

Please Quote
Council Ref: Water – Management – Policy – Pricing

[eltr]

Your Ref No:

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7 May 2001

Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
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INDEPENDENT
AND REGULATORY
TRIBUNAL

Dear Sir

Proposed DLWC Bulk Water Pricing

Council at its meeting of the 2 May 2001 considered a detailed report in relation to the DLWC Bulk Water Pricing submission. In response to that report Council resolved as follows:-

“RESOLVED that Council

- 1. Advises the Independent Pricing and Regulatory Tribunal (IPART) that it does not support the application by the Department of Land and Water Conservation (DLWC) currently before them for significant price increases in bulk water charges for 2001/2002 to 2003/2004 until such time as DLWC are able to provide financial information specifically relating to water resource management in the Tweed Valley, given that the significant differences evident across North Coast catchments may in fact increase cross subsidies and move against Council of Australian Government (COAG) principles.*
- 2. Makes representation to the Minister to make a presentation on the Tweed Valley's concerns. ”*

Tweed Shire Council draws water from the Tweed River under licence to the Department of Land and Water Conservation (DLWC). The DLWC submission proposes significant price increases in bulk water charges for 2001/2002 to 2003/2004. Over recent years DLWC has consistently made submissions to IPART for significant increases in bulk water charges.

The Tweed District Water Supply's annual extraction is currently around 9,000ML's. Current charges are 91¢ per ML having increased from 60¢ per ML in 1999/2000. For 2001/2002 DLWC have proposed a two part tariff consisting of an entitlement charge of \$1.50 per ML and a usage charge of \$1.09 per ML. If approved by IPART this would increase Council's annual charge from some \$8,000 to \$23,000 based on current consumption. This represents a 300% increase.

In their submission DLWC have sought approval for subsequent increases for 2003/2004 in an entitlement charge of \$2.16 per ML and usage charge of \$1.57 per ML, resulting in an annual charge levied on council of some \$34,000.

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DLWC's Pricing Rationale

A maximum price increase of 20 per cent per year for the three years from 1 July 2001 to 30 June 2004 is proposed. The case for this proposal rests on three **principles**:-

1. Prices should yield full cost recovery. DLWC argue that under the Council of Australian Governments (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 that says those who receive the benefits of consumption should pay for them. The corollary of this is that those causing additional costs to be borne by others should pay for these consequences.
3. Charges should be spread over time to minimise dislocation.

Current Prices

DLWC have submitted that the current charges recover a portion of the following cost:-

- * DLWC's total operating cost
 - A renewals annuity representing consumption of assets and
 - DLWC bulk water service resource management cost

DLWC's submission covers the entire state. They have established pricing regimes in regulated rivers, in unregulated rivers and ground water. The Tweed Valley is an unregulated river in the North Coast "River Valley.

DLWC's submission argues that a portion of the following key costs should also be recovered in order to progress to recovering all categories of costs incurred in bulk water **provision**:-

- A return on new capital investment;
(Incorporating into full cost recovery a positive real return on new investments is a National Competition third **tranche** requirement. In this submission, an industry average rate of return of seven per cent real is applied to the written down value of replacement and refurbishment capital expenditure to 2004).
- An annuity for environmental and safety compliance costs;
- Water use compliance costs;
- A share of water management planning and annual implementation programs and reporting;
- Metering and monitoring costs for unregulated rivers; and
- Capital costs associated with unregulated and groundwater services.

Benefiting Parties

DLWC argues in its submission that benefits accrue to both the general community and consumers and accordingly have proposed cost sharing ratios between government on behalf of the general community and consumers.

Cost sharing is proposed for the following **cost:-**

- Safety and environmental compliance cost.
A 50/50% split is proposed.
- Water Management Planning and Implementation Program cost.
A 50/70% user share of these costs is proposed.
- Unregulated river metering and monitoring cost.
A 90% user share is proposed.

Comment

The underlying philosophy behind the DLWC submission relates to the Council of Australian Government (COAG) agreement and National Competition Council requirements regarding bulk water pricing. DLWC submits that under the COAG framework pricing regimes should be based on the principles of consumption based pricing for cost recovery and the removal of cross subsidies.

While there may be general consensus and support for these principles the implementation of such as proposed by DLWC does not stand scrutiny.

Tweed Shire Council is a stand alone local government authority singly operating a water supply scheme within the Tweed Valley. Historically, DLWC have had minimal, if any, involvement in the management, operation and regulation of the bulk water supply component of the Tweed District Water Supply.

The Tweed Valley has been included in a "North Coast River Valley" group.

While other valleys on the North Coast may well have substantial DLWC assets no such infrastructure exists in the Tweed Valley. Major infrastructure in the Tweed includes Bray Park Weir and Clarrie Hall Dam, an off river storage on **Doon Doon** Creek. Both of these significant facilities are owned, maintained and operated by Tweed Shire Council. There are no DLWC assets involved in the provision of bulk water supply to the Tweed community, yet quite clearly from DLWC's submission, asset management and replacement cost of infrastructure in other North Coast **catchments** has been incorporated in the proposed tariff charges, of which this Council will be levied.

Similarly, Council undertakes all metering and monitoring associated with the operation of its water supply network. Bulk water meters at Bray Park Filtration Plant are owned, maintained and operated by Council. In addition to such metering Council expends annually some \$70,000 on water monitoring and testing within the Tweed River, the Clarrie Hall Dam catchment and the Lower Tweed Estuary. This non-regulatory testing is undertaken by Council to assist in the ongoing management of water resource delivery in the Tweed Valley. Council's results are readily made available to government agencies on request to assist those agencies in the delivery of their mandate, including DLWC. If DLWC is serious in regard to

the adoption of its pricing principles, then the community benefit provided by Council's investment in monitoring and testing should be funded by DLWC, or at the least credited against Council's bulk water account.

Previous submissions to **IPART** by this Council have supported previous **IPART** recommendations that charges should be set on a Valley by Valley basis. DLWC have now advised that separate financial reporting for State Water (the commercial arm of DLWC) is now available, enabling the provision of costing information on a Valley basis.

Notwithstanding, the information supplied reveals that to DLWC the Tweed is a part of the North Coast River Valleys, which encompasses an area of 50,000 square kilometres and takes in all eastward flowing rivers from Port Macquarie to Tweed Heads. This is hardly the promised costing on a valley by valley basis.

A review of the costs provided by DLWC indicate that within a total expenditure on unregulated rivers of **\$3,285,956** the major expenditure items **comprise:-**

		\$	\$
(a)	River Quality/Flow Reforms	1,335,533	41
(b)	Surface Water Database	647,024	19
(c)	River Health Database and Water GIS system	418,238	13
(d)	Surface Water Allocation Strategies	315,902	10

The River Quality/Flow Reforms it is agreed will benefit the broader community and not only the users of council's reticulated supply. We have no knowledge of any surface water database and again it is difficult to see the benefits of such flowing to Tweed District Water Supply (TDWS) consumers.

Much of the work on River Health data collection has been undertaken by Council in this valley and therefore should potentially provide a credit to consumers rather than a cost. River health is also a community benefit and again not a particular consumer benefit.

Surface Water Allocation Strategies may not be of benefit to the TDWS consumers, relate to the health of a waterway and again appear to be more of a community benefit.

Community benefits, it is **fel**, are appropriately funded from the broader tax base rather than the much smaller TDWS consumer base.

Tweed Shire Council is active in catchment management and annually makes a significant investment in water resource management within the Valley including provision of significant resources and involvement in initiatives such as the development of water quality and flow objectives for our sub catchments. Council receives no direct financial return for such investment while at the same time its major partner, DLWC, is seeking to extract significant financial return from local communities through its bulk water pricing strategy.

Conclusion

On the 2 May 2001 Council staff attended a briefing session run by the Northern Rivers Catchment Management Board. At this briefing presentations were given by senior DLWC regional staff including representatives of the North Coast Water Management Committee. At the briefing DLWC indicated a strong desire for local government to play a lead role in the delivery of the targets and objectives set by the Board and Water Management Committee.

In fact, local government already plays a significant role in natural resource management across the state. This is particularly evident in the Tweed Valley where Council has prepared its Vegetation Management Plan, employs staff in river management and in land use planning. Council undertakes significant non-regulatory testing and monitoring within the catchment. Local government has not traditionally looked to recover any of that investment from any state government agency including DLWC and indeed does not have a mechanism to do so. It is therefore somewhat ironic that DLWC should on the one hand be seeking an even bigger role from local government in the next phase of delivering the State's water reform agenda while at the same time seeking ways to recover a large share of its cost for running that agenda from local government.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M Rayner', with a horizontal line extending to the right.

Mike Rayner
Director
ENGINEERING SERVICES

Cc: David Hale - LGSA
Gary Mitchell - Water Directorate
David Byrne - Cooma-Monara Shire Council