

**Sydney Catchment Authority
Submission in Response to
The Independent Pricing and
Regulatory Tribunal's Draft
Determination of
The Department of Land and Water
Conservation's Bulk Water Prices
from 1 October 2001**

1 Introduction

The Sydney Catchment Authority made a submission to the Independent Pricing and Regulatory Tribunal (IPART), at the outset of the current review of the Department of Land and Water Conservation's (DLWC's) bulk water prices, in May 2001. In its 'May submission' the Authority objected to the DLWC's proposed bulk water charges for the Authority on a number of grounds.

In summary the Authority sought,

- clarification of the legislative basis for the imposition of DLWC's charges
- information on DLWC's costs associated with the Authority's water usage, because of the lack of evidence within the DLWC submission to illustrate the nexus between the increased charges proposed by DLWC and the Authority's usage
- details of the causation between the Authority's extraction of water (in accordance with its Water Management Licence) and the growth of aquatic (alligator) weed, and
- information on the results or benefits associated with DLWC's proposed price increase and 'aquatic weeds levy'.

This submission supplements the Authority's May submission with additional comments in the light of IPART's draft report and determination of DLWC's bulk water charges released on 5 October 2001.

2 Draft Bulk Water Prices

IPART's draft report discusses DLWC's charges for the Sydney Catchment Authority.¹ These are,

- A usage based bulk water charge
- An application fee and annual management charges for the Authority's Water Management Licence
- A proposed levy to fund an Aquatic Weeds task force.

2.1 Bulk water usage charge

DLWC currently charges the Authority \$1.80 per ML of usage. In its submission to IPART, DLWC sought to increase this charge by 20% per annum (ie 72% over the next three years). This would have resulted in charges to the Authority that were higher than those proposed by DLWC for other customers in the South Coast region.

¹ Department of Land and Water Conservation, Bulk Water Prices from 1 October 2001, IPART, Draft Report, p49

IPART has not accepted DLWC's proposal because it considers that DLWC has not provided appropriate evidence to support its proposal for differential charges to large users.

Instead, IPART has accepted the principle that charges to large users such as the Authority should be in line with other users in their region. IPART's draft determination for the Authority's charges is detailed in Attachment 1.

2.2 Part 9 Water Management Licence fees and charges

In addition to the above bulk water usage charge, which IPART currently determines, the Authority also recently paid a 'Water Management Licence' application fee of \$420,000 to the DLWC. The Licence application fee is meant to cover the actual cost incurred by the DLWC in issuing the Authority with its Water Management Licence and is charged under section 188 of the *Water Act 1912*.

Further, the DLWC has indicated that the Authority will also be expected to pay annual 'water management' charges. These are to be charged under section 194 of the *Water Act 1912*.

To date IPART has not determined these licence fees and water management charges (for entities such as the Authority that are issued licences under Part 9 of the *Water Act 1912*).² However, in its draft determination IPART has stated that it is considering determining the application fees and annual management charges levied on holders of Part 9 licences.

In order to allow further consideration of the issue, IPART has requested DLWC to provide details of,

- the purpose for which these charges are levied
- the cost basis used in the calculation of these charges.

IPART states that the results of its deliberations on this issue will be incorporated in its final report and determination.

2.3 Aquatic Weeds Levy

DLWC had also proposed to charge the Authority a special levy of \$1.49 million per year, for the next three years, to fund an 'aquatic weeds task force'. As detailed in the Authority's May submission, the task force is to develop a strategy to address alligator weed infestations in the Hawkesbury-Nepean.

In its draft determination, IPART has not determined this charge. IPART states in its draft report that it does not believe it has the legislative power to determine the levy.

² Other similar entities are Hunter Water Corporation and Macquarie Generation.

3 Sydney Catchment Authority’s Response

In its May submission the Authority’s view was that the DLWC proposal does not allow the Authority to,

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

The Authority considers that IPART’s draft report reflects and addresses the Authority’s major concerns.

3.1 Bulk water usage charge

The Authority supports IPART’s draft determination of DLWC’s bulk water usage charge to the Authority.

The Table below summarises,

- DLWC’s proposed charges to the Authority
- the charges determined in IPART’s draft, and
- projected bills to the Authority, based on the draft determination for the Authority’s usage based bulk water charges.

The table shows that IPART’s proposed price path would have the effect of aligning the Authority’s usage based bulk water charge with those of other ‘unregulated water’ users in DLWC’s South Coast region, by 2002/2003.

Year	2000/2001 (‘current’)	2001/2002 (Draft)	2002/2003 (Draft)	2003/2004 (Draft)
DLWC proposal for SCA’s bulk water (per ML of usage)	\$1.80	\$2.15	\$2.60 plus CPI	20% increase plus CPI (approx. \$3.25)
IPART Draft Determination for SCA’s bulk water (per ML of usage)	\$1.80	\$1.80	\$2.10 plus CPI	20% increase plus CPI (approx. \$2.60)
IPART Draft Determination for South Coast Region (per ML of usage)		\$1.75	\$2.10 plus CPI	20% increase plus CPI (approx. \$2.60)
Projected bill to SCA (for 603,320 ML of usage as per 1999/2000) ³	\$1.086 million	\$1.086 million	\$1.267 million plus CPI	\$1.600 million (approx.)

³ for consistency with the May submission. (Usage in 2000/2001 was 628,496 ML). CPI assumed to be 2.5%.

In IPART's draft report, the revised share of costs allocated to 'unregulated users' in the South Coast region is \$2.775 million. The table above shows that by 2003/2004 approximately \$1.6 million (ie 58% of the users share) of this will be recovered from the Authority alone. As argued in its May submission, the Authority queries the nature of DLWC's costs incurred on behalf of the Authority.

3.2 Part 9 Water Management Licence fees and charges

The Authority strongly supports IPART's approach in relation to the licence application fees and annual management charges that are levied by DLWC on 'Part 9' Water Management Licence holders.

The Authority considers that if IPART were to determine these licence application fees, and annual management charges, there would be increased transparency and accountability on DLWC's part. The Authority, and other Part 9 licence holders, would then be able to have greater confidence that the level of these charges was appropriate.

3.3 Aquatic Weeds Levy

In its May submission the Authority queried the legislative basis for DLWC's proposed imposition of a levy on the Authority for the Aquatic Weeds taskforce. Accordingly, the Authority concurs with IPART's decision not to determine the Aquatic Weeds levy.

Apart from the issue of legislative powers cited by IPART in its draft report, as detailed in its May submission, the Authority reiterates that:-

- DLWC does not have a clear outcome nor does its submission 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 DLWC has not established 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, bearing in mind the impactor pays approach to cost allocation of water resource management expenditure supported by IPART in its draft report
- 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.

4 Conclusion

The Authority welcomes IPART's draft report and determination and in general supports IPART's findings regarding DLWC's charges to the Authority. In relation to the final determination to be released at the end of November, the Authority:-

- accepts IPART's medium term price path for the usage based bulk water charges as proposed in the draft, but asks that IPART require the DLWC to better explain and justify the nature of the costs that it incurs on behalf of its 'unregulated water' customers, and the Authority in particular,
- strongly supports IPART's determination disallowing DLWC's proposed Aquatic Weeds levy, and
- urges IPART to determine DLWC's licence fees and water management charges to Part 9 licence holders such as the Authority.

ATTACHMENT 1

Extracts from IPART’s Draft Determination showing DLWC’s charges to the Sydney Catchment Authority

Table 3 Charges for unregulated rivers

Region/river valley	Maximum charges for 1 October 2001 to 30 June 2002				Maximum increases for 1 July 2002 to 30 June 2003	Maximum increases for 1 July 2003 to 30 June 2004
	Area based charge	Volume of entitlement charge	Two-part tariff		CPI+X% where X=	CPI+X% where X=
			Entitlement (\$/ML)	Usage (\$/ML)		
Border	7.14	2.23	1.24	1.00	20%	20%
Gwydir	7.14	2.23	1.24	1.00	20%	20%
Namoi	7.14	2.23	1.24	1.00	20%	20%
Peel	7.14	2.23	1.24	1.00	20%	20%
Lachlan	7.90	1.79	0.70	1.09	20%	20%
Macquarie	7.90	2.63	1.54	1.09	20%	20%
Far West	7.90	1.21	0.12	1.09	20%	20%
Murray	4.50	1.80	1.24	0.56	20%	20%
Murrumbidgee	7.90	3.16	2.07	1.09	20%	20%
North Coast	7.90	2.39	1.30	1.09	20%	20%
Hunter	6.84	1.55	0.61	0.95	20%	20%
South Coast	7.90	1.75	0.66	1.09	20%	20%

The maximum charges for the Sydney Catchment Authority are shown in Table 5. The basis for charging is per megalitre of water used.

Table 5 Maximum charges for Sydney Catchment Authority

Maximum charges for 1 October 2001 to 30 June 2002 (\$/ML of usage)	Maximum charges for 1 July 2002 to 30 June 2003 (\$/ML of usage)	Maximum charges for 1 July 2003 to 30 June 2004 (\$/ML of usage)
The greater of \$1.80 /ML and the charge derived by adding the entitlement and the usage portions of the two-part tariff for 2001/02 for the South Coast in Table 3.	The greater of \$1.80/ML and the charge derived by adding the entitlement and the usage portions of the two-part tariff for 2002/03 for the South Coast in Table 3.	The greater of \$1.80/ML and the charge derived by adding the entitlement and the usage portions of the two-part tariff for 2003/04 for the South Coast in Table 3.

For example, the charge derived by adding the entitlement (\$0.66/ML) and the usage (\$1.09/ML) portions of the two-part tariff for 2002 for the South Coast in Table 3 is \$1.75/ML. The charge for the Sydney Catchment Authority for 2002 is therefore \$1.80/ML.