, hence the Authority has no provision to recoup on any increased costs from its customers.

SECTION 5 Conclusion

In summary, the Authority believes the Department's proposal to:

- increase the price for metropolitan utilities from \$1.80/ ML to \$2.15/ ML from 1 July 2001; with further increases of 20 per cent per year (2002/03 and 2003/04) in real terms; and
- impose a \$1.49M aquatic weeds levy on the Authority cannot be justified without:
 - clarification of the legislative basis for the imposition of the charges;
 - information on DLWC's costs associated with the Authority's water usage;
 - details of the nexus or causation between the Authority's extraction of water (in accordance with its Water Management Licence) and the growth of alligator weed; and
 - information on the results or benefits associated with the proposed price increase and levy.

Additionally the Authority's objection to the Department's proposal is based on:

- Lack of evidence within the DLWC submission to illustrate the nexus between the increased charges and the Authority's usage.
- The Authority's significant financial contribution to resource management in the catchments.
- Lack of evidence that the Authority will benefit from the work of the aquatic weeds taskforce.
- Inability of the Authority to pass on the increased costs.
- Considerations of equity and efficiency.