

**State Water Corporation and
Water Administration
Ministerial Corporation**

Bulk Water Prices

Determination



for 2005/06

IPART

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL
of New South Wales**

**STATE WATER CORPORATION
AND
WATER ADMINISTRATION MINISTERIAL
CORPORATION**

BULK WATER PRICES

for 2005/06

Determination Nos 8 and 9, 2005

August 2005

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Determination No 8, 2005

**Section 11(1)
Independent Pricing and Regulatory Tribunal Act 1992**

State Water Corporation

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No 04/291

1. Background

- (a) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992 (IPART Act)* permits the Tribunal to conduct investigations and make reports to the Minister administering the IPART Act on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (b) State Water Corporation (**Corporation**) (as a statutory State owned corporation established by section 4 of the *State Water Corporation Act 2004 (SWC Act)*) is listed in Schedule 1 of the IPART Act as a "government agency" for which the Tribunal has standing reference for the purposes of section 11 of the IPART Act.
- (c) The Corporation's functions under the SWC Act (section 6) include:
 - (1) to capture and store water and to release water:
 - (a) to persons entitled to take the water, including release to regional towns;
 - (b) for the purposes of flood management; and
 - (c) for any other lawful purpose, including the release of environmental water; and
 - (2) to construct, maintain and operate water management works.
- (d) Under section 29 of the SWC Act, the Corporation may impose fees or charges on any person to whom the Corporation provides a service in the exercise of its functions, including any person to whom the Corporation makes water available.
- (e) Under section 4(7) of the IPART Act, the Corporation is taken to be the supplier of the services for which fees and charges are payable under the SWC Act, and which are declared to be government monopoly services.
- (f) Under clause 3 of the *Independent Pricing and Regulatory Tribunal (Water Services) Order 2004*, services supplied by the Corporation which involve:
 - (1) the making available of water;
 - (2) the making available of the Corporation's water supply facilities; or
 - (3) the supplying of water, whether by means of the Corporation's facilities or otherwise,

are "government monopoly services" (**Monopoly Services**) for the purposes of sections 4 and 11(1) of the IPART Act. Accordingly, the Tribunal may conduct investigations and report to the Minister administering the IPART Act on the determination of prices for these Monopoly Services supplied by the Corporation.

- (g) In practice, charges for the Corporation's water delivery activities are made as charges under licences, permits, approvals or authorities granted:
 - (1) by the Minister under Chapter 3 of the *Water Management Act 2000* (**Water Management Act**) (in areas of NSW in which proclamations under sections 55A and 88A of the Water Management Act are in force); and
 - (2) by the Water Administration Ministerial Corporation (**WAMC**) under the *Water Act 1912* (**Water Act**) (in other areas of NSW).
- (h) Accordingly, in determining prices for the Corporation's Monopoly Services, the Tribunal has determined prices payable for these services under various licences, permits, approvals or authorities granted under the Water Management Act and the Water Act.
- (i) In investigating and reporting on the pricing of the Corporation's Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (j) In accordance with section 13A(1) of the IPART Act, the Tribunal has fixed the maximum price for the Corporation's Monopoly Services and/or established a methodology for fixing the maximum price.
- (k) Under section 18(2) of the IPART Act, the Corporation may not fix a price for Monopoly Services below that determined by the Tribunal without the approval of the Treasurer.

2. Application of this determination

- (a) Pursuant to section 13A of the IPART Act, this determination fixes the maximum prices (and/or sets a methodology for fixing those maximum prices) that may be charged for the Corporation's Monopoly Services under water licences that authorise the extraction of water from regulated rivers.
- (b) Despite anything in the Schedules, this determination does not apply to charges under water licences to the extent that they authorise the extraction of water from the Fish River Water Supply Scheme.
- (c) Except in relation to the extraction of water from the Fish River Water Supply Scheme, no charges may be levied on any person for the Corporation's Monopoly Services other than as provided in this determination.
- (d) For the avoidance of doubt, this determination does not apply to services provided by the Corporation that are not Monopoly Services, including:
 - (1) management services provided by the Corporation to the Lowbidgee Flood Control and Irrigation District Trust established to manage floodplain, wetlands and irrigation works in the Lowbidgee Flood Control and Irrigation District;
 - (2) weed clearing and pumping/operations services provided by the Corporation to Gol Gol Creek and Gol Gol Creek North; and

- (3) the rights granted by the Corporation to hydropower operators to install their facilities on the Corporation's dams and use water in its storages for power generation, or the maintenance and emergency response services provided by the Corporation to these operators.
- (e) This determination commences on the later of 1 July 2005 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (f) The maximum prices in this determination apply from the Commencement Date to 30 June 2006. The maximum prices in this determination prevailing at 30 June 2006 continue to apply beyond 30 June 2006 until this determination is replaced.

3. Replacement of Determination No. 3 of 2001

Determination No. 3 of 2001 (Reference No 01/248), to the extent that it relates to pricing for the Corporation's Monopoly Services, is replaced by this determination from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under that determination prior to its replacement.

4. Monitoring

The Tribunal may monitor the performance of the Corporation for the purposes of:

- (a) establishing and reporting on the level of compliance by the Corporation with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Corporation.

5. Schedule

Schedule 1 and the Tables in that Schedule set out the maximum prices that the Corporation may charge for the Monopoly Services specified in the Schedule.

6. Definitions and Interpretation

Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1

Regulated Rivers

1. Application

This Schedule sets the maximum prices that may be charged for the Corporation's Monopoly Services under a water licence that authorises the extraction of water from a regulated river, for the period to which this determination applies.

2. Maximum charges

The maximum annual charges for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule are as set out in Table 1 (as modified by clause 4 of this Schedule, if applicable), corresponding to:

- (a) the components identified in clause 3 of this Schedule;
- (b) the relevant water source or river valley; and
- (c) whether the licence is a high security licence or a general security licence,

and applied to the licence holder's entitlement or usage (as applicable) during the relevant year, subject to this determination.

3. Components of charges

For the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule, each of the following charges (and no other charges) may be made:

- (a) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share); and
- (b) a usage charge (being a charge expressed in dollars per megalitre of water actually extracted).

However, only a usage charge may be made for the Corporation's Monopoly Services under the following licences:

- (c) a high flow licence;
- (d) a supplementary water access licence; and
- (e) a floodplain harvesting access licence,

to which clause 1 of this Schedule applies.

4. Conversion factors

The entitlement charges for water access licences in Table 1 are to be multiplied by the following conversion factor:

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately after the introduction of the relevant water sharing plan

Divided by

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately before the introduction of the relevant water sharing plan.

5. Discounts on entitlement charges

Each component of an entitlement charge (other than under clause 6 of this Schedule) payable by a licence holder in Table 2 is reduced by the applicable discount listed in that table.

6. Murrumbidgee and Yanco Columbo System

In addition to the charges set out in Table 1, the following levies may be charged to each licence holder who is an irrigator:

- (a) in respect of the Murrumbidgee (including the Yanco Columbo System): \$0.417 per megalitre of entitlement or per unit share); and
- (b) in respect of the Yanco Columbo System: \$0.90 per megalitre of entitlement or per unit share).

Clauses 4 (conversion factors) and 5 (discounts) do not apply in respect of these levies.

Table 1 Charges for Regulated Rivers

Division 1			
Water source/river valley	Maximum annual charges		
	Entitlement charge		Usage charge
	(\$/ML of entitlement or \$/unit share)		(\$/ML)
	High security	General security	
Border	4.00	2.68	3.11
Gwydir	4.25	2.82	3.29
Namoi	8.04	5.36	6.42
Peel	11.52	5.05	9.19
Lachlan	5.80	3.86	4.42
Macquarie	3.66	2.81	3.79
Murray	4.43	4.02	1.09
Murrumbidgee	3.28	3.11	0.82
North Coast	10.59	8.14	5.42
Hunter	6.61	4.72	4.70
South Coast	10.60	8.15	5.43

Table 2 Discounts on entitlement charges for wholesale customers

Licence holder	Discount on entitlement charges (%)
Murray Irrigation Limited	40
Western Murray Irrigation Limited	27
West Corurgan	35
Moira Irrigation Scheme	30
Eagle Creek Scheme	25
Murrumbidgee Irrigation Limited	29
Coleambally Irrigation Limited	32
Jemalong Irrigation Limited	27

Schedule 2

Definitions and Interpretation

1. Definitions

In this determination:

Commencement Date is defined in clause 2(e).

Corporation means State Water Corporation, being the corporation established under section 4 of the SWC Act.

entitlement means the right, conferred by means of a water licence, to take and use a specified quantity of water.

floodplain harvesting access licence means a licence of that name within the meaning of the regulations made under the Water Management Act.

general security licence means:

- (a) a water access licence of any of the following types (within the meaning of section 57 of the Water Management Act and the regulations made under that Act):
 - (i) supplementary water access licence
 - (ii) the following conveyance access licences, to the extent that their unit shares of entitlement are general security under the relevant water sharing plan:
 - (1) regulated river (conveyance) access licence
 - (2) Murrumbidgee Irrigation (conveyance) access licence
 - (3) Coleambally Irrigation (conveyance) access licence
 - (iii) any other access licence that is not a high security licence; or
- (b) a Water Act water licence issued by WAMC as a low security licence.

high flow licence means a Water Act water licence issued by WAMC as a high flow licence.

high security licence means:

- (a) a water access licence of any of the following types (within the meaning of section 57 of the Water Management Act and the regulations made under that Act):
 - (i) local water utility access licence
 - (ii) major utility access licence
 - (iii) domestic and stock access licence
 - (iv) regulated river (high security) access licence

(vi) the following conveyance access licences, to the extent that their unit shares of entitlement are high security under the relevant water sharing plan:

- (1) regulated river (conveyance) access licence
- (2) Murrumbidgee Irrigation (conveyance) access licence
- (3) Coleambally Irrigation (conveyance) access licence; or

(b) a Water Act water licence issued by WAMC as a high security licence.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

irrigator means a person who irrigates pursuant to a relevant approval, and includes an irrigation corporation (within the meaning of the Water Management Act).

Minister means the Minister administering the Water Management Act (or, where relevant, the Water Act).

Monopoly Services means the services defined as such in clause 1(f) of section 1 (Background) of this determination.

regulated river has the meaning given to that term under the Water Management Act.

river has the meaning given to that term under the Water Management Act.

SWC Act means the *State Water Corporation Act 2004*.

supplementary water access licence means a licence of that name within the meaning of section 57 of the Water Management Act.

Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales, established under the IPART Act.

WAMC means the Water Administration Ministerial Corporation, being the corporation established under section 371 of the Water Management Act, and which is a continuation of, and the same legal entity as, the corporation of that name constituted by the *Water Administration Act 1986* (by virtue of clause 17 of Schedule 9 of the Water Management Act).

water access licence means an access licence referred to in section 56 of the Water Management Act, of any the following categories (as referred to in section 57 of that Act and the regulations made under that Act):

- (a) regulated river (high security) access licence
- (b) regulated river (general security) access licence
- (c) regulated river (conveyance) access licence
- (d) supplementary water access licence
- (e) major utility access licence
- (f) local water utility access licence

- (g) domestic and stock access licence
- (h) Murrumbidgee Irrigation (conveyance) access licence
- (i) Coleambally Irrigation (conveyance) access licence
- (j) floodplain harvesting access licence
- (k) any other category of access licence that authorises the extraction of water from a regulated river.

Water Act means the *Water Act 1912*.

Water Act water licence means any licence, permit or authority under Part 2 or Part 9 of the Water Act, to the extent that it authorises the extraction of water.

water licence means:

- (a) a water access licence; or
- (b) a Water Act water licence.

Water Management Act means the *Water Management Act 2000*.

water sharing plan means the water sharing provisions of a management plan for a water management area or water source under the Water Management Act.

2. Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute.

2.2 Explanatory Notes

Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

2.3 Prices exclusive of GST

Prices or charges specified in this determination do not include GST.

2.4 Billing cycle

For the avoidance of doubt nothing in this determination affects when a bill may be issued to a customer for prices or charges under this determination.

2.5 Annual charges

The annual charges in this determination apply in respect of each financial year (1 July to 30 June inclusive).

In respect of:

- (a) the period from the Commencement Date until 30 June 2006; and
- (b) any period after 30 June 2006 that is less than a full financial year,

the annual charges in this determination (other than those calculated by reference to usage) will be pro-rated for that period, based on the proportion that the number of days in that period bears to the number of days in the financial year.

2.6 Billing on behalf of WAMC

Nothing in this determination prevents the Corporation from billing on behalf of WAMC for services provided by WAMC.

2.7 Entitlement charges

- (a) A reference to an entitlement charge is a reference to an entitlement charge specified in a water licence without regard to any part of the entitlement that may be carried over from a previous year.
- (b) A reference to an entitlement charge:
 - (1) expressed in dollars per megalitre of entitlement is a reference to a charge expressed in dollars per megalitre of water which the licence states that the holder is entitled to extract in a year, under a Water Act water licence or a water access licence whose share component is expressed in megalitres; and
 - (2) expressed in dollars per unit share is a reference to a charge so expressed under a water access licence whose share component is expressed in unit shares.

2.8 Water sources and river valleys

In this determination, a reference to a water source or river valley is a reference to the relevant water source or valley set out in the following table:

Water Source or River Valley	Description
Regulated Rivers	
Border	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Border Rivers including the Severn, the Macintyre and Dumaresq rivers down to Mungindi
Gwydir	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Gwydir River and Gwydir Wetlands, Mehi river, Gil Gil Creek and Moomin Creek to the junction with the Barwon River
Namoi	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Namoi River to Peel River and Pian Creek to Barwon River
Peel	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Peel River to junction with Namoi River
Lachlan	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Lachlan and Belubula River to the Murrumbidgee River junction
Macquarie	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Macquarie River, the Cudgegong and Bogen rivers to junction with Darling River
Murray	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Murray River including the Darling River below Menindee
Murrumbidgee	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Murrumbidgee River to junction with Murray River, including Yanco, Colombo and Billabong Creeks and Tumut River
North Coast	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Regulated flows for Iron Pot and Eden Creeks
Hunter	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Hunter River, including Patterson River and Glennies Creek
South Coast	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Brogo and Bega River Catchments

A reference in this determination to "the relevant water source or river valley" is a reference to the water source or river valley for which the licence is issued (other than in the case of the usage component of a licence in the event of an inter-valley or inter-water source transfer of water, in which case it is the water source or river valley from which water is extracted).

Determination No 9, 2005

**Section 11(1)
Independent Pricing and Regulatory Tribunal Act 1992**

The Water Administration Ministerial Corporation

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No 04/290

1. Background

- (a) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* (**IPART Act**) permits the Tribunal to conduct investigations and make reports to the Minister administering the IPART Act on the determination of the pricing for a government monopoly service supplied by a government agency specified in Schedule 1 of the IPART Act.
- (b) The Water Administration Ministerial Corporation (**Corporation**) is listed in Schedule 1 of the IPART Act as a "government agency" for which the Tribunal has standing reference for the purposes of section 11 of the IPART Act.
- (c) The Corporation's functions under the *Water Management Act 2000* (**Water Management Act**) (sections 372 and 373) include:
- (1) to construct, maintain and operate water management works;
 - (2) to conduct research, collect information and develop technology in relation to water management;
 - (3) to acquire rights to water, whether within or beyond New South Wales;
 - (4) to do anything for the purpose of enabling the objects of the Water Management Act to be attained; and
 - (5) to enter into commercial operations with respect to (among other things) any services developed in connection with the exercise of its functions (with the approval of the Governor).
- (d) Under clause 3 of the *Independent Pricing and Regulatory Tribunal (Water Services) Order 2004*, services supplied by the Corporation which involve:
- (1) the making available of water;
 - (2) the making available of the Corporation's water supply facilities; or
 - (3) the supplying of water, whether by means of the Corporation's facilities or otherwise,
- are "government monopoly services" (**Monopoly Services**) for the purposes of sections 4 and 11(1) of the IPART Act. Accordingly, the Tribunal may conduct investigations and report to the Minister administering the IPART Act on the determination of prices for these Monopoly Services supplied by the Corporation.
- (e) Under section 4(6) of the IPART Act, the Corporation is taken to be the supplier of the services for which fees and charges are payable under Chapter 3 of the Water Management Act, and which are declared to be government monopoly services.
- (f) In practice, charges for the Corporation's water resource management activities are made as charges under licences, permits, approvals or authorities granted:

- (1) by the Minister under Chapter 3 of the Water Management Act (in areas of NSW in which proclamations under sections 55A and 88A of the Water Management Act are in force); and
 - (2) by the Corporation under the *Water Act 1912* (**Water Act**) (in other areas of NSW).
- (g) Accordingly, in determining prices for the Corporation's Monopoly Services, the Tribunal has determined prices payable for these services under various licences, permits, approvals or authorities granted under the Water Management Act and the Water Act.
- (h) In investigating and reporting on the pricing of the Corporation's Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (i) In accordance with section 13A(1) of the IPART Act, the Tribunal has fixed the maximum price for the Corporation's Monopoly Services and/or established a methodology for fixing the maximum price.
- (j) Under section 18(2) of the IPART Act, the Corporation may not fix a price for Monopoly Services below that determined by the Tribunal without the approval of the Treasurer.

2. Application of this determination

- (a) Pursuant to section 13A of the IPART Act, this determination fixes the maximum prices (and/or sets a methodology for fixing those maximum prices) that may be charged for the Corporation's Monopoly Services under water licences that authorise the extraction of water from:
- (1) regulated rivers;
 - (2) unregulated rivers; and
 - (3) ground water sources.
- (b) No charges may be levied on any person for the Corporation's Monopoly Services other than as provided in this determination.
- (c) This determination commences on the later of 1 July 2005 or the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (d) The maximum prices in this determination apply from the Commencement Date to 30 June 2006. The maximum prices in this determination prevailing at 30 June 2006 continue to apply beyond 30 June 2006 until this determination is replaced.

3. Replacement of Determination No. 3 of 2001

Determination No. 3 of 2001 (Reference No 01/248), to the extent that it relates to pricing for the Corporation's Monopoly Services, is replaced by this determination from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under that determination prior to its replacement.

4. Monitoring

The Tribunal may monitor the performance of the Corporation for the purposes of:

- (a) establishing and reporting on the level of compliance by the Corporation with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by the Corporation.

5. Schedules

Schedules 1 - 3 (inclusive) and the Tables in those Schedules set out the maximum prices that the Corporation may charge for the Monopoly Services specified in the Schedules.

6. Definitions and Interpretation

Definitions and interpretation provisions used in this determination are set out in Schedule 4.

Schedule 1

Regulated Rivers

1. Application

This Schedule sets the maximum prices that may be charged for the Corporation's Monopoly Services under a water licence that authorises the extraction of water from a regulated river, for the period to which this determination applies.

2. Maximum charges

The maximum annual charges for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule are as set out in Table 1 (as modified by clause 4 of this Schedule, if applicable), corresponding to:

- (a) the components identified in clause 3 of this Schedule;
- (b) the relevant water source or river valley; and
- (c) whether the licence is a high security licence or a general security licence,

and applied to the licence holder's entitlement or usage (as applicable) during the relevant year, subject to this determination.

3. Components of charges

For the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule, each of the following charges (and no other charges) may be made:

- (a) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share); and
- (b) a usage charge (being a charge expressed in dollars per megalitre of water actually extracted).

However, only a usage charge may be made for the Corporation's Monopoly Services under:

- (c) a high flow licence;
- (d) a supplementary water access licence; and
- (e) a floodplain harvesting access licence,

to which clause 1 of this Schedule applies.

4. Conversion factors

The entitlement charges for water access licences in Table 1 are to be multiplied by the following conversion factor:

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately after the introduction of the relevant water sharing plan

Divided by

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately before the introduction of the relevant water sharing plan.

5. Discounts on entitlement charges

Each component of an entitlement charge payable by a licence holder in Table 2 is reduced by the applicable discount listed in that table.

Table 1 Charges for Regulated Rivers

Division 1			
Water source/river valley	Maximum annual charges		
	Entitlement charge		Usage charge
	(\$/ML of entitlement or \$/unit share)		(\$/ML)
	High security	General security	
Border	2.23	1.50	1.74
Gwydir	1.38	0.92	1.08
Namoi	2.62	1.75	2.09
Peel	2.41	1.06	1.92
Lachlan	1.46	0.97	1.12
Macquarie	0.90	0.70	0.94
Murray	1.39	1.26	0.34
Murrumbidgee	1.00	0.95	0.25
North Coast	2.09	1.61	1.08
Hunter	3.30	2.36	2.35
South Coast	2.08	1.60	1.07

Table 2 Discounts on entitlement charges for wholesale customers

Licence holder	Discount on entitlement charges (%)
Murray Irrigation Limited	40
Western Murray Irrigation Limited	27
West Corurgan	35
Moira Irrigation Scheme	30
Eagle Creek Scheme	25
Murrumbidgee Irrigation Limited	29
Coleambally Irrigation Limited	32
Jemalong Irrigation Limited	27

Schedule 2

Unregulated Rivers

1. Application

This Schedule sets the maximum prices that may be charged for the Corporation's Monopoly Services under a water licence that authorises the extraction of water from an unregulated river, for the period to which this determination applies.

2. Categories for pricing purposes

The charges for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule depend on whether the licence holder is:

- (a) an irrigator;
- (b) Sydney Catchment Authority or Hunter Water Corporation; or
- (c) none of the above.

3. Maximum charges for irrigators

The maximum annual charge for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule held by an irrigator is the greater of:

- (a) \$54.31; or
- (b) the charge arising from the application of any one of the following methods that the Corporation applies in a particular case:
 - (i) a two part tariff consisting of:
 - (1) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share); and
 - (2) a usage charge (being a charge expressed in dollars per megalitre of water actually extracted),

(or in the case of a high flow licence, a supplementary water access licence or a floodplain harvesting access licence, only the usage charge component of the two part tariff); or
 - (ii) an area based charge (being a charge expressed in dollars per hectare of authorised area of irrigation); or
 - (iii) a volume of entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share),

for which the pricing is as set out in Table 3 (as modified by clause 6 of this Schedule, if applicable), corresponding to the relevant water source or river valley, and applied to the licence holder's entitlement, usage or area (as applicable) during the relevant year.

4. Maximum charges for Sydney Catchment Authority and Hunter Water Corporation

The maximum annual charge for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule held by Sydney Catchment Authority or Hunter Water Corporation is a usage charge expressed in dollars per megalitre of water actually extracted, for which the pricing is as set out in Table 4, and applied to the licence holder's usage during the relevant year.

5. Maximum charges for licence holders other than irrigators, Sydney Catchment Authority or Hunter Water Corporation

The maximum annual charge for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule held by a licence holder other than an irrigator, Sydney Catchment Authority or Hunter Water Corporation is:

- (a) in the case of a Water Act water licence where the licence holder has not been allocated an entitlement volume, the following:
 - (1) a base charge of \$119.25 per licence; plus
 - (2) the charge in Table 3 (corresponding to the relevant water source or river valley) entitled "usage charge only" (being a charge expressed in dollars per megalitre of water actually extracted), and applied to the licence holder's usage during the relevant year, or
- (b) in any other case, a two part tariff consisting of:
 - (1) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share); and
 - (2) a usage charge (being a charge expressed in dollars per megalitre of water actually extracted),

for which the pricing is as set out in Table 3 (as modified by clause 6 of this Schedule, if applicable), corresponding to the relevant water source or river valley, and applied to the licence holder's entitlement or usage (as applicable) during the relevant year.

6. Conversion factors

The entitlement charges for water access licences in Table 3 are to be multiplied by the following conversion factor:

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately after the introduction of the relevant water sharing plan

Divided by

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately before the introduction of the relevant water sharing plan.

Table 3 Charges for unregulated rivers (other than for Sydney Catchment Authority and Hunter Water Corporation)

Region/river valley	Maximum annual charges				
	Area based charge	Volume of entitlement charge	Two-part tariff		Usage charge only (local water utilities and major utilities)
	(\$/ha)	(\$/ML)	Entitlement (\$/ML of entitlement or \$/unit share)	Usage (\$/ML)	(\$/ML)
Border	12.26	3.82	2.30	1.53	1.72
Gwydir	12.26	3.82	2.30	1.53	1.72
Namoi	12.26	3.82	2.30	1.53	1.72
Peel	12.26	3.82	2.30	1.53	1.72
Lachlan	13.57	3.07	1.85	1.24	1.88
Macquarie	13.57	4.52	2.71	1.80	1.88
Far West	13.57	2.07	1.26	0.84	1.88
Murray	7.72	3.09	1.85	1.24	0.97
Murrumbidgee	13.57	5.43	3.26	2.16	1.88
North Coast	13.57	4.10	2.47	1.65	1.88
Hunter	11.75	2.65	1.60	1.07	1.63
South Coast	13.57	3.00	1.80	1.20	1.88

Table 4 Charges for unregulated rivers (Sydney Catchment Authority and Hunter Water Corporation)

Authority	Maximum annual charges (\$/ML of usage)
Sydney Catchment Authority	The charge derived by adding the entitlement and the usage portions of the two-part tariff for the South Coast in Table 3 (as modified by clause 6, if applicable).
Hunter Water Corporation	The charge derived by adding the entitlement and the usage portions of the two-part tariff for the Hunter in Table 3 (as modified by clause 6, if applicable).
Note 1	For example, under Table 4 the charge derived by adding the entitlement (\$1.80/ML or unit share) and the usage (\$1.20/ML) components of the two-part tariff for the South Coast in Table 3 is \$3.00/ML.
Note 2	For example, under Table 4 the charge derived by adding the entitlement (\$ 1.60/ML or unit share) and the usage (\$1.07/ML) portions of the two-part tariff for the Hunter in Table 3 is \$2.67/ML.

Schedule 3

Ground Water

1. Application

This Schedule sets the maximum prices that may be charged for the Corporation's Monopoly Services under a water licence that authorises the extraction of ground water, for the period to which this determination applies.

2. Categories for pricing purposes

The charges for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule depend on whether or not:

- (a) the property to which the licence applies is in a monitored ground water management area; and
- (b) the licence holder is Hunter Water Corporation.

3. Maximum charges for properties in monitored ground water management areas (other than for Hunter Water Corporation)

For the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule for which the property to which the licence refers is in a monitored ground water management area (other than where the licence holder is Hunter Water Corporation), each of the following charges (and no other charges) may be made:

- (a) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share);
- (b) a usage charge (being a charge expressed in dollars per megalitre of water actually extracted); and
- (c) a base charge (being a charge expressed in dollars per property to which the licence applies (as defined by the Corporation)).

The maximum annual charges for the Corporation's Monopoly Services under a licence referred to in this clause are as set out in Table 5 (as amended by clause 6, if applicable) and Table 6, corresponding to:

- (a) the components identified in this clause; and
- (b) the water source or river valley for which the licence is issued,

and applied to the licence holder's entitlement, usage or property (as applicable) during the relevant year.

4. Maximum charges for properties not in monitored ground water management areas (other than for Hunter Water Corporation)

For the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule for which the property to which the licence refers is not in a monitored ground water management area (other than where the licence holder is Hunter Water Corporation), each of the following charges (and no other charges) may be made:

- (a) an entitlement charge (being a charge expressed in dollars per megalitre of entitlement or in dollars per unit share); and
- (b) a base charge (being a charge expressed in dollars per property to which the licence applies (as defined by the Corporation)).

The maximum annual charges for the Corporation's Monopoly Services under a licence referred to in this clause are as set out in Table 5 (as amended by clause 6 of this Schedule, if applicable) and Table 6, corresponding to:

- (a) the components identified in this clause; and
- (b) the water source or river valley for which the licence is issued,

and applied to the licence holder's entitlement or property (as applicable) during the relevant year.

5. Maximum charges for Hunter Water Corporation

The maximum annual charge for the Corporation's Monopoly Services under a licence referred to in clause 1 of this Schedule held by Hunter Water Corporation is a usage charge expressed in dollars per megalitre of water actually extracted, for which the pricing is as set out in Table 7, and applied to the licence holder's usage during the relevant year.

6. Conversion factors

The entitlement charges for water access licences in Table 5 are to be multiplied by the following conversion factor:

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately after the introduction of the relevant water sharing plan

Divided by

Total volume (ML) water entitlement of all water licence holders (having regard to water availability) from the water source or river valley immediately before the introduction of the relevant water sharing plan.

Table 5 Charges for ground water (other than for Hunter Water Corporation)

Region/river valley	Maximum annual charges	
	Entitlement charge (\$/ML of entitlement or \$/unit share)	Usage charge (\$/ML)
Border	0.85	0.43
Gwydir	0.85	0.43
Namoi	0.85	0.43
Peel	0.85	0.43
Lachlan	1.37	0.71
Macquarie	1.37	0.71
Far West	1.51	0.75
Murray	1.36	0.69
Murrumbidgee	0.84	0.42
North Coast	1.51	0.75
Hunter	1.51	0.75
South Coast	1.51	0.75

Table 6 Base charges

	Maximum annual charges \$ per year
Base charge per property in monitored groundwater management areas	187.72
Base charge per property in areas other than monitored groundwater management areas	81.48

Table 7 Groundwater charges for Hunter Water Corporation

Maximum annual charges (\$/ML of usage)
--

The charge derived by adding the entitlement and the usage portions of the two-part tariff for the Hunter in Table 5 (as modified by clause 6, if applicable).

Note:

For example, the charge derived by adding the entitlement (\$1.51/ML) and the usage (\$0.75/ML) portions of the two-part tariff for the Hunter in Table 5 is \$2.26/ML.

Schedule 4

Definitions and Interpretation

1. Definitions

In this determination:

Commencement Date is defined in clause 2(c).

Corporation means the Water Administration Ministerial Corporation, being the corporation established under section 371 of the Water Management Act, and which is a continuation of, and the same legal entity as, the corporation of that name constituted by the *Water Administration Act 1986* (by virtue of clause 17 of Schedule 9 of the Water Management Act).

entitlement means the right, conferred by means of a water licence, to take and use a specified quantity of water.

floodplain harvesting access licence means a licence of that name within the meaning of the regulations made under the Water Management Act.

general security licence means:

- (a) a water access licence of any of the following types (within the meaning of section 57 of the Water Management Act and the regulations made under that Act):
 - (i) supplementary water access licence
 - (ii) the following conveyance access licences, to the extent that their unit shares of entitlement are general security under the relevant water sharing plan:
 - (1) regulated river (conveyance) access licence
 - (2) Murrumbidgee Irrigation (conveyance) access licence
 - (3) Coleambally Irrigation (conveyance) access licence
 - (iii) any other access licence that is not a high security licence; or
- (b) a Water Act water licence issued by the Corporation as a low security licence.

ground water means water accessed from an aquifer or other below-ground water source.

ground water management area means an area which the Minister has designated as a ground water management area, and for which the Minister has a current management plan in place.

high flow licence means a Water Act water licence issued by the Corporation as a high flow licence.

high security licence means:

- (a) a water access licence of any of the following types (within the meaning of section 57 of the Water Management Act and the regulations made under that Act):
 - (i) local water utility access licence
 - (ii) major utility access licence
 - (iii) domestic and stock access licence
 - (iv) regulated river (high security) access licence
 - (vi) the following conveyance access licences, to the extent that their unit shares of entitlement are high security under the relevant water sharing plan:
 - (1) regulated river (conveyance) access licence
 - (2) Murrumbidgee Irrigation (conveyance) access licence
 - (3) Coleambally Irrigation (conveyance) access licence; or
- (b) a Water Act water licence issued by the Corporation as a high security licence.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

irrigation corporation has the meaning given to that term under the Water Management Act.

irrigator means a person who irrigates pursuant to a relevant approval, and includes an irrigation corporation.

Minister means the Minister administering the Water Management Act (or, where relevant, the Water Act).

Monopoly Services means the services defined as such in clause 1(d) of section 1 (Background) of this determination.

regulated river has the meaning given to that term under the Water Management Act.

river has the meaning given to that term under the Water Management Act.

Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales, established under the IPART Act.

unregulated river has the meaning given to that term under the Water Management Act.

water access licence means an access licence referred to in section 56 of the Water Management Act.

Water Act means the *Water Act 1912*.

Water Act water licence means any licence, permit or authority under Part 2, Part 5 or Part 9 the Water Act, to the extent that it authorises the extraction of water.

water licence means:

- (a) a water access licence; or
- (b) a Water Act water licence.

Water Management Act means the *Water Management Act 2000*.

water sharing plan means the water sharing provisions of a management plan for a water management area or water source under the Water Management Act.

2. Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute.

2.2 Explanatory Notes

Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

2.3 Prices exclusive of GST

Prices or charges specified in this determination do not include GST.

2.4 Billing cycle

For the avoidance of doubt nothing in this determination affects when a bill may be issued to a customer for prices or charges under this determination.

2.5 Annual charges

The annual charges in this determination apply in respect of each financial year (1 July to 30 June inclusive).

In respect of:

- (a) the period from the Commencement Date until 30 June 2006; and
- (b) any period after 30 June 2006 that is less than a full financial year,

the annual charges in this determination (other than those calculated by reference to usage) will be pro-rated for that period, based on the proportion that the number of days in that period bears to the number of days in the financial year.

2.6 Entitlement charges

- (a) A reference to an entitlement charge is a reference to an entitlement charge specified in a water licence without regard to any part of the entitlement that may be carried over from a previous year.
- (b) A reference to an entitlement charge:
 - (1) expressed in dollars per megalitre of entitlement is a reference to a charge expressed in dollars per megalitre of water which the licence states that the holder is entitled to extract in a year, under a Water Act water licence or a water access licence whose share component is expressed in megalitres; and
 - (2) expressed in dollars per unit share is a reference to a charge so expressed under a water access licence whose share component is expressed in unit shares.

2.7 Water sources and river valleys

In this determination, a reference to a water source or river valley is a reference to the relevant water source or valley set out in the following table:

Water Source or River Valley	Description
Regulated Rivers	
Border	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Border Rivers including the Severn, the Macintyre and Dumaresq rivers down to Mungindi
Gwydir	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Gwydir River and Gwydir Wetlands, Mehi river, Gil Gil Creek and Moomin Creek to the junction with the Barwon River
Namoi	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Namoi River to Peel River and Pian Creek to Barwon River
Peel	If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan. In any other case: Peel River to junction with Namoi River

Water Source or River Valley	Description
Lachlan	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Lachlan and Belubula River to the Murrumbidgee River junction</p>
Macquarie	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Macquarie River, the Cudgegong and Bogen rivers to junction with Darling River</p>
Murray	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Murray River including the Darling River below Menindee</p>
Murrumbidgee	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Murrumbidgee River to junction with Murray River, including Yanco, Colombo and Billabong Creeks and Tumut River</p>
North Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Regulated flows for Iron Pot and Eden Creeks</p>
Hunter	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Hunter River, including Patterson River and Glennies Creek</p>
South Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Brogo and Bega River Catchments</p>
Unregulated Rivers	
Border	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Border Rivers Catchment</p>
Gwydir	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Gwydir River Catchment</p>
Namoi	Unregulated rivers in the Namoi River Catchment
Peel	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Peel River Catchment</p>
Lachlan	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Lachlan River Catchment</p>
Macquarie	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Macquarie, Castlereagh and Bogan River Catchments</p>

Water Source or River Valley	Description
Far West	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Barwon-Darling from Mungindi to Menindee including Bogan River below Murrawombie Road, and those rivers west of Barwon-Darling River which originate in Queensland and minor unregulated rivers in the Western Division not in other valleys</p>
Murray	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Murray River Catchment, including Billabong Creek</p>
Murrumbidgee	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Murrumbidgee River Catchment</p>
North Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers east of the Great Dividing Range from Queensland to the Hastings River Catchment</p>
Hunter	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Unregulated rivers in the Hunter Region, including the Manning, Karuah and Williams Rivers</p>
South Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Shoalhaven, Woronora, Warragamba and Hawkesbury/Nepean River Catchments, River Lake Illawarra, Sydney City including Georges River and Port Jackson, Clyde, Moruya, Tuross, Towamba and Bega River Catchments, NSW portions of Genoa and Snowy River Catchments</p>
Ground water	
Border	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Border Rivers Catchments including the Border Rivers Alluvium, the Inverell Basalt and the Great Artesian Basin</p>
Gwydir	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Gwydir River Catchment including the Lower Gwydir Alluvium and the Great Artesian Basin</p>
Namoi	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Namoi River Catchment including the Upper and Lower Namoi Alluvium, the Great Artesian Basin and the Gunnedah Basin</p>
Peel	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Peel River Catchment including the Peel Valley Alluvium and Fractured Rock</p>

Water Source or River Valley	Description
Lachlan	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Lachlan River Catchment including the Upper and Lower Lachlan Alluvium, Belubula Valley Alluvium, the Great Artesian Basin, Young Granite, Orange Basalt and the Central West Fractured Rocks</p>
Macquarie	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Largely riverine aquifers in the Macquarie, Castlereagh and Bogan River Catchments including the Upper and Lower Macquarie Alluvium, the Cudgegon Valley Alluvium, the Collaburrangundry Talbragar Valley, the Great Artesian Basin, Mudgee and Molong Limestone</p>
Far West	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: The Great Artesian Basin Aquifer and minor aquifers in the Western Division</p>
Murray	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Aquifers in the Murray River Catchment</p>
Murrumbidgee	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Aquifers in the Murrumbidgee River Catchment including the Lower Murrumbidgee Alluvium, Mid Murrumbidgee Alluvium and the Billabong Creek Alluvium</p>
North Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Aquifers east of the Great Dividing Range from Queensland to the Hastings River Catchment including the Richmond River Alluvium, Richmond Coastal Sandbeds, Coffs Harbour Coastal Sands and Alluvium, Alstonville Basalt, Dorrigo Basalt, Clarence Moreton Basin, Hastings Coastal Sands, Hastings River Alluvium, Macleay River Alluvium, Bellinger Coastal Sandbeds and Viney Creek Alluvium</p>
Hunter	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Aquifers in the Hunter Region, including the Manning and Karuah River Catchments including Tomago-Tomaree Sandbeds, Stuarts Points and Tributaries Alluvium, the Pages River Alluvium, Golburn River Alluvium, Mangrove Mountain Sandstone and Wollombi Brook Alluvium</p>
South Coast	<p>If a water sharing plan under the Water Management Act is in place, then the water sources as defined in that plan.</p> <p>In any other case: Aquifers east of the Great Dividing Range from the NSW central coast to Victoria including Botany Sandbeds, Bega River Alluvium, Sydney Basin, Coxs River Sandstone and Fractured Rock, Blue Mountains Richmond Sandstone, Araluen Alluvium and Maroota Tertiary Sands</p>

A reference in this determination to "the relevant water source or river valley" is a reference to the water source or river valley for which the licence is issued (other than in the case of the usage component of a licence in the event of an inter-valley or inter-water source transfer of water, in which case it is the water source or river valley from which water is extracted).

**STATE WATER CORPORATION
AND
WATER ADMINISTRATION MINISTERIAL
CORPORATION**

BULK WATER PRICES

for 2005/06

Report Nos 8 and 9, 2005

August 2005

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1 INTRODUCTION

In 2004, the Premier of NSW declared a range of services provided by State Water Corporation (State Water) and the Water Administration Ministerial Corporation (WAMC) to be monopoly services.¹ The services concerned relate to the delivery of bulk water from sources managed by these agencies to farmers, irrigators, industrial users, town water suppliers, Sydney Catchment Authority and Hunter Water Corporation. The Independent Pricing and Regulatory Tribunal of NSW (the Tribunal) is responsible for determining the maximum prices State Water and WAMC can charge for these services, in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act, 1992*.

The Tribunal last set prices for bulk water services in 2001, when the former Department of Land and Water Conservation (DLWC) was responsible for providing these services on behalf of the WAMC. At that time, State Water was a separate operating unit within DLWC. Since then, DLWC has been restructured so that:

- functions related to river and storage operations on regulated rivers are now performed by State Water, which has been corporatised and is governed by the *State Water Corporation Act 2004*
- functions related to water resource management (WRM) are now performed by the new Department of Infrastructure Planning and Natural Resources (DIPNR) on behalf of WAMC²
- the newly established Catchment Management Authorities (CMAs) may also have some role in WRM, although at this stage the extent of their involvement is unclear.

The Tribunal's 2001 determination was due to expire on 30 June 2004. However, because of the timing of the establishment of State Water and DIPNR, the Tribunal was not able to undertake a price review and make a new determination prior to that date, as foreshadowed at the 2001 review. Instead, the Government legislated³ to increase State Water's existing prices by 2 per cent until the Tribunal made a new determination. It did not make a similar provision for WAMC's prices, so these remained at the level set by the 2001 determination.

The Tribunal has recently completed a review of prices for bulk water services, following the process outlined in Box 1.1. It has determined the maximum charges to apply for 2005/06 for services provided by State Water and by DIPNR on behalf of WAMC. The purpose of this report is to set out its pricing decisions, and explain the basis and implications of those decisions.

¹ The services were declared to be monopoly services by the Premier in the *Independent Pricing and Regulatory Tribunal (Water Services) Order 2004*, which was published in the Government Gazette No 144 on 10 September 2004.

² The Water Administration Ministerial Corporation (WAMC) is the legal entity that has made available and provided bulk water in the past. WAMC is now administered by DIPNR, and DIPNR undertakes the water resource management involved in making available and providing bulk water on its behalf. However, these activities continue to fall under the responsibility of this legal entity. Therefore, while DIPNR performs the WRM activities, WAMC is the legal entity that provides the services for which the Tribunal sets prices. Thus the Tribunal's determination formally applies to State Water and WAMC.

³ Through the *State Water Corporation Act 2004*.

1.1 Overview of 2005/06 determination

For the 2005/06 determination, the Tribunal has decided to:

- set a one-year price path from the commencement date of the 2005/06 Determination to 30 June 2006
- set a maximum price for each of State Water's and DIPNR's bulk water charges
- in setting this price, increase charges in valleys where the current charges are considered to be well below full cost recovery level by 10 per cent above the movement in the CPI (real increase)
- maintain the level of all other charges in real terms (that is, adjust them by the movement in the CPI only).

The Tribunal recognises that its decision to make a one-year determination is not ideal, and that stakeholders will be inconvenienced by the need to prepare submissions to the next price review so soon after they completed their submissions to this review. When it began the 2005 review, the Tribunal did intend to set a medium-term price path. However, it found that the information provided by the agencies was not an adequate basis for setting prices for the next 3-4 years. In addition, due to the late receipt of DIPNR's submission there was not sufficient time for the Tribunal and stakeholders to consider in detail the full range of issues involved in setting a medium-term price path.

The Tribunal is aware that under the Council of Australian Governments' (COAG's) Water Reform Framework and National Water Initiative, it is required to set water charges so they are based on water usage and reflect the costs of water supply. However since 1996, when it began regulating the price of bulk water services, the Tribunal has expressed concern that the cost information provided to it was not sufficient to enable the introduction of fully cost reflective pricing.

In its 2001 determination, the Tribunal noted that the former DLWC had made significant changes to its structure and accounting processes, aimed at improving the efficiency and transparency of its operations and enabling the introduction of fully cost reflective pricing. These reforms have continued with the establishment of State Water as a corporation and the establishment of DIPNR. However, due to the timing of this restructuring, the agencies were not able to provide robust, detailed information on the forecast costs of providing bulk water services. The Tribunal therefore decided to also use the costs established for the 2001 determination in reaching its decision for 2005/06.

Given the information available to it, the Tribunal decided to increase those charges that are currently considered to be well below full cost recovery level by 10 per cent above inflation. This will allow these charges to continue to move towards full cost recovery level, while protecting the customers affected from significant financial shocks. It decided to maintain all other charges at their current level in real terms, by adjusting them for the movement in the CPI only. The Tribunal is confident that these charges do not over-recover costs in 2005/06.

In making this determination, the Tribunal did not consider a number of matters raised in submissions. These include wholesale discounts, capital annuity versus rate of return approach, price structures, user shares and asset valuation. The Tribunal believes that it

would have been inappropriate to deal with these matters given the short time available to it to undertake this review and the level of information provided.

To ensure that it is able to set a cost-reflective medium-term price path for bulk water charges at its 2006 determination, the Tribunal will need to begin work on its next review almost immediately. Details of the review process are set out in chapter 6. The Tribunal emphasizes that it will need to receive submissions from State Water and DIPNR by September 2005.

1.2 Overview of report structure

The following chapters discuss the Tribunal's determination and the basis for its decisions in more detail:

- Chapter 2 describes the services and activities covered by the bulk water determination
- Chapter 3 explains how the Tribunal made its pricing decisions
- Chapter 4 sets out the proposed maximum price for each charge
- Chapter 5 discusses the implications of these charges for State Water, DIPNR, water customers and the environment
- Chapter 6 outlines a number of issues that the Tribunal would like to consider at the next determination.

Box 1.1 Review process

In undertaking this price review, the Tribunal consulted with key stakeholders, including State Water, DIPNR and environmental, community and water users' advocacy organisations. As part of its process, it:

- *invited State Water and DIPNR to make submissions that set out their pricing proposals, and provided detailed information on the projected operating and capital expenditures they believe are necessary to maintain customer service levels and respond to regulatory and customer demands. It received detailed submissions from State Water; however, DIPNR's was delayed and did not provide sufficient information on projected expenditures*
- *made both these submissions available to the public on its website (www.ipart.nsw.gov.au)*
- *published an issues paper that set out the main issues it would consider in setting prices for bulk water services, and invited all other interested parties to make submissions that commented on State Water's and DIPNR's submissions, the issues raised in this paper, and other matters relating to bulk water prices*
- *made the 32 submissions it received from other stakeholders available on the website*
- *commissioned an independent consultant (Marsden Jacobs Associates and Cardno) to assess the efficiency of State Water's projected operating and capital expenditures, and made the consultant's report available on its website*
- *held a public hearing in Sydney on 20 May 2005 to provide further opportunity for stakeholders to present their views*
- *considered all the information and comments it received in submissions and in the consultant's report and at the public hearing.*

2 ACTIVITIES COVERED BY BULK WATER PRICES

The bulk water prices regulated by the Tribunal for services provided by State Water and DIPNR include charges for extractions of bulk water from regulated rivers, unregulated rivers and groundwater sources. In general, State Water's services include river operation services provided within regulated river systems (ie, rivers that have their flow regulated by dams or weirs). DIPNR's services include water management services within regulated rivers, unregulated rivers and groundwater sources. The prices charged for these services aim to recover the costs incurred by the agencies in:

- making water available
- making State Water's or DIPNR's water supply facilities available
- supplying water, whether by means of State Water's or DIPNR's water supply facilities or otherwise.⁴

This chapter outlines the role of each of these agencies and the main activities they undertake in relation to bulk water services—including river operations, water resource management and licensing activities.

2.1 River operations activities

River operations activities relate to those activities undertaken to provide bulk water to users on regulated rivers.⁵ They include:

- water delivery operations (taking customer orders, determining and implementing storage releases, monitoring water usage and administering customers' water accounts)
- asset management of dams, weirs and other water storage structures
- flood mitigation (including inflow and outflow forecasting, floodwater routing).

Most of these activities are provided directly by State Water, while some are provided through cross-jurisdictional bodies including the Murray-Darling Basin Commission (MDBC) and the Dumaresq-Barwon Border River Commission (DBBRC). The role and activities of these service providers are explained below.

2.1.1 State Water

State Water is a statutory State-owned corporation. Its principal objective is to supply water to licensed users, the environment, and stock and domestic users in an efficient, effective and financially responsible manner.

State Water operates 18 major dams and more than 400 weirs and associated assets on regulated rivers. It has around 6,000 customers, including irrigation corporations, country town water supply authorities, farms, mines and electricity generators. It also meets community needs by providing water for stock and domestic users, and is responsible for delivering environmental flows on regulated rivers.

⁴ These are the services that the Premier has declared to be monopoly services.

⁵ Regulated rivers are rivers where the natural flow of water is regulated by infrastructure such as dams or weirs managed by State Water.

State Water operates under a regulatory framework similar to those of Hunter Water, Sydney Water and the Sydney Catchment Authority. It is subject to:

- an Operating Licence administered by the Portfolio Minister
- periodic audits of its performance against the terms and conditions of this licence
- a Statement of Corporate Intent negotiated annually with the Treasurer
- Water Management Works Approvals issued by DIPNR in accordance with the *Water Management Act 2000*
- Memoranda of Understanding negotiated with other key regulatory agencies such as the Department of Environment and Conservation.

State Water is currently operating under its initial Operating Licence which commenced on 24 June 2005. The conditions imposed as part of the initial licence may affect the range of activities State Water is required to undertake to comply with the licence, and the performance standards it is required to meet. If so, the cost implications of these conditions will need to be considered as part of future price reviews.

2.1.2 MDBC and DBBRC

The Murray-Darling Basin Commission (MDBC) and the Dumaresq-Barwon Border River Commission (DBBRC) are cross jurisdictional bodies established to “promote and coordinate effective planning and management for the equitable, efficient and sustainable use of the water, land and other environmental resources”. Some bulk water is provided to users under the ‘umbrella’ of these bodies. Although the assets involved in providing these services are owned and operated by individual state authorities they are managed at the direction of the MDBC and DBBRC.⁶

The costs of managing and maintaining assets under these arrangements are jointly paid for by the signatory states. The costs are then allocated to each state in a proportion defined under the terms of the agreement. For example, at the time of the last determination, River Murray Water, the water business of MDBC, undertook works to enhance spillways to meet contemporary flood design standards, construction of new salt interception schemes and multi-level offtakes on dams. A proportion of the costs for these works was allocated to NSW.

NSW Treasury pays the NSW share of costs and allocates these costs to State Water. State Water includes these costs in the cost information it submits to the price review so they can be recovered through its bulk water prices.

2.2 Water resource management activities

Water resource management (WRM) activities arise from the need to manage a resource that is being consumed by a wide range of user groups. The overriding aim of the WRM activities is to ensure the long-term sustainability of the resource, to allow continued water extraction and maintain the health of the natural ecosystem.

⁶ The main assets falling under the management of the MDBC include the Hume Dam, Dartmouth Dam and the Menindee Lakes storage scheme, as well a range of diversion weirs. The main assets falling under the DBBRC include Glenlyon Dam and Bogabilla Weir.

WRM activities are wide ranging and involve all activities associated with managing the water resource, including regulated and unregulated rivers and groundwater. They include specific activities to rectify problems resulting from excessive water extraction, and broader activities relating to managing the overall health of the catchment areas that also benefit river and groundwater systems.

At the last price determination, the Tribunal engaged ACIL Consulting to conduct a review of WRM activities. In conducting its review, ACIL noted the difficulty in defining what constitutes WRM activities. For the purpose of the pricing review, ACIL suggested that WRM activities could be defined as those activities:

- that would not be necessary were it not for the past, current and future patterns of extractive water use including construction and operation of dams, weirs and pumps etc
- that are concerned directly with the hydrology of the NSW surface and groundwater systems (as opposed to wider catchment management activities, although there are close linkages)
- where the benefits to extractive users are insufficient on their own to justify the costs of the activities.⁷

Based on this definition, the WRM activities for which the Tribunal regulates prices involve activities such as:

- Collecting data to gain a better understanding of the levels of extractions as well as the potential implications of this extraction for the river system. This also includes the activities involved in managing the database.
- Developing policies to manage the resource which could involve broader Government policy development to manage the interstate sharing of resources.
- Developing plans/strategies to allocate water amongst users and the environment and to remediate problems such as salinity or blue green algae.
- Implementing these plans and monitoring compliance against the plans.

Most of these activities are performed by DIPNR, while some are performed through the MDBC and DBBRC.

2.2.1 Department of Infrastructure, Planning and Natural Resources

DIPNR has wide-ranging responsibilities, which include managing NSW's water resource under the *Water Management Act 2000*. This Act requires DIPNR to introduce Water Sharing Plans to manage the resource, and to specify clear objectives in each of these plans. These plans are also to specify the rules for accessing and sharing the resource.

While the broad range of WRM activities undertaken by DIPNR are reasonably clear, there is some uncertainty as to the level of activities (and consequent costs) that will be

⁷ ACIL, *Review of water resource management expenditure in the NSW Department of Land and Water Conservation and State Water Business*, p ii.

undertaken in future years. This partly reflects the fact that the Water Sharing Plans that may have a bearing on the required activities have not yet been introduced for all areas.⁸

There is also some uncertainty as to how these WRM activities will be provided. For example, the activities of the newly formed Catchment Management Authorities (CMAs) may impact on the WRM activities undertaken by DIPNR. Further, the CMAs may undertake some WRM-type activities themselves, but these may be funded through an alternative mechanism (eg, Commonwealth funds) and may not be recoverable from extractive users.⁹

The CMAs were established in January 2004 following a recommendation of the Native Vegetation Reform Implementation Group. The intention was to ensure the better management of our native vegetation and protection of natural resources while minimising the restriction on farming activities. The existing Water Management Committees are expected to continue in the short term with their functions possibly being subsumed by the CMAs in the future. At this stage, it is not clear whether the activities of the CMAs will have a bearing on the WRM activities relating to making water available and/or water extraction.

2.2.2 MDBC and DBBRC

The MDBC and DBBRC have responsibility for coordinating and managing WRM activities from a 'whole of system' perspective where the issues involve more than one state. These include activities such as monitoring water quality, managing ground water, monitoring bores and developing/implementing salinity mitigation strategies.

As with the river operations costs, the NSW share of these WRM costs are paid by NSW Treasury in accordance with terms of the agreements. These costs are then allocated to DIPNR and are reflected in the costs DIPNR submits to the Tribunal.

2.3 Licensing activities

DIPNR is responsible for administering the planning and water management consents (access and approvals) under the *Water Management Act 2000*. This includes a wide range of activities such as administering licence applications, renewals and transfers (both temporary and permanent). It also includes transactions on works and use approvals in areas subject to water sharing plans.

The relevant provisions of the *Water Management Act 2000* came into effect from 1 July 2004. While some of these activities are consistent with DIPNR's previous licensing activities some relate to entirely new categories of activities or to activities previously licensed in a different manner. There are uncertainties regarding the future costs of undertaking these new activities.¹⁰

⁸ On 1 July 2004, 31 Water Sharing Plans came into effect, largely on regulated rivers and in some unregulated areas. A further five Water Sharing Plans relating to inland groundwater have been prepared but their implementation has been deferred.

⁹ The total budget for the CMAs is \$119 million per annum, with \$82 million of this funded by the Commonwealth Government through the National Action Plan for Salinity and Water Quality and the Natural Heritage Trust grant processes.

¹⁰ The Tribunal notes that fees concerning licences issued under the *Water Act 1912* are prescribed by the *Water (Part 2- General) Regulation 1997 (No 411 of 1997)*. The Tribunal intends to consider licence fees (including licences issued under the *Water Management Act 2000*) at the 2006/07 Determination.

3 BASIS OF TRIBUNAL'S PRICING DECISIONS

In making its decisions on bulk water prices for 2005/06, the Tribunal took into account its obligations under the *Independent Pricing and Regulatory Tribunal Act, 1992* (IPART Act). The Tribunal also took into account the commitments in relation to water pricing that the NSW Government made in 1994 as part of COAG's Water Reform Framework, and reaffirmed in 2004 with the signing of the National Water Initiative.¹¹ This chapter outlines these commitments and obligations, then explains the Tribunal's key considerations in relation to these matters that formed the basis of its pricing decisions.

3.1 Obligations under the IPART Act

The Tribunal makes its determinations on bulk water prices under the IPART Act. This Act requires the Tribunal to consider a broad range of issues when setting prices. In particular, section 15 the IPART Act requires it to consider a range of matters related to:

- **consumer protection**—including protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; and the social and economic impact of its decisions (such as their effect on the affordability of services and on inflation)
- **economic efficiency**—including the need to promote greater efficiency in the supply of services; the need to promote competition; the effect of functions being carried out by another body
- **financial viability**—including the rate of return on public sector assets including dividend requirements; and the impact on pricing of borrowing, capital and dividend requirements of agencies
- **environmental protection**—including the promotion of ecologically sustainable development via appropriate pricing policies; and the need to encourage demand management and least-cost planning.

In considering these matters, the Tribunal needs to balance the diverse needs and interests of stakeholders—such as customers' need for services to be affordable and of a reasonable quality, and the community's need for prices that encourage sustainable development. It also needs to ensure the long-term financial viability of the agencies that provide the services. Appendix 2 sets out how the Tribunal has considered each of these matters under Section 15 of the IPART Act.

In setting bulk water prices, the Tribunal has aimed to balance these interests by undertaking the review and price setting process outlined in Box 1.1.¹² In particular, it consulted broadly with a variety of stakeholders to understand their varied needs and concerns. It also commissioned a consultant, Marsden Jacobs Associates and Cardno (MJA-Cardno), to assess State Water's proposed operating and capital expenditures. It then took all the matters specified in the IPART Act, and the information and analysis it obtained through its investigation and public consultation, into account in reaching its decisions on prices for bulk water services. In doing so, the Tribunal considered the level of costs

¹¹ The NWI agreement has recently been signed by the Federal Government, and most State and Territory governments. An outline of the NWI is provided in Attachment 3.

¹² The public hearing was held on 20 May 2005. Copies of the transcripts of this hearing are available from the IPART website www.ipart.nsw.gov.au.

incurred by State Water and DIPNR that should be recovered through bulk water charges, the current cost recovery level of those charges, and the extent to which charges should increase.

3.2 Commitments under the Water Reform Framework and National Water Initiative

In setting bulk water prices, the Tribunal also takes into account the guidelines on water pricing issued by COAG. COAG has recently revised these guidelines as part of the *National Water Initiative*, which built on the principles established in its 1994 *Water Reform Framework*. A key theme in both these documents is to set water prices to achieve full cost recovery.

In relation to bulk water, the *Water Reform Framework* included a commitment to full cost recovery with prices set by a jurisdictional regulator, endorsement of consumption-based pricing, full cost disclosure and institutional separation of service provision from water resource management, standards setting and regulatory enforcement.

The *National Water Initiative* seeks to achieve best practice water pricing, including the achievement of lower bound pricing for all rural systems and continued movement towards upper bound pricing where practicable.¹³ The Tribunal notes that upper bound pricing involves including a provision for asset consumption and the cost of capital.

The Tribunal recognises the importance of these commitments, particularly to ensure longer term environmental sustainability and economic efficiency. In setting bulk water prices it seeks to implement these broader Government commitments in addition to considering other important matters, including the ability of bulk water users to absorb the price rises required to achieve full cost recovery, and its own obligations under the IPART Act.

3.3 State Water's and DIPNR's submissions on costs

At the 2001 determination, the Tribunal made a decision on the level of costs it considered to be the efficient costs of the NSW bulk water system for the period from 2001/02 to 2003/04, and thus the level of costs bulk water charges should recover. It determined these costs by assessing the submission made by DLWC, and two independent reviews of the forecast costs included in this submission undertaken by PricewaterhouseCoopers (PwC) and ACIL Consulting (ACIL). For the 2005 determination, however, the Tribunal was unable to determine the efficient costs of this system, due to the content and timing of the submissions made by State Water and DIPNR.

¹³ Lower bound pricing is the level at which to be viable a water business would recover at least the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost of debt, dividends (if any) and make provision for future asset refurbishment/replacement. Upper bound pricing is the level at which a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or TERs, provision for the cost of asset consumption and cost of capital.

3.3.1 State Water's submissions

The Tribunal received State Water's submission in October 2004. It then asked MJA-Cardno to review the forecast capital and operating costs included in this submission, and make recommendations on the efficient levels of these costs. MJA-Cardno delivered its draft report in March 2005 and its final report in May 2005.

State Water also provided two supplementary submissions on its forecast operating and capital expenditure – the first in response to MJA-Cardno's draft report, and the second after MJA-Cardno had delivered its final report. While MJA-Cardno was able to consider the first supplementary submission prior to making its final report, it could not consider the second supplementary submission, which again revised the forecast operating and capital expenditures. Therefore these final revised figures have not been reviewed by MJA-Cardno.

The Tribunal notes that MJA-Cardno did not have sufficient confidence in the robustness of the information provided by State Water at the valley level to apply its recommended cost reductions to specific valleys. To provide costs at a valley level, the Tribunal used MJA-Cardno's recommended cost reductions at an aggregate level to reduce costs for each valley. The Tribunal recognises that this provides an imperfect indication of the costs for each valley.

The Tribunal considered State Water's proposed costs for 2005/06 by valley, and compared these with the efficient costs recommended by MJA-Cardno and the level of efficient costs determined for 2001/02 (as part of the 2001 price review) adjusted for the effect of inflation.¹⁴ As Table 3.1 shows, there is wide variation in these different cost estimates.

Table 3.1 also shows that State Water's proposed costs for 2005/06 are much higher than the inflation-adjusted 2001/02 costs, while MJA-Cardno's recommended efficient costs for 2005/06 are much closer in total to these 2001/02 costs.

Given the differences in the various estimates of costs available, and the fact that State Water's most recent revisions to its proposed costs have not been reviewed, the Tribunal was not confident that the proposed costs for 2005/06 were a good basis for determining the level of costs that bulk water charges should recover in this year. The Tribunal therefore decided to also use the costs established for the 2001 determination in reaching its decision for 2005/06.

¹⁴ State Water asked for an approach that involved calculating a regulatory asset base and a change in the user shares. In making a one year determination, the Tribunal decided to maintain the annuity approach and user shares as in the 2001 determination. The Tribunal calculated these estimates by converting State Water's proposed capital expenditure into an annuity (consistent with its approach in 2001) and adding this to operating expenditure and MDBC/DBBRC costs. In the case of MJA-Cardno estimates, the Tribunal applied the same methodology but used MJA-Cardno's recommended reductions in operating and capital expenditure at a total level which have then been applied at a valley level.

Table 3.1 Estimates of user share of costs for 2005/06, Regulated Water – State Water (nominal \$'000)

Valley	2001/02 adjusted for inflation to 2005/06	State Water's proposed costs October 2004	MJA-Cardno's recommended efficient costs
Border	1,344	1,528	1,759
Gwydir	2,781	3,926	2,382
Namoi	2,878	4,347	3,009
Peel	739	1,316	818
Lachlan	4,107	6,092	3,694
Macquarie	3,513	4,851	3,424
Far West	-	-	-
Murray	9,602	14,248	13,516
Murrumbidgee	7,674	9,131	5,289
North Coast	431	819	516
Hunter	3,075	4,600	3,053
South Coast	391	904	500
Total	36,535	51,762	37,960

3.3.2 DIPNR's submission

The Tribunal received a submission from DIPNR in February 2005, which proposed that the Water Resource Management (WRM) costs established at the 2001 determination, adjusted for the effects of inflation, are an appropriate basis for establishing its WRM charges from 2005/06. The submission also provided estimates of DIPNR's total WRM costs for 2005/06. Table 3.2 sets out the 2001/02 costs adjusted for inflation for each valley and each water source.

In relation to DIPNR's estimated costs for 2005/06 the Tribunal noted that DIPNR had reservations about the robustness of its own estimates. The Tribunal therefore decided to also use the costs established for the 2001 determination in reaching its decision for 2005/06.

Table 3.2 DIPNR's user share of WRM costs (nominal \$'000)

Valley	2001 costs adjusted for inflation to 2005/06		
	Regulated	Unregulated	Groundwater
Border	750	220	144
Gwydir	906	140	358
Namoi	938	510	1,611
Peel	154	73	373
Lachlan	1,035	431	820
Macquarie	871	645	899
Far West	-	1,338	1,305
Murray	3,017	280	896
Murrumbidgee	2,336	475	1,697
North Coast	85	2,799	562
Hunter	1,538	1,243	629
South Coast	77	3,064	943
Total	11,709	11,220	10,238

*Rows/columns do not add due to rounding.

3.4 Considerations in relation to cost recovery

In line with the NSW Government's commitment to achieve full cost recovery for provision of bulk water, the Tribunal is conscious of the need to set maximum prices for bulk water services that more adequately recover the costs that State Water and DIPNR incur in providing these services. It also recognises that it has an important role in defining what constitutes full cost recovery when it assesses and allocates costs.

The Tribunal notes that the cost base for bulk water has increased over time, and that this is partly due to increasing recognition of the need for significant expenditure to better manage the bulk water system and mitigate its environmental impacts. Likewise, the prices paid by customers have increased significantly over time to increase the level of cost reflectivity. However, for a number of valleys the level of cost recovery is still very low.

In its 2001 determination, the Tribunal increased charges for regulated rivers by up to CPI+15% per annum. For unregulated rivers and groundwater sources, it increased charges by CPI+20%. At that time, it expected that even with these increases, the charges for a number of valleys would remain below the full cost recovery level. Figures 3.1 to 3.4 show the level of costs estimated to be recovered through 2004/05 charges, based on the 2001/02 cost base adjusted for inflation.

Figure 3.1 State Water regulated rivers estimated cost recovery levels 2004/05

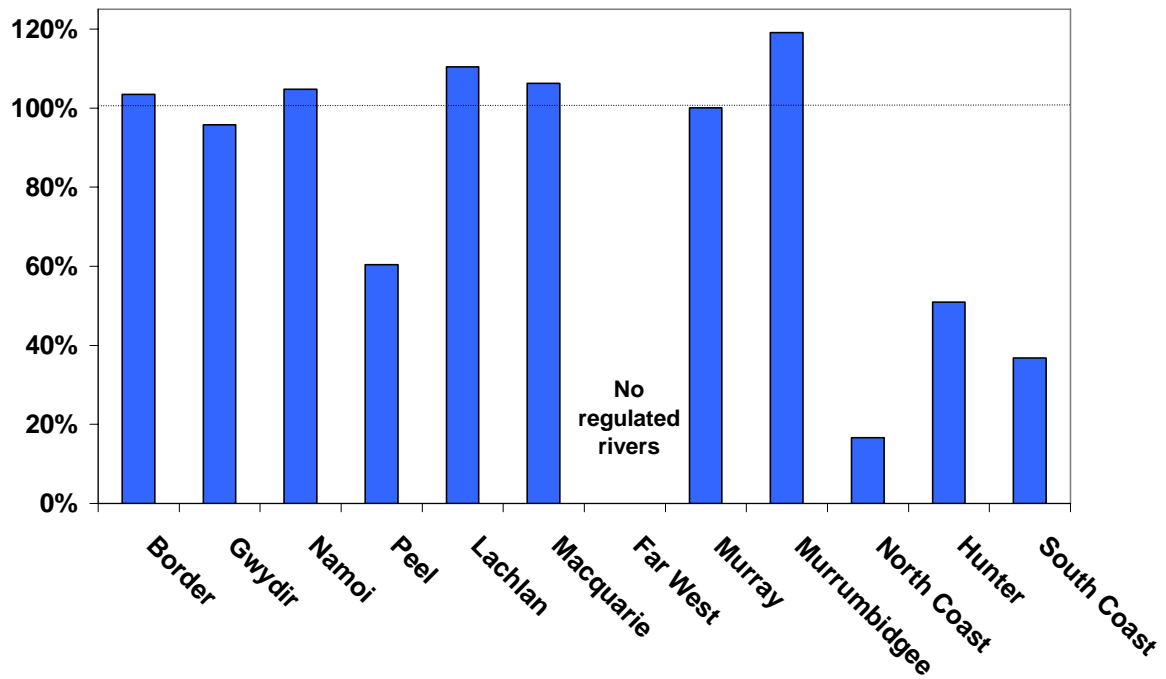


Figure 3.2 DIPNR regulated rivers estimated cost recovery levels 2004/05

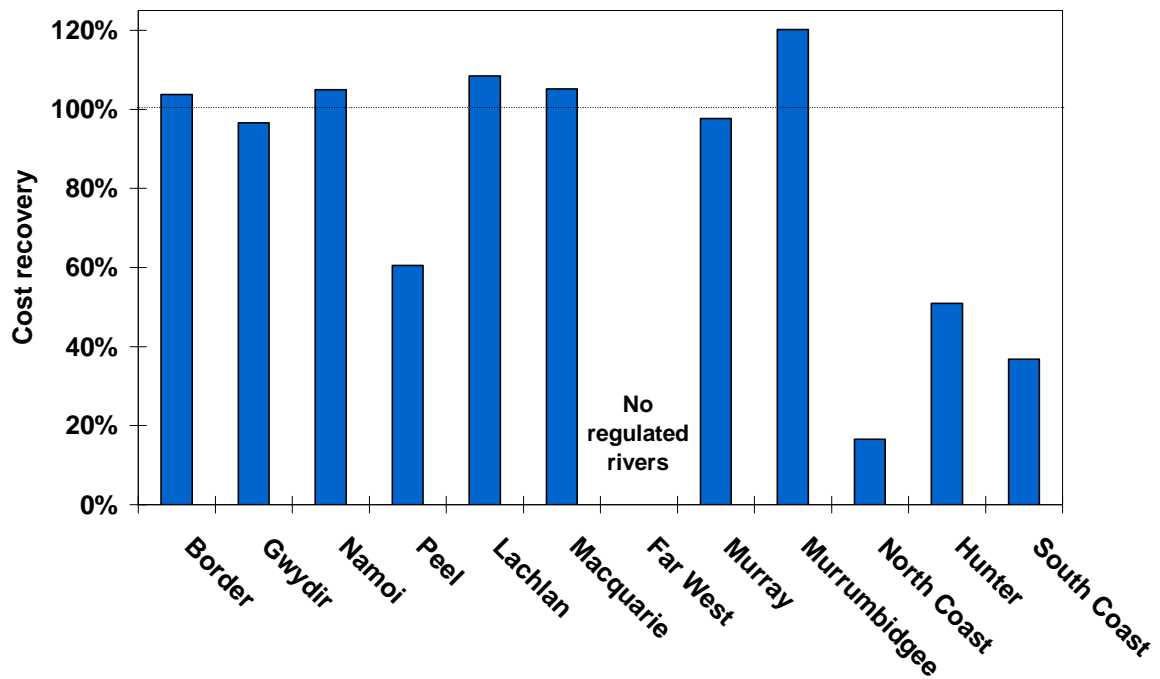


Figure 3.3 DIPNR unregulated rivers estimated cost recovery levels 2004/05

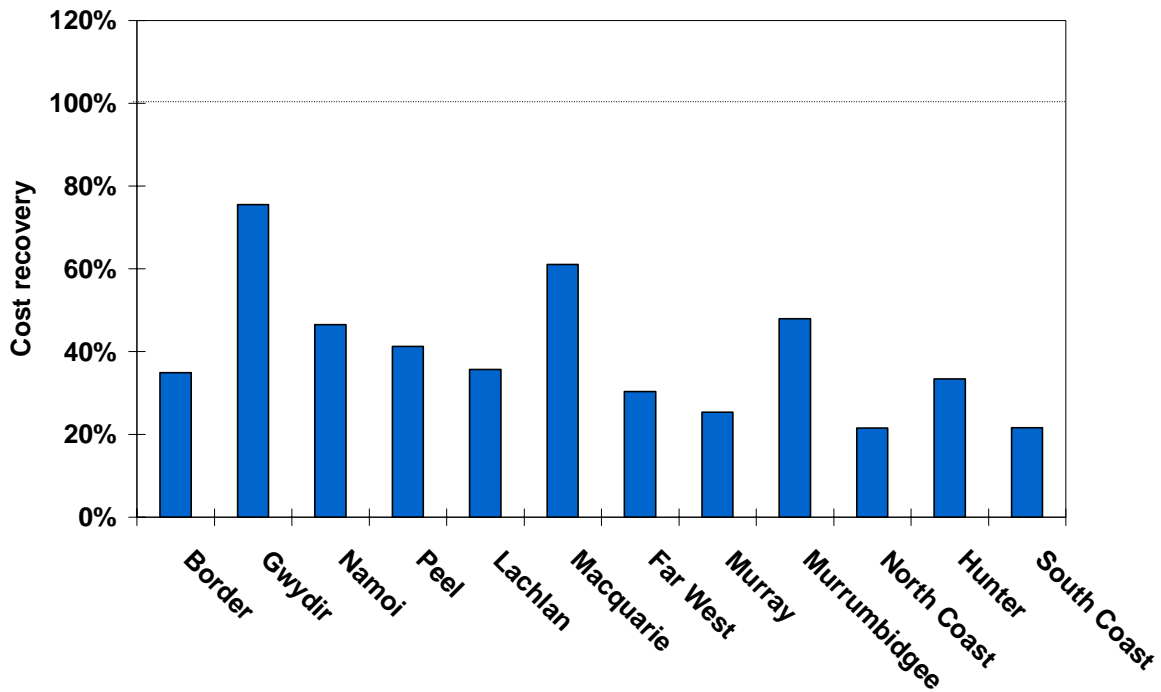
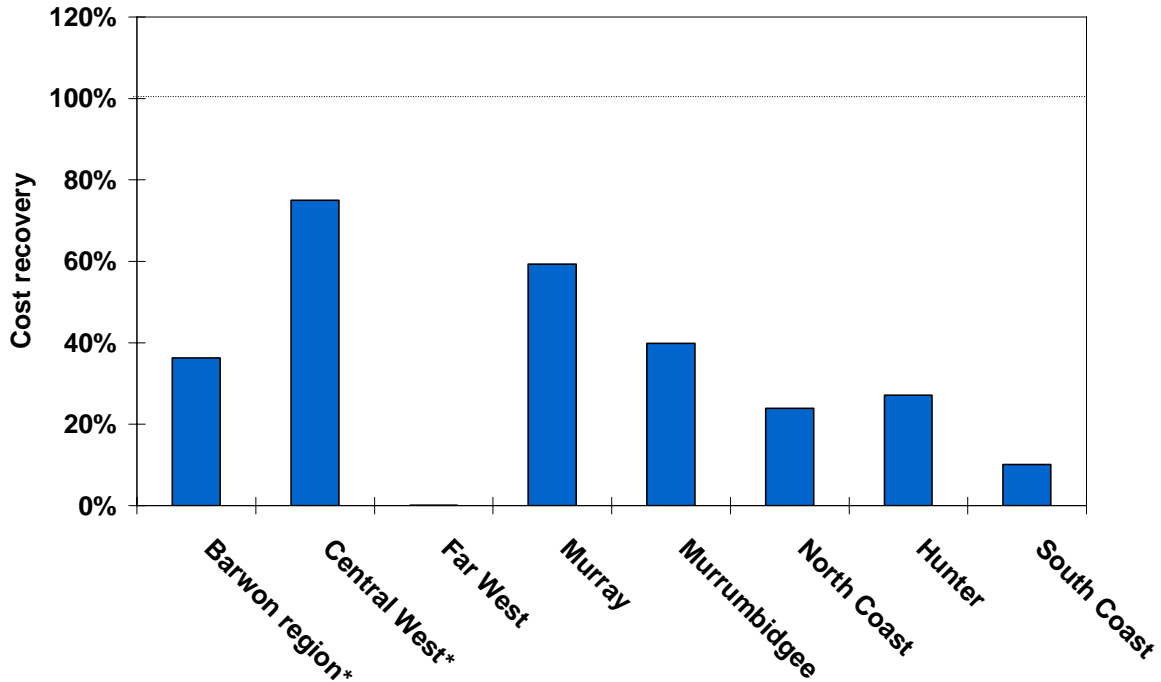


Figure 3.4 DIPNR ground water estimated cost recovery levels 2004/05



* The Barwon region includes the Border, Gwydir, Namoi and Peel valleys. Central West includes the Lachlan and Macquarie valleys.

The Tribunal notes that in the case of regulated rivers, the charges for most valleys are at, or close to, full cost recovery level, however, for four valleys they are still well below this level. For the unregulated rivers and groundwater sources, the charges for all valleys are well below cost recovery.

The Tribunal has used the above information on the estimated cost recovery in 2004/05 to guide its decisions on maximum prices for individual services for the 2005/06 determination.

3.5 Decisions on increases in charges

The Tribunal has decided to increase charges that are currently well below the full cost recovery level by CPI+10%, and to maintain all other charges at their current level in real terms – that is, to adjust these charges by the movement in the CPI only¹⁵.

Given the level of information available to it (particularly cost information), the Tribunal has decided to allow for a real price increase only where the current charge is well below full cost recovery level and to limit the level of the increase to CPI+10%.¹⁶

The Tribunal believes that irrespective of which cost base is used as the basis for determining the level of costs to be recovered, these charges are currently well below cost recovery. It is therefore confident that this level of increase will not lead to an over recovery of costs.

¹⁵ Specifically, the movement in CPI between the four quarters ending 31 March 2005 and the four quarters ending 31 March 2004, which equates to 2.4 per cent.

¹⁶ Due to rounding of charges to the nearest cent, prices increases may be slightly higher than CPI + 10%.

4 PRICING DECISIONS

The Tribunal has set a maximum price for each bulk water charge to apply from the date of gazettal of the 2005/06 determination to 30 June 2006. As discussed in Chapter 3, it has increased the price by either CPI+10% or the movement in the CPI only, depending on the current cost recovery level of the charge.¹⁷ This means that charges for regulated rivers will increase in real terms in four of the 11 valleys and remain constant in real terms in the remaining seven, while charges for unregulated rivers and groundwater sources will increase in real terms in all valleys.

The Tribunal's pricing decisions for each State Water and DIPNR charge for regulated rivers, unregulated rivers and groundwater sources are set out below.

4.1 Pricing decisions for regulated rivers

The Tribunal has decided to increase bulk water charges for State Water and DIPNR on regulated rivers by:

- CPI+10% for the Peel, North Coast, Hunter and South Coast valleys
- CPI for all other valleys.

In addition, the Tribunal has decided to maintain the discounts on the entitlement charge for wholesale customers set in the 2001 determination.

Licence holders on regulated rivers are currently charged for services provided by both State Water and DIPNR. Tables 4.1 to 4.3 show each agency's charges and the total charges to apply for 2005/06 on regulated rivers. Table 4.4 shows the discounts on entitlement charges for wholesale customers.

Table 4.1 State Water charges for regulated rivers

Region/river valley	2005/06 Charges (\$ nominal)		Usage charge (\$/ML)
	Entitlement charge (\$/ML entitlement)		
	High security	General security	
Border	4.00	2.68	3.11
Gwydir	4.25	2.82	3.29
Namoi	8.04	5.36	6.42
Peel	11.52	5.05	9.19
Lachlan	5.80	3.86	4.42
Macquarie	3.66	2.81	3.79
Murray	4.43	4.02	1.09
Murrumbidgee	3.28	3.11	0.82
North Coast	10.59	8.14	5.42
Hunter	6.61	4.72	4.70
South Coast	10.60	8.15	5.43

¹⁷ The movement in CPI between the four quarters ending 31 March 2005 and the four quarters ending 31 March 2004 equates to 2.4 per cent. A CPI + 10% increase, therefore, equates to a 12.4 percent increase.

Table 4.2 DIPNR charges for regulated rivers

Region/river valley	2005/06 Charges (\$ nominal)		
	Entitlement charge (\$/ML entitlement)		Usage charge (\$/ML)
	High security	General security	
Border	2.23	1.50	1.74
Gwydir	1.38	0.92	1.08
Namoi	2.62	1.75	2.09
Peel	2.41	1.06	1.92
Lachlan	1.46	0.97	1.12
Macquarie	0.90	0.70	0.94
Murray	1.39	1.26	0.34
Murrumbidgee	1.00	0.95	0.25
North Coast	2.09	1.61	1.08
Hunter	3.30	2.36	2.35
South Coast	2.08	1.60	1.07

Table 4.3 Total charges for regulated rivers

Region/river valley	2005/06 Charges (\$ nominal)		
	Entitlement charge (\$/ML entitlement)		Usage charge (\$/ML)
	High security	General security	
Border	6.23	4.18	4.85
Gwydir	5.63	3.74	4.37
Namoi	10.66	7.11	8.51
Peel	13.93	6.11	11.11
Lachlan	7.26	4.83	5.54
Macquarie	4.56	3.51	4.73
Murray	5.82	5.28	1.43
Murrumbidgee	4.28	4.06	1.07
North Coast	12.68	9.75	6.50
Hunter	9.91	7.08	7.05
South Coast	12.68	9.75	6.50

Table 4.4 Discounts on entitlement charges for wholesale customers

Licence holder	Discount on entitlement charges (%)
Murray Irrigation	40
Western Murray Irrigation	27
West Corrugan	35
Moira Irrigation Scheme	30
Eagle Creek Scheme	25
Murrumbidgee Irrigation	29
Coleambally Irrigation	32
Jemalong Irrigation	27

4.2 Pricing decisions for unregulated rivers

The Tribunal decided to increase bulk water prices on unregulated rivers by:

- **CPI+10% for town water supply and industrial customers**
- **CPI+10% for irrigators charged on an area, volume of entitlement and two-part tariff basis. The minimum bill applicable to irrigators is to increase by CPI.**

The basis for charging extractors on unregulated rivers depends on whether the licence holder is an irrigator or a town water supply agency or industrial customer.

Town water supply and industrial customers are charged depending on whether they have been allocated an entitlement volume. If customers have been allocated an entitlement volume, the valley-based two-part tariff that applies for irrigation licences will apply for town and industrial suppliers. Where customers have not been allocated an entitlement volume they are charged a fixed fee per licence plus a usage fee. This usage charge is different from the usage charge for irrigation licences.

The base charge per licence for a town water supply and industrial customers not on the two-part tariff for 2005/06 is \$119.25. Table 4.5 shows the usage charge for these customers and the two-part tariff for those customers that have been allocated an entitlement volume.

Table 4.5 Charges for town water supply agencies and industrial customers on unregulated rivers

Region/river valley	Two part tariff		Town water supply agencies and industrial customers usage (\$/ML)*
	Entitlement (\$/ML)	Usage (\$/ML)	
Border	2.30	1.53	1.72
Gwydir	2.30	1.53	1.72
Namoi	2.30	1.53	1.72
Peel	2.30	1.53	1.72
Lachlan	1.85	1.24	1.88
Macquarie	2.71	1.80	1.88
Far West	1.26	0.84	1.88
Murray	1.85	1.24	0.97
Murrumbidgee	3.26	2.16	1.88
North Coast	2.47	1.65	1.88
Hunter	1.60	1.07	1.63
South Coast	1.80	1.20	1.88

* Other than Sydney Catchment Authority or Hunter Water Corporation.

Irrigators on unregulated rivers can be charged either an area-based charge, a volume of entitlement charge, or a two-part tariff. In some cases irrigators' bills (that are calculated using one of these approaches) may be less than a minimum charge. In these instances, the irrigator would pay the minimum charge. Irrigators on unregulated rivers have historically been subject to an area-based charge, although these licences are gradually being converted to volumetric licences. Once area based licences are converted to volumetric licences and water usage is metered, a two-part tariff with an entitlement and usage charge will apply.

As part of its investigations for this price determination, the Tribunal discovered that the entitlement volumes used to convert area-based licences to volumetric licences were substantially different from those derived from using the crop conversion ratios assumed at the 2001 determination.¹⁸

The Tribunal has sought a commitment from DIPNR to ensure that customers are not impacted by unexpected increases in the average conversion ratios. DIPNR has confirmed that it will continue to bill customers on the area-based charges for the 2004/05 and 2005/06 financial years, except where a new licence has been issued.

The minimum bill applicable to irrigators for 2005/06 is \$54.31. Table 4.6 shows the area-based charges, volume of entitlement charges and two-part tariffs that apply for 2005/06.

¹⁸ This issue is explored further in Chapter 5.

Table 4.6 Charges for irrigators on unregulated rivers

Region/river valley	Area-based charge (\$/ha)	Volume of entitlement charge (\$/ML)	Two-part tariff	
			Entitlement (\$/ML)	Usage (\$/ML)
Border	12.26	3.82	2.30	1.53
Gwydir	12.26	3.82	2.30	1.53
Namoi	12.26	3.82	2.30	1.53
Peel	12.26	3.82	2.30	1.53
Lachlan	13.57	3.07	1.85	1.24
Macquarie	13.57	4.52	2.71	1.80
Far West	13.57	2.07	1.26	0.84
Murray	7.72	3.09	1.85	1.24
Murrumbidgee	13.57	5.43	3.26	2.16
North Coast	13.57	4.10	2.47	1.65
Hunter	11.75	2.65	1.60	1.07
South Coast	13.57	3.00	1.80	1.20

4.3 Pricing decisions for groundwater sources

The Tribunal has decided to increase all entitlement and usage charges for groundwater by CPI+10%. The base charge per property is to increase by CPI.

Extractors from groundwater sources are charged according to whether they are located in Groundwater Management Areas (GMAs) or in non-managed areas. Licence holders in management areas are charged a base fee per property, an entitlement charge to apply to megalitres of licence entitlement, and a charge per megalitre of water used. In non-managed areas, licence holders are charged a base charge per property and an entitlement fee. Usage is not metered or monitored in non-management areas.

Table 4.7 and 4.8 show the base charges per property and entitlement and usage charges for 2005/06.

Table 4.7 Groundwater base charges per property

Charge	\$ per year
In groundwater management areas	187.72
In non-managed areas	81.48

Table 4.8 Groundwater entitlement and usage charges

Region/river valley	Entitlement charge (\$/ML)	Usage charge (\$/ML)
Border	0.85	0.43
Gwydir	0.85	0.43
Namoi	0.85	0.43
Peel	0.85	0.43
Lachlan	1.37	0.71
Macquarie	1.37	0.71
Far West	1.51	0.75
Murray	1.36	0.69
Murrumbidgee	0.84	0.42
North Coast	1.51	0.75
Hunter	1.51	0.75
South Coast	1.51	0.75

4.4 Pricing decisions for the Sydney Catchment Authority (SCA) and the Hunter Water Corporation (HWC)

The Tribunal has decided that the charge associated with water extraction by SCA and HWC will be derived by adding the applicable valley entitlement and usage charge.

DIPNR levies a range of charges on large customers who have licences for extraction of water from unregulated rivers, including SCA and HWC. In the 2001 determination, the Tribunal set two charges for these customers, the greater of which applies:

- \$1.80 per megalitre of extraction, or
- the amount derived by adding the entitlement and usage component that applies to all other irrigators in the respective valleys.

HWC also has a water management authority licence for extracting groundwater. At the 2001 determination, the Tribunal set two charges for this water, the greater of which applies:

- \$1.80 per megalitre of extraction, or
- the amount derived by adding the entitlement and usage component that applies to all other ground water extraction in the Hunter valley.

The entitlement and usage charges referred to above have increased over the 2001 determination period, so that the \$1.80 per megalitre charge is now redundant. Therefore, for this determination, the Tribunal decided that the charges associated with water extraction by HWC and SCA are to be based purely on the charge derived by adding the relevant entitlement and usage charges.

4.5 Pricing decision related to Yanco Creek System Natural Resource Management Plan

The Tribunal decided to introduce a new charge for irrigators in the Yanco Columbo System (YCS) and on the Murrumbidgee river to recover a portion of the costs related to the Yanco Creek System Natural Resource Management Plan (NRMP). The charge will be \$1.317 per megalitre of entitlement for irrigators in the YCS and \$0.417 per megalitre of entitlement for all other irrigators in the Murrumbidgee river.

State Water's 2005 submission includes two pricing proposals relating to work programs that have been initiated by irrigators on river systems. This includes projects for:

- improvements to Lake Brewster storage facilities in the Lachlan Valley
- rehabilitation of the Yanco Creek System to improve flows and provide significant water efficiencies for the system and the Murrumbidgee Valley.

State Water has since advised that the Lake Brewster storage project has been delayed due to planning approvals and a further examination of the costs of the project. The Tribunal also notes that although there appears to be support for the project by irrigators, the proposed funding arrangements are not fully supported. The Tribunal has, therefore, not approved the price increases proposed by State Water in relation to this project. However the Tribunal anticipates considering the issue of funding for this project at the next determination.

The Tribunal has reviewed the price increases proposed in relation to the Yanco Creek System NRMP and discussed these further with the Yanco Creek and Tributaries Advisory Council and State Water. The project has received substantial support from the irrigator groups in the region, the NSW Irrigators' Council and DIPNR's Regional Director for the Murray/Murrumbidgee Region. Given the apparent merits of the project and the support for the project from stakeholders, the Tribunal has decided to introduce a new charge for users in the YCS and on the Murrumbidgee river in line with State Water's submission.

5 EXPECTED OUTCOMES OF 2005/06 PRICING DECISIONS

In determining bulk water charges for 2005/06, the Tribunal took account of the range of matters it is required to consider under section 15 of the IPART Act. In particular, it considered the impact of its proposed maximum prices for 2005/06 on State Water and DIPNR, on their customers, and on the environment. Importantly, it also considered the balance between these competing interests, because a favourable outcome for one stakeholder is often at the expense of an unfavourable outcome for another stakeholder.

This chapter explains the Tribunal's assessment of the expected implications of its pricing decisions for customers, the financial position of the agencies, service standards, and the environment.

5.1 Implications for customer bills

In reaching its pricing decisions, the Tribunal explicitly considered the likely impact of these decisions on State Water's and DIPNR's customers on regulated rivers, unregulated rivers and groundwater sources. Its analysis focused on irrigators, who it considers are likely to be the customers that will have most difficulty paying for any price increases. The Tribunal's overall conclusion is that the 2005/06 determination will have an acceptable impact on customers.

In reaching this conclusion, the Tribunal acknowledges that significant increases in bulk water prices will put pressure on profit margins throughout the irrigation sector. It recognises that for irrigators facing financial pressure, such increases will exacerbate this pressure. Partly because of this, the Tribunal has limited price increases to CPI+10% for valleys where current charges are well below full cost recovery level.¹⁹ As a consequence of this decision, revenues on regulated rivers will not reach full cost recovery in four valleys, while revenue on unregulated rivers and groundwater sources will not reach full cost recovery in all valleys.²⁰

5.1.1 Customers on regulated rivers

As Table 5.1 shows, a typical bill for a customer with a general security entitlement will increase by between approximately \$75 and \$376 between 2004/05 and 2005/06.²¹ This assumes that the customer holds an average entitlement volume for that valley, and will receive an allocation of water in line with that announced at the end of the 2004/05 season.²²

¹⁹ Due to rounding of charges to the nearest cent, prices increases may be slightly higher than CPI + 10%.

²⁰ In the situation where full cost recovery is not achieved, the balance of the users' share of costs is provided to DIPNR and State Water as a Community Service Obligation payment from Government.

²¹ On regulated rivers, irrigators mainly hold general security licences, although some irrigators hold high security licences. Owners of high security entitlements are usually able to extract the total volume of their licence in all but the severest drought, while owners of general security entitlements are able to extract a specified proportion of the entitlement volume each year which varies according to water availability.

²² A typical bill for a customer that receives their full entitlement will increase by between approximately \$164 and \$548 between 2004/05 and 2005/06.

Table 5.1 Examples of average bills for customers with a general security entitlement on regulated rivers (nominal \$)

Region/river valley	Average entitlement 04/05 (ML)	Water allocation for 04/05	Estimated total bill 04/05	Estimated total bill 05/06	Change in bill (\$)	Change in bill (%)
Border	1,930	13%	9,064	9,284	221	2.4%
Gwydir	2,741	3%	10,355	10,611	256	2.5%
Namoi	914	14%	7,407	7,587	181	2.4%
Peel	255	65%	3,024	3,400	376	12.4%
Lachlan	682	0%	3,219	3,294	75	2.3%
Macquarie	1,013	9%	3,886	3,987	101	2.6%
Murray	2,057	49%	12,015	12,302	287	2.4%
Murrumbidgee	3,258	40%	14,290	14,622	332	2.3%
North Coast	166	90%	2,303	2,590	287	12.5%
Hunter	222	100%	2,791	3,137	346	12.4%
South Coast	168	45%	1,894	2,129	236	12.5%

* Assumes that irrigators are not wholesale irrigation customers.

* The allocation is based on the final allocation announcement in 2004/05 and is represented as a percentage of the entitlement.

* Prices have been increased by 2.4 per cent or 12.4 per cent as discussed in Chapters 3 and 4. Due to rounding charges to the nearest cent, the increases in bills shown above may differ marginally from these levels.

The Tribunal notes that at the last determination, it relied on two studies conducted by the former NSW Agriculture on irrigation farming in the Peel and Lachlan Valleys to assess the likely customer impact of proposed price increases. The studies constructed 'representative' commercial farms for different geographical zones, and investigated the impact on farm profitability of the bulk water price increases needed to achieve full cost recovery. The reports assumed significant increases in bulk water charges to achieve full cost recovery levels, and concluded that even with these price increases the impact on farm income would be low. The reports also noted that bulk water charges represented a very small proportion of total costs of irrigation enterprises.²³

It is unlikely that these conclusions will have changed substantially since the last determination. However, the Tribunal will seek updated information from similar studies to assist at its 2006/07 determination.

5.1.2 Irrigators on unregulated rivers

Bills for irrigators for water from unregulated rivers will increase by a maximum of 12.4 per cent in 2005/06 compared to 2004/05 levels (assuming that the customer remains on the same tariff structure and no change in other conditions, such as area, entitlement and/or usage volumes). The Tribunal notes that, in dollar terms, water from unregulated rivers is much cheaper than water from regulated rivers in all valleys. Therefore, bulk water payments to State Water and DIPNR are likely to remain a small proportion of total farm costs.

²³ A summary of the reports was presented in Appendix 9 of the Tribunal's 2001 Bulk Water Prices report.

At the time of the 2001 determination, the former DLWC was in the process of converting area-based licences to licences based on an entitlement to a volume of water. As a result of this, the Tribunal set three different types of tariff for irrigators on unregulated rivers to allow DIPNR to charge customers according to the type of licence held. The three tariffs included an area-based charge, an “entitlement only” charge and a two-part tariff.

The “entitlement only” charge and the two-part tariff were derived from the area-based charge using assumptions on the average “conversion rates” that DIPNR would apply when converting the area-based licences to volume-based licences. The intention of this was to ensure that customers were paying the same bill for access to an equivalent amount of water – that is, the three tariffs were considered to be “bill neutral” for the average irrigator. However, the Tribunal did recognise that some irrigators’ bills would increase or decrease if the actual crop conversion rate used to derive the entitlement volumes from existing area-based licences differed from the average conversion rates assumed by the Tribunal in setting prices.

As part of its investigations for this price determination, the Tribunal found that the entitlement volumes calculated by DIPNR were substantially different to those it derived using the crop conversion ratios and used in making the 2001 determination. The impact of this is that some irrigators would face substantial bill increases if DIPNR uses the “entitlement only” charges and two-part tariff set at the last determination.

To protect irrigators from substantial unexpected bill increases, the Tribunal sought assurances from DIPNR that customers’ bills would not be impacted by the unexpected increases in the average conversion ratios. As discussed in Chapter 4, DIPNR has confirmed that it will continue to bill customers on the area-based charges for the 2004/05 and 2005/06 financial years, except where a new licence has been issued.²⁴ This will ensure that irrigators are not adversely affected by this unexpected event.²⁵

Table 5.2 below provides some examples of the likely change in bill for an irrigation customer with a licence with an average authorised area for the particular valley. Although, all customers will receive a 12.4 per cent increase in their bill, the dollar change in the bill will vary across valleys depending on the size of the authorised area. The largest bill increases are likely to be experienced in the Gwydir, Namoi and Far West valleys, where irrigators hold licences for relatively large authorised areas.

²⁴ In this circumstance licences that had been converted from an area basis to a volumetric basis were not deemed to be ‘new’ licences.

²⁵ While the Tribunal supports DIPNR’s proposal to continue to bill irrigators on unregulated rivers using the area based charge, the Tribunal maintains its preference that DIPNR continue to progress toward billing all customers on a two-part tariff. This issue is discussed in more detail in Chapter 6.

Table 5.2 Average bills for irrigators on unregulated rivers

	Average authorised area (ha)	2004/05 Bill	2005/06 Bill	Change in bill (\$)	Change in bill (%)
Border	33	359	404	44	12.4%
Gwydir	131	1,434	1,611	177	12.4%
Namoi	75	818	919	101	12.4%
Peel	11	124	139	15	12.4%
Lachlan	49	590	664	73	12.4%
Macquarie	27	321	361	40	12.4%
Far West	148	1,780	2,002	221	12.4%
Murray	45	312	351	39	12.4%
Murrumbidgee	56	677	761	84	12.4%
North Coast	12	141	158	18	12.4%
Hunter	17	175	197	22	12.4%
South Coast	14	168	188	21	12.4%

5.1.3 Town water supply agencies and industrial customers on unregulated rivers

Town water supply agencies and industrial customers will face increases in their bills. However, since town water supply agencies and industrial customers currently have small water bills, the impact of the increases on their total costs should be small.

Table 5.3 shows the average usage for town and industry customers and the average change in their bills from 2004/05 to 2005/06.

Table 5.3 Average potential bill impact for town and industry customers on unregulated rivers (nominal \$)

Valley	Average Usage (ML)	2004/05 Bill	2005/06 Bill	Change in bill	Change in bill (%)
Border	25	144	162	18	12.4%
Gwydir	25	144	162	18	12.4%
Namoi	24	143	161	18	12.4%
Peel	0	106	119	13	12.4%
Lachlan	759	1373	1545	172	12.6%
Macquarie	750	1359	1529	171	12.6%
Far West	195	431	485	54	12.5%
Murray	93	186	209	23	12.6%
Murrumbidgee	390	758	853	95	12.6%
North Coast	789	1425	1603	179	12.6%
Hunter	789	1251	1406	155	12.4%
South Coast	474	898	1011	113	12.6%

* Assumes all customers are charged on a base charge plus usage. The average usage is based on advice from DIPNR on the number of town and industry customers in the valley divided by the total usage for that valley.

* Prices have been increased by 12.4 per cent as discussed in Chapter 3 and 4. Due to rounding charges to the nearest cent, the increases in bills shown above may differ marginally from these levels.

5.1.4 Customers with groundwater extraction licences

Tables 5.4 and 5.5 show the change in bills for groundwater customers with a 500ML entitlement in managed and non-managed areas respectively. The bills for customers in non-managed areas are lower than those for customers in managed areas, and will increase by less. This is because customers in non-managed areas do not pay a usage charge, and pay a lower base charge per property.

Table 5.4 Impact of change in bill for customers in managed areas with 500ML entitlement and usage (nominal \$)

Valley	2004/05 bill	2005/06 bill	Change in bill	Change in bill (%)
Border	753	828	74	9.9%
Gwydir	753	828	74	9.9%
Namoi	753	828	74	9.9%
Peel	753	828	74	9.9%
Lachlan	1,108	1,228	119	10.8%
Macquarie	1,108	1,228	119	10.8%
Far West	1,188	1,318	129	10.9%
Murray	1,093	1,213	119	10.9%
Murrumbidgee	743	818	74	10.0%
North Coast	1,188	1,318	129	10.9%
Hunter	1,188	1,318	129	10.9%
South Coast	1,188	1,318	129	10.9%

* Entitlement and usage charges have been increased by 12.4 per cent and the base charge per property increased by 2.4 per cent. Due to the relative contribution of these bill components and rounding charges to the nearest cent, the increases in bills shown above differ from these levels.

Table 5.5 Impact of change in bill for customers in unmanaged areas with 500ML entitlement (nominal \$)

Valley	2004/05 bill	2005/06 bill	Change in bill	Change in bill (%)
Border	460	506	47	10.2%
Gwydir	460	506	47	10.2%
Namoi	460	506	47	10.2%
Peel	460	506	47	10.2%
Lachlan	690	766	77	11.2%
Macquarie	690	766	77	11.2%
Far West	750	836	87	11.6%
Murray	685	761	77	11.2%
Murrumbidgee	455	501	47	10.3%
North Coast	750	836	87	11.6%
Hunter	750	836	87	11.6%
South Coast	750	836	87	11.6%

* Entitlement charges have been increased by 12.4 per cent and the base charge per property increased by 2.4 per cent. Due to the relative contribution of these bill components and rounding charges to the nearest cent, the increases in bills shown above differ from these levels.

5.2 Expected business and shareholder outcomes

Overall, the Tribunal believes that its pricing decisions will not adversely affect the ability of DIPNR and State Water to operate, maintain, renew and develop the assets required to deliver regulated bulk water services. The proposed maximum prices in 2005/06 will result in an increase in total revenue (compared to 2004/05 levels) of around \$0.18m for State Water and \$0.65m for DIPNR.

Table 5.6 shows DIPNR's total revenue from bulk water tariffs between 2004/05 and 2005/06 (based on DIPNR and State Water's estimates of long-term usage volumes). Because both agencies derive a substantial proportion of their revenues from fixed charges, their total revenues are expected to be relatively stable.

Table 5.6 State Water and DIPNR's projected revenue from users by water source (2004/05 \$'000)

Valley	2004/05	2005/06	Change
State Water			
Regulated rivers	32,632	32,809	178
DIPNR			
Regulated rivers	10,307	10,383	76
Unregulated rivers	3,300	3,605	305
Groundwater	3,710	3,982	272
Total	17,317	17,970	653

* Revenue from regulated rivers has been calculated using DIPNR's and State Water's estimated long term average usage. Rows/columns may not add due to rounding.

* Revenue from Sydney Catchment Authority and Hunter Water Corporation has been excluded.

5.3 Service standards

When considering the impact of its pricing decisions on service quality, the Tribunal seeks to ensure that these decisions do not adversely affect the standards of service that DIPNR and State Water provide to their customers. The prices set for the 2005/06 determination have been set based on the expectation that current service levels will be maintained, and that cost reductions and efficiency savings will not be obtained at the expense of service standards.

The Tribunal notes that State Water's service standards will be monitored as part of its operating licence, which requires it to achieve some minimum service standards. However, DIPNR does not have an operating licence, and so is not subject to the same degree of scrutiny.

5.4 Environmental outcomes

In making the 2005/06 determination, the Tribunal considered the implication of its pricing decisions for the environment. It has previously stated its belief that the most effective way to address environmental problems on NSW rivers is for DIPNR to manage water use within ecologically sustainable river flow regimes. The role of water pricing in this context is to ensure that DIPNR has adequate funding to cover relevant water resource management costs, and to encourage demand management.

In the 2001 determination, the Tribunal allowed for total water resource management expenditure of \$41m (in 2001/02 dollars). For the 2005/06 determination, it has maintained this level of expenditure. DIPNR did not put forward any additional costs for this determination, however, it has signalled that it will be putting forward a more detailed submission at the next price determination which will include revised costs.

The Tribunal's 2001 determination also allowed for environmental compliance costs in relation to State Water.²⁶ These include the costs associated with the installation of fish ladders, and facilities to mitigate thermal pollution and enable environmental flows that mimic natural river flow cycles. The Tribunal concluded that these costs should be shared by extractive users and the Government (on behalf of the broader community). For the 2006/07 determination, the Tribunal will consider State Water's proposed capital expenditure in further detail.

The Tribunal's price determinations can also affect the environment through the structure of the prices it sets, particularly through the use of variable usage charges to send a signal to customers about the need to conserve water. For this determination, the Tribunal has maintained the price structures established at the 2001 determination, which include a usage component for most charges. For the 2006/07 determination, the Tribunal will consider the price structure further including the balance between fixed and usage charges and the introduction of two-part tariffs for customers on unregulated rivers.

While the Tribunal supports price structures that encourage water conservation, it continues to have some doubts about their effectiveness in encouraging water conservation. As noted earlier in this chapter, bulk water only makes up a relatively small proportion of customers' bills, and this limits their responsiveness to price changes. The Tribunal therefore believes that prices can only play a supplementary role in encouraging water conservation, and that

²⁶ At that stage State Water was a business unit within the former DLWC.

decisions or planning instruments such as the limits on the level of water extraction in each valley are likely to be needed to have a major impact on demand.

6 THE WAY FORWARD

As discussed in the previous chapters, the Tribunal has decided that the 2005/06 determination will apply from the commencement date of the Determination to 30 June 2006. It made this decision largely due to the lateness of DIPNR's submission, as well as concerns about the robustness of information provided to the Tribunal. The Tribunal considers that to delay setting a longer term price path by one year will provide State Water and DIPNR with more time to prepare detailed and robust information for the 2006/07 determination.

In addition, the issues paper for the 2005/06 price review raised several issues, such as the appropriate structure of prices, that the Tribunal was not able to address in this determination. Although State Water, DIPNR and other stakeholders provided useful information on each of these issues in their submissions, there was no clear consensus on how they should be addressed. The Tribunal considers that reaching a resolution for each issue will require further detailed analysis and discussion. It anticipates dealing with these issues in the 2006/07 determination.

This chapter explains the Tribunal's review process for the 2006/07 determination, and summarises the key issues for that determination.

6.1 Review process for 2006/07 determination

As part of the review process, the Tribunal will consult with key stakeholders, including State Water, DIPNR and environmental, community and water users' advocacy organisations.

The submission that State Water provided to the 2005/06 price review contained detailed pricing proposals and provided comprehensive financial information on the projected operating and capital expenditures it believes are necessary to maintain customer service levels and respond to regulatory and customer demands over the period to be considered in the 2006/07 price review. However, the Tribunal encourages State Water to prepare an additional submission that takes into account the findings of MJA-Cardno's review of its projected expenditures, as well as comments made by stakeholders in their submissions to the 2005/06 review.

DIPNR did not provide a detailed submission to the 2005/06 price review and has committed to provide the Tribunal with one for the 2006/07 review. The Tribunal has already advised DIPNR of the minimum level of information that it requires in this submission. If DIPNR does not provide this information, it will limit the Tribunal's ability to conduct a detailed review in 2006/07. Therefore, the Tribunal again emphasises the importance of DIPNR making a detailed submission to the Tribunal by September 2005.

The Tribunal has not yet decided on the length of the price path for the next determination. This will in part be influenced by the quality of information provided to it. In other sectors the Tribunal has made price paths for periods of up to 5 years. To enable the Tribunal to make an assessment of the length of the price paths, the Tribunal expects that State Water and DIPNR would provide costing data for a period of 5 years, that is up to 2010/2011.

State Water and DIPNR's submissions to the 2006/07 price review will be made available to the public on the IPART web site (www.ipart.nsw.gov.au). Once these submissions are available, the Tribunal invites all other interested parties to make submissions to the review, which comment on State Water's and DIPNR's submissions, the issues raised in this report and the 2005/06 Issues Paper, and other matters relating to bulk water prices.

The Tribunal will commission an independent consultant to review the efficiency of DIPNR's projected operating and capital expenditures, and will make this consultant's report available on its website. It may engage further consultants to help it review other issues where specialist expertise is required.

The Tribunal also plans to hold public hearings/workshops to provide further opportunities for stakeholders to present their views. In addition, it will release a draft report, and invite stakeholders to make further submissions on this report, on the consultant's review of operating and capital expenditures, and on any matter raised in the public hearings. After it has considered these submissions, it will make its final determination and release its final report.

An indicative timetable for the review is provided below.

Indicative review timetable

Task	Timeframe*
Receive submissions from State Water and DIPNR	30 September 2005
Review of capital and operating expenditures	October 2005
Receive public submissions	11 November 2005
Release consultant's report into operating and capital expenditure	December 2005
Hold public hearing and workshops	February 2006
Release draft determination	March 2006
Receive submissions on draft determination and consultant's report	End April 2006
Release final determination	June 2006

* Please note these dates are indicative and may be subject to change.

6.2 Key issues for the 2006/07 price review

The Tribunal's Issues Paper for the 2005/06 price review outlined a range of important issues that needed to be considered. As noted above, the Tribunal was not in a position to resolve many of these issues for the 2005/06 determination. Instead, it intends to do so as part of the 2006/07 price review. These issues were described in detail in the Issues Paper and include:

- the approach to funding capital expenditure on long-lived assets
- the costs attributed to the MDBC and DBBRC
- price structures including the high and low security price differential, the discounts for wholesale irrigators, and the balance between fixed and usage charges
- the introduction of a two-part tariff for unregulated rivers
- allocating efficient costs between users and the community
- billing customers on unregulated rivers.

In addition to this the Tribunal also proposes to consider other issues that have arisen as part of the 2005/06 determination. In particular the Tribunal intends to review the framework for dealing with additional projects that are specifically requested by users. For the 2005/06 determination, one such project was the activities in the Yanco Creek System Natural Resource Management Plan to enhance the provision of water in this area. This project was proposed by the Yanco Creek and Tributaries Advisory Council (YACTAC) and has received substantial support from irrigator groups in the Murrumbidgee valley. The Tribunal has supported this project through setting of a separate charge as requested by YACTAC.

However, the Tribunal did not have sufficient time to consider a general framework that should apply for similar projects. It anticipates that in the future, it is likely that similar projects will be proposed by users. It encourages State Water and DIPNR to consider how these projects should be treated. For example, the projects could be included in the determination as part of general operating and capital expenses, or be considered on a case by case basis. Whichever treatment is adopted will effect the allocation of costs to be recovered and prices to recover these costs.

The Tribunal seeks comment from State Water and DIPNR on an appropriate framework for dealing with projects that are proposed by stakeholders.

APPENDIX 1 GLOSSARY/ABBREVIATIONS

2001 Determination	The determination made by the Tribunal in 2001 – Department of Land and Water Conservation Bulk Water Prices from 1 October 2001 Determination No 3, 2001
ACIL	ACIL Consulting
Capex	Capital Expenditure (refer Section 3.3)
COAG	Council of Australian Governments
CPI	Consumer Price Index
CSC	Customer Service Committee
DBBRC	Dumaresq Barwon Border River Commission
DIPNR	Department of Infrastructure Planning and Natural Resources
DLWC	Department of Land and Water Conservation
GST	Goods and Services Tax
Ha	Hectare
HWC	Hunter Water Corporation
IPART	Independent Pricing and Regulatory Tribunal
MDBC	Murray-Darling Basin Commission
MJA-Cardno	Marsden Jacobs Associates and Cardno (Consultants)
NCC	National Competition Council
NSW	New South Wales
Opex	Operating Expense
PwC	PricewaterhouseCoopers (Consultants)
Regulated River	Those rivers or sections of rivers in which the water flow is controlled by a regulating structure, such as a dam or weir, owned by State Water. The Water Management Act defines a regulated river to be a river that is declared by the Minister, by order published in the Gazette, to be a regulated river. The most recent orders declaring regulated rivers may be found at www.dipnr.nsw.gov.au/water/legal/pdf/combined-rivers_orders.pdf
SCA	Sydney Catchment Authority
Statement of Financial Performance	A statement of financial performance specifies a State Government Agency's and Treasury's commitments, establishes financial and performance targets for the agency, and sets out the agreed principles upon which the funding and delivery of services in the agency's area of responsibility will be based.
TAMP	Total Asset Management Plan
Tribunal	Independent Pricing and Regulatory Tribunal
Unregulated River	Those rivers, or stretches of rivers, which are not controlled by a dam or weir that is owned by State Water. The Water Management Act defines an unregulated to be a river that is not a regulated river.
WRM	Water Resource Management (refer Section 3.2)

APPENDIX 2 IPART ACT REQUIREMENTS

A2.1 Section 15 compliance

Section	Reference
s15(1)(a) the cost of providing the services concerned	The Tribunal has reviewed the cost of providing bulk water and the appropriate allocation of these costs. Its consideration of these issues is discussed in Chapter 3 .
s15(1)(b) the protection of consumers from the abuses of monopoly power in terms of prices, pricing policies and standard of services	Chapter 3 discusses how the Tribunal has analysed costs and adopted those that it believes are appropriate. The Tribunal has applied the same user shares as in the 2001 determination. Chapter 5 discusses the impact of price increases on customers and how the Tribunal has determined a transition period for increases in prices.
s15(1)(c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales	The Tribunal has used an annuity approach for this determination.
s15(1)(d) the effect on general price inflation over the medium term	Chapter 4 discusses Tribunal's proposed price increases. Whilst substantial in percentage terms in some valleys, the Tribunal does not expect that the increase in prices will have a significant effect on general price inflation.
s15(1)(e) the need for greater efficiency in the supply of service so as to reduce the cost for the benefit of consumers and tax payers	The Tribunal's consultants MJA-Cardno have considered the efficient costs for State Water.
s15(1)(f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all the feasible options available to protect the environment	Chapter 5 discusses implications of the new prices for the environment.
S15(1)(g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets	The annuity provides State Water with a basis on which it can provide for asset renewal.
s15(1)(h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body	Not applicable.
s15(1)(l) the need to promote competition in the supply of the services concerned	State Water has been established as a separate corporate entity.
s15(1)(j) consideration of demand management (including levels of demand) and least cost planning	Movement towards greater reliance on usage charges will encourage demand management. However, the Tribunal notes the effect of the drought and reduced availability of water will have a significant effect on demand.

Section	Reference
s15(1)(k) the social impact of the determinations and recommendations	Chapters 3 and 4 discuss limits the Tribunal has placed on price movements and Chapter 5 discusses implications for customers.
s15(1)(l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).	The Tribunal has endeavoured to ensure that prices are appropriate to the level of service provided.

A2.2 Section 16 Compliance

Section 16 of the IPART Act requires an assessment of the likely annual cost to the NSW Government's consolidated fund if bulk water prices are not increased to the maximum level and State Water and DIPNR were compensated for the revenue foregone.

Given State Water's estimate of long term water usage, the Tribunal estimates that State Water would forego a total of \$0.2m if the new maximum bulk water prices were not applied for 2005/06.

Given DIPNR's estimate of long term water usage, the Tribunal estimates that DIPNR would forego a total of \$0.7m if the new maximum bulk water prices were not applied for 2005/06.

APPENDIX 3 INTERGOVERNMENTAL AGREEMENTS ON WATER POLICY

In undertaking its price determinations the Tribunal gives consideration to policies adopted at a national level and agreed upon by relevant states and territories. The first intergovernmental water reform framework was endorsed by COAG in 1994.²⁷ The Commonwealth Government has recently released a further policy document, the *National Water Initiative* that refreshes the 1994 COAG agreement and provides guidance for, amongst other things, water pricing reform throughout Australia.

As part of the intergovernmental agreements, the National Competition Council reviews each state and territory's progress in implementing these reforms. Progress is rewarded by tranche payments by the Commonwealth government under the National Competition Policy.

A3.1 1994 COAG Water Reform Framework

Pricing principles were developed by Federal and State governments, through COAG, as part of a national framework of water reform. The principles were put forward in the *Water Reform Framework* which was endorsed by COAG at a meeting in February 1994.

The key bulk water pricing principles agreed by COAG at this meeting included:

- consumption based pricing to achieve full cost recovery and positive return on assets by 2001, wherever practical
- ensuring that sufficient funds are set aside for asset refurbishment, and
- full and transparent disclosure of actual costs with separate CSO funding of any shortfall between costs and water revenue.

The COAG water reform framework required governments to implement two-part water pricing, comprising an access charge and a charge to reflect usage, by no later than 1998. However, exemptions to two-part pricing could be obtained if it could be shown that adoption would not be cost effective. Prices were to be set to recover all costs, including externality costs (as defined) and to ensure the viability of water businesses.

A key issue for COAG has been determining the extent of under recovery of costs, due to definitional and measurement problems. At the February 1998 meeting of the Agriculture and Resource Management Council of Australia and New Zealand (ARMCANZ) guidelines were adopted to help clarify issues relating to cost recovery. The floor of that range was defined as:

²⁷ Although the first priority for all pricing determinations of the Tribunal is to ensure compliance with section 15 matters of the IPART Act. However, most of the water principles established by COAG are consistent with the section 15 requirements. A possible area of divergence has been that the Tribunal must also assess the social impacts of price determinations and protect from the abuse of monopoly power.

...to be viable a water business should recover, at least, the operational, maintenance and administrative costs, externalities, taxes or TERs (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement.²⁸

The upper bound range of cost recovery incorporated provision for a rate of return on new capital investments.

A3.2 National Water Initiative

The *Intergovernmental Agreement on a National Water Initiative* (NWI) was entered into by the Commonwealth government and most state and territory governments. The NWI was formally adopted at the COAG meeting of 25 June 2004.

The NWI attempts to provide guidance on policies to improve the management of Australia's water resources. The stated purpose of the NWI is

...in recognition of the continuing national imperative to increase the productivity and efficiency of Australia's water use, the need to service rural and urban communities, and to ensure the health of river and groundwater systems by establishing clear pathways to return all systems to environmentally sustainable levels of extraction.

A key objective of the NWI is

...to provide greater certainty for investment and the environment, and underpin the capacity of Australia's water management regimes to deal with change responsively and fairly.

While the document deals with all aspects of managing the water resource, the issues of relevance to the Tribunal's review relates mainly to the pricing principles being proposed. The principles essentially build on those developed in the 1994 COAG Agreement. The principles of relevance to this review include:

- establish pricing policies for water storage and delivery in rural and urban systems that facilitate efficient water use and trade in water entitlements (clause 65)
- continue to use consumption based pricing (end 2008) (clause 65i)
- achieve full cost recovery of water services including recovery of environmental externalities (clause 65ii)
- apply consistent pricing policies across sectors and jurisdictions where entitlements are to be traded (clause 65iii)
- apply lower and upper bound levels of cost recovery, as recommended by ARMCANZ in 1998, including a move towards upper bound pricing by 2008 for metropolitan water agencies (clause 65i) and recognition that the upper bound level may not always be possible for rural and regional water (clause 66v)
- achieve full cost recovery for all rural surface and groundwater based systems, recognising that there will be some small community services that will never be economically viable but are necessary for social and public health reasons (clause 66v)

²⁸ IPART, *Bulk water prices for 1998/99 & 1999/00*, p 35.

- establish consistent approaches to pricing and attributing costs of water planning and management by 2006 (clause 67)
- examine the feasibility of using market based mechanisms such as pricing to account for positive and negative environmental externalities associated with water use (clause 73ii)
- implement pricing that includes externalities where found to be feasible (clause 73iii)
- use independent bodies to set or review prices for water storage or delivery by government water service providers (clause 77i) and publicly review and report on pricing by government and private water service providers (clause 77ii).

APPENDIX 4 LIST OF SUBMISSIONS

Submissions received for this review are listed below. Copies of the submissions are available from the IPART website (www.ipart.nsw.gov.au).

Organisation	Representative
Coleambally Irrigation Co-operative Limited	M Smith
Darling River Food and Fibre	D Cordina
Department of Infrastructure, Planning and Natural Resources	J Westacott
Gwydir Valley Irrigators Association	M Murray
Gwydir Valley Irrigators Association Inc	I Cush
Hawkesbury-Nepean Catchment Management Authority	John Clem
Hunter Water Corporation	K Young
Inland Rivers Network, WWF Australia & NCC of NSW	B Fletcher, W Moss & R Young
Jemalong Irrigation	F E Morgan
Lachlan Customer Service Committee	D Moxey
Lachlan Valley Water Inc	M Ewing
Local Government Association of NSW	B Gillooly
Macquarie Customer Service Committee and Macquarie River Food and Fibre	J Brown
Macquarie Generation	J Neely
Murray Irrigation Limited	B Hetherington
Murray Lower Darling Customer Service Committee	C Thomson
Murrumbidgee Horticulture Council Inc.	S Moore
Murrumbidgee Irrigation	G Hipkins
Murrumbidgee Irrigation - Supplementary	Geoff Hipkins
Murrumbidgee Private Irrigators Inc	M Shaw
Namoi Valley Water Users' Association Inc	J Killen
Narromine Irrigation Board of Management	M McKinney
NSW Department of Primary Industries	N Ryans
NSW Irrigators' Council	D Miell
Peel Valley Water Users Association	L Pengelly
Ricegrowers' Association of Australia Inc	D Kerr
Southern Riverina Irrigators	L Chappell
State Water Corporation	Russell Simons
State Water Corporation - Supplementary	A Immaraj
Sydney Catchment Authority	G Head
Tamworth Regional Council	Glenn Inglis
The Yanco Creek and Tributaries Advisory Council Inc	R Sleigh
Toonumbar Water Users Association	G Bebb
West Corugan Private Irrigators District	P M Wallis
Western Murray Irrigation Ltd	I Murdoch

Organisation

Representative

Individual

M Harewood

P MacPhillamy & R Caldwell

S Crossling

APPENDIX 5 PRESENTERS AT THE PUBLIC HEARING

The Tribunal held a public hearing on Friday 20 May 2005. Those organisations that may a presentation at that hearing are listing below. Copies of the transcript for this hearing may be found on the Tribunal's website (www.ipart.nsw.gov.au).

Organisation	Presenters
State Water	Mr Abel Immaraj
Department of Infrastructure Planning and Natural Resources	Mr Peter Sutherland
NSW Irrigators Council	Mr Doug Meill, Mr Laurie Arthur
Combined Environmental Groups	Ms Rachel Young, Mr Tony Trujillo

