



Independent Pricing and Regulatory Tribunal Amendment (Accredited State Water Regulator) Bill 2015 (Proof)

Independent Pricing and Regulatory Tribunal Amendment (Accredited State Water Regulator) Bill 2015

Extract from NSW Legislative Council Hansard and Papers Tuesday 12 May 2015 (Proof).

Bill introduced, and read a first time and ordered to be printed on motion by The Hon. Niall Blair.

Second Reading

The Hon. NIALL BLAIR (Minister for Primary Industries, and Minister for Lands and Water) [3.18 p.m.]: I move:

That this bill be now read a second time.

The Independent Pricing and Regulatory Tribunal Amendment (Accredited State Water Regulator) Bill 2015 will facilitate the accreditation of the Independent Pricing and Regulatory Tribunal [IPART] as the single price regulator for Water NSW, which is the organisation responsible for managing the storage, release and supply of bulk water across New South Wales. The bill provides for the Independent Pricing and Regulatory Tribunal, IPART, to apply under the Commonwealth Water Charge Infrastructure Rules 2010 for accreditation, and to enable IPART once accredited to be able to exercise the price determination functions under these rules.

Water NSW, which we established on 1 January, provides bulk water services across New South Wales through its management of the largest water infrastructure in the State, including the Menindee Lakes and Warragamba, Blowering, Burrinjuck and Hume dams. Water NSW and its customers currently deal with two regulators for pricing: the Australian Competition and Consumer Commission, the ACCC, for the Murray-Darling Basin valleys and IPART for the three coastal valleys, being the Richmond, Bega and Hunter Valleys. As an accredited regulator IPART will set fees and charges on the ACCC's behalf under the Water Charge Infrastructure Rules. This will mean one agency is setting prices for Water NSW across the State.

The proposed amendments will deliver greater efficiencies and regulatory outcomes for Water NSW and its customers by providing for IPART to be the single price regulator. Direct savings in reduced regulatory costs for Water NSW are estimated at \$618,000 over four years, with ongoing savings of \$415,000 per annum.

IPART also has responsibility for administering and periodically reviewing Water NSW's operating licence, and for regulating the prices charged by the NSW Office of Water for its water resource management activities. The accreditation of IPART through this bill will lead to more holistic regulation of all bulk water activities in New South Wales.

By way of detailed background the Commonwealth Water Act commenced in March 2008 and implemented key reforms for water management in Australia following an intergovernmental agreement on the Murray-Darling Basin water reform. Key reforms introduced by the Commonwealth legislation include common basin-wide water charging objectives and principles, and giving the ACCC responsibility for developing and enforcing water charge and water market rules. The Commonwealth legislation applies to the Murray-Darling Basin, which covers all of the Water NSW areas of operation with the exception of its three coastal valley areas of operation. Prior to the Commonwealth reforms, the responsibility for developing and enforcing water charge rules in the Murray-Darling Basin sat with the States. IPART was responsible for setting the prices charged by Water NSW.

The total cost of Water NSW's activities is shared between water users and the New South Wales Government. Water NSW's prices are highest in the North Coast, South Coast and Peel Valley due to the economies of scale resulting from a smaller customer base. In each of these valleys, prices are currently well below those required to recover users' share of efficient costs. As such, Water NSW and the New South Wales Government subsidise users in these valleys.

In 2016, IPART proposes to commence its review of prices, which will apply in all valleys from 1 July 2017. The price review will include an examination of the appropriate share of costs between users and the New South Wales Government for all of Water NSW's activities. IPART was due to conduct its review of Water NSW operations in the three coastal valleys during the 2014-15 financial year for new prices to start from 1 July 2015. At the request of Water NSW, IPART deferred the Water NSW price review by two years. This will mean that the next price review will coincide with the expiration of the current ACCC price decision for Water NSW.

The proposed amendments in the bill will enable a consistent approach to Water NSW's pricing. For example, IPART's pricing methodology takes account of current market conditions and historical trends, while the ACCC's does not. The proposed amendments will also reduce the regulatory burden on Water NSW and other participating stakeholders. At present, regulatory responsibilities are split between the ACCC and IPART.

As part of a price review, stakeholders must respond to an issues paper, attend public hearings and then respond to a draft report. Apart from price reviews, stakeholders are also called on to participate in reviews of regulatory and methodological issues. At present, under the two separate price review processes, the burden for stakeholders is doubled and is not cost effective. These amendments mean only one price review process will be required, not two. Streamlining the process will have significant benefits.

Stakeholders include Water NSW, the NSW Irrigators Council, resource and energy companies, the Commonwealth and the New South Wales Environmental Water Holder, the NSW Office of Water and NSW Treasury, all of which are impacted by the burden of separate price reviews. Water NSW is also currently forced to comply with separate pricing methodologies and reporting requirements. As well as alleviating this burden, the proposed amendments will provide greater efficiency for regional stakeholders. IPART currently regulates the prices that the NSW Office of Water can charge for its water management activities across New South Wales. The Office of Water and Water NSW have common stakeholders and IPART has established systems for consulting with regional stakeholders. It is more efficient for IPART to conduct regional consultations for all water infrastructure operations.

Water NSW's operating expenses in the 2012-13 financial year were \$117 million. A modest improvement in efficiency translates to large cost savings which can then be passed on to Water NSW's customers.

I turn now to a more detailed discussion of the proposed amendments. In accordance with the requirements of applying for accreditation, the principle objectives of the bill will be to apply certain provisions of the Commonwealth Water Charge Rules as a law of New South Wales and give those applied provisions effect. The bill will confer on IPART the functions of a regulator under those applied provisions and will provide that IPART is not subject to the control or direction of any Minister in the exercise of those functions. The bill will also provide for the approval or revocation of the accreditation and for the interpretation of the applied provisions.

The Independent Pricing and Regulatory Tribunal Amendment (Accredited State Water Regulator) Bill 2015 provides improved regulatory efficiency for setting the pricing for the services provided by Water NSW. It will provide significant financial benefits to Water NSW and its customers whilst enhancing regulatory outcomes in the form of efficiency gains for water infrastructure services in all areas of our great State. I commend the bill to the House.