IPART
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WATER
DIRECTORATE

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10 May 2001

RECEIVED
11 MAY 2001
INDEPENDENT PRICING AND REGULATORY TRIBUNAL

Mr Thomas Parry
Chair
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Parry

SUBMISSION TO THE INDEPENDENT REGULATORY TRIBUNAL ON PROPOSED DEPARTMENT OF LAND AND WATER CONSERVATION BULK WATER PRICES

Attention: Kumar Rasiah

The Department of Land and Water Conservation (DLWC) has a submission before the Independent Pricing and Regulatory Tribunal (IPART) requesting significant increases in bulk water charges for the period to 2004.

The Water Directorate is a technical advisory association established in 1998 to assist NSW regional Councils by working for and on behalf of water and sewer managers on an integrated basis. In regard to the DLWC's submission, the Water Directorate, representing 86 Councils providing local water supplies to NSW country consumers, recommends:

1. that IPART recognise that Local Government and Local Government water supply authorities play a significant role in catchment and river resource management by providing resources to Catchment and River Management Committees, Noxious Weed/Vegetation and Land Management Committees and Boards and undertake water, soil, development and waste testing and monitoring and regulation.

2. that IPART recognise this significant financial contribution made by Local Government in providing resources to help manage the river catchments; and that this cost is borne by Local Government; and Local Government has not to date looked at retrieving these costs from the State Government; and does not believe that the State Government should be allowed to recover its costs from Local Government.

3. that Water Catchment Boards will be seeking Local Government to take a lead role in providing resources to implement the outcomes of their investigations from within current Local Government resources as rate capping is applied by the State Government.

4. that Local Government water authorities are NOT commercial undertakings and are already providing significant financial resources to river management on a community service obligation.

5. that based on the substantial contributions being made by Local Government, then DLWC and IPART should be incorporating these costs into their calculations.

6. that IPART take into consideration:

(i) that IPART does not increase bulk water charges, until an appropriate substantiation is provided by DLWC to the Councils and local communities that are purported to be the beneficiaries.

(ii) that the period called for public submissions has not been adequate enough to allow Councils and local communities to be consulted and should therefore be extended.

(iii) that the Water Directorate requests it be allowed to meet with the consultants to allow it to put forward an alternative view to that of DLWC and put forward a process to elaborate on the contribution that Local Government authorities currently make.

(iv) that the proposed increases are significantly above the Consumer Price Indices and this is inappropriate for Councils to be asked to sustain such increase in light of the current rate capping policies that the State Government imposes on Local Government.

(v) that there is a huge disbenefit to the local communities because no account is taken of the enormous value of the infrastructure in place and the relatively small population that these costs can be apportioned across, and the huge benefit others receive.

Our Concerns

The Water Directorate understands that the DLWC submission has a pricing rationale that we have outlined in the attached Appendix.

The Water Directorate does not believe that the pricing rationale is acceptable. 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.

Typically there are Councils which are stand alone Local Government authorities, individually operating a water supply scheme within catchment valleys where historically, DLWC have had minimal, if any, involvement in the management, operation and regulation of the bulk water supply component of the supply. These valleys have been included in wholesale river valley catchments.

While specific valleys may well have substantial DLWC assets, no such infrastructure exists in others. Quite clearly from DLWC's submission, asset management and replacement cost of infrastructure in all catchments has been incorporated in the proposed tariff charges. This would be inconsistent under the COAG framework.

Similarly, some Councils undertake all/some metering and monitoring associated with the operation of their water supply networks. This non-regulatory testing is undertaken by Councils to assist in the ongoing management of the water resource. Council's results are readily made available to Government agencies on request to assist those agencies in the delivery of their mandate, including DLWC.

It is agreed the River Quality/Flow Reforms will benefit the broader community and not only the users of Councils' reticulated supply. We have no knowledge of any surface water database and again it is difficult to see the benefits of such flowing to Council water authorities' consumers. Much of the work on River Health data collection has been undertaken by Councils in various valleys 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 Councils' consumers, but relate to the health of a waterway and again appear to be more of a community benefit. Community benefits, it is felt, are appropriately funded from the broader tax base rather than the much smaller Council water authority consumer base.

All Councils are active in catchment management and annually make a significant investment in water resource management within the valleys including provision of significant resources and involvement in initiatives such as the development of water quality and flow objectives. Councils receive 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.

If DLWC is serious in regard to the adoption of its pricing principles, then the community benefit provided by Councils' investment in monitoring and testing should be funded by DLWC, or at the least credited against Councils' bulk water account. IPART must appreciate that DLWC has had significant resources and time to be able to prepare their submission. The Water Directorate again reiterates that to allow appropriate consideration, the period called for public submissions has not been adequate enough for Councils and local communities to be consulted and should therefore be extended. The Water Directorate again requests it be allowed to meet with the consultants to allow it to put forward an alternative view to that of DLWC and put forward a process to elaborate on the contribution that Local Government authorities currently make.

In conclusion, Local Government has not traditionally looked to recover any of that investment from any State Government agency including DLWC and does not have a mechanism to do so. It is incongruous that DLWC should 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 from Local Government for running that agenda.

Yours faithfully

G. Mitchell

Gary Mitchell

Executive Officer

Appendix attached

APPENDIX

DLWC 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.

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.