

National Competition Policy

Water Reform Assessment Framework 2004

National Competition Council

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Abbreviations

ACT	Australian Capital Territory
ARMCANZ	Agriculture and Resource Management Council of Australia and New Zealand
ANZECC	Australian and New Zealand Environment and Conservation Council
CoAG	Council of Australian Governments
CPA	Competition Principles Agreement
CSO	Community Service Obligation
ERA	Economic Regulation Authority
IPART	Independent Pricing and Regulatory Tribunal
MDBC	Murray–Darling Basin Commission
NCC	National Competition Council
NCP	National Competition Policy
NWQMS	National Water Quality Management Strategy

1 Introduction

The Council of Australian Governments (CoAG) agreed in 1994 on a water resource policy and strategic reform framework (water reform agreement) for Australia's water industry. The water reform agreement aims to improve the efficiency and effectiveness of Australia's water supply and wastewater industries and implement sustainable water management arrangements that consider the effects of all water use (by agriculture, industry, households and the environment). CoAG brought water reform within the ambit of the National Competition Policy (NCP) in 1995.¹

The National Competition Council assesses governments' progress with implementing all the NCP and related reform obligations set by CoAG, including for water.² Before this 2004 NCP assessment, the Council assessed water reform progress in 1999, 2001, 2002 and 2003. The 2001 NCP assessment considered governments' implementation of all aspects of the CoAG water reform agreement, providing a snapshot of progress and identifying remaining implementation issues. In the 2002 and 2003 NCP assessments, the Council considered governments' implementation of reforms that CoAG senior officials scheduled for assessment in these years. After 2004, there will be a full assessment in 2005, which will consider State and Territory governments' implementation of the entire water reform program. The Council has also conducted several supplementary assessments on issues in particular jurisdictions.³

All governments report annually on their progress with implementing the NCP (see section 6). There is also an opportunity in the assessment for interested parties to make submissions on governments' application of the CoAG water reforms. This assessment framework is intended to outline the scope of the 2004 NCP assessment and to provide a transparent basis for assessing governments' actions to implement the objectives set by CoAG. It is also intended to guide governments and water industry stakeholders on the

¹ The water reform agreement was incorporated into the Agreement to Implement the National Competition Policy and Related Reforms (implementation agreement) in April 1995. The implementation agreement links progress on water industry reforms with NCP payments.

² Work by the Murray–Darling Basin Commission is relevant to the implementation of the CoAG water reform agreement. The commission's member jurisdictions are the Australian Government and the Governments of New South Wales, Victoria, Queensland, South Australia and the ACT.

³ NCP assessment and supplementary assessment reports are available on the Council's web site (www.ncc.gov.au).

reforms that should be in place by 2004 and on how the Council will conduct the 2004 NCP assessment. The framework aims to:

- outline the scope of the 2004 NCP assessment, focusing on the elements of the reform program that are scheduled for assessment in 2004 and earlier reforms that are not yet fully implemented;
- identify the information that governments need to provide to demonstrate compliance with the reforms scheduled for assessment in 2004;
- guide governments' annual reports and public submissions; and
- provide a basis for identifying areas where reform is proving difficult, as a focus for discussion between the Council and the relevant government.

2 The 1994 strategic reform framework: summary of reform obligations

The 1994 water reform agreement requires governments to implement a range of reforms by 2005. The reforms include:

- changing the basis for pricing water services from property valuation systems (often with free water allowances) to systems directly related to the volume of water used, to better manage the demand for water;
- ensuring the prices charged for water and wastewater services cover the full cost of providing those services, to ensure sufficient provision for asset maintenance and refurbishment, while protecting against monopoly pricing by service providers;
- converting water allocation arrangements that were imprecise, attached to land ownership and often overallocated, to secure systems of water entitlements separate from land title;
- providing water specifically for environmental purposes, in recognition that overallocations in some systems threaten ecological processes and biodiversity;
- facilitating water trading to allow water to be used where it is most valued, to maximise the return to Australia from water use;
- requiring proposals for new investment in rural water infrastructure to undergo rigorous appraisal, to show that each project is economically viable and ecologically sustainable;
- integrating natural resource management activities, including catchment management, in recognition of the interrelationship of soil, water and vegetation and the impact of a land use decision in one area on the whole of the river basin or region;
- improving water quality through a combination of market-based and regulatory measures, including water quality monitoring and catchment management policies and community consultation and awareness;
- defining the roles of water industry institutions so the role of service provision and the roles of standards-setting and regulation do not overlap, to remove the potential for conflicts of interest;

- ensuring that water and wastewater service providers (in metropolitan areas in particular) have a commercial focus, that services are delivered as efficiently as possible and that service providers seek to achieve international best practice;
- devolving greater responsibility for the management of irrigation areas to local constituents, subject to appropriate regulatory frameworks being established; and
- undertaking public education and consultation on the need for and benefits of water reform, particularly where change and/or new initiatives are contemplated.

CoAG set target dates for the major reform components (1998 for urban water pricing, the institutional reforms, water trading and allocations for the environment, and 2001 for rural water pricing), but later extended some of these deadlines. In particular, it extended the timetable for environmental water allocations for stressed rivers to 2001, and for all river systems and groundwater to 2005.

In addition to the reforms set out in the 1994 water reform agreement, governments agreed under clause 5 of the Competition Principles Agreement to review and, where appropriate, reform all legislation that restricts competition by 30 June 2002. While all governments have made progress in the review and reform of their water industry legislation, some are still to implement some of the recommended reforms.

3 The reforms to be assessed in 2004

The 2004 NCP assessment will consider governments' progress with implementing the reforms that CoAG senior officials scheduled for assessment in 2004.⁴ The Council will also consider governments' performance in areas where the 2003 NCP assessment found progress to be occurring but reform implementation still to be completed.

The water reform activity that the Council will assess in 2004 will therefore encompass:

- the reform areas that CoAG senior officials determined should be assessed in 2004 for all States and Territories — rural water pricing (full cost recovery and consumption-based pricing), interstate trading arrangements, and a stocktake of progress in implementing environmental water allocations;
 - rural pricing reform obligations include implementation by River Murray Water of the recommendations of the Murray–Darling Basin Commission's 2002 pricing review;
- (progress with) the conversion of existing water allocations to new water entitlements systems;⁵
- urban water pricing issues that were identified in the 2003 NCP assessment for New South Wales, Western Australia and South Australia;
- intrastate trading issues that were identified in the 2003 NCP assessment for all States and Territories;
- institutional reform issues that were identified in the 2003 NCP assessment:
 - institutional structure issues for Victoria, Western Australia and Tasmania;

⁴ CoAG senior officials agreed in December 2001 to prioritise national water reform commitments across the 2002 to 2005 NCP assessments.

⁵ The Council will consider governments' progress with determining the amount of water available to holders of water rights (via water management planning arrangements) against the 2005 target for substantial completion of allocations in the 2004 NCP assessment.

- implementation of integrated catchment management for Western Australia and South Australia;
- devolution of irrigation scheme management for Western Australia (Ord Irrigation Scheme), South Australia (Lower Murray Reclaimed Irrigation Areas) and Tasmania (South East Irrigation Scheme);
- implementation of the National Water Quality Management Strategy for Western Australia;
- new investments in rural water infrastructure, which must be shown to be economically viable and ecologically sustainable in the year that the project proceeds;
- public education and consultation activity, which CoAG senior officials determined needed to be undertaken in conjunction with other reforms;⁶ and
- the review and reform of water legislation for Victoria, Western Australia, South Australia and Tasmania, in line with the Competition Principles Agreement obligation to review and, where appropriate, reform legislation that restricts competition by 30 June 2002.

Following the decision by New South Wales to defer the commencement of its water sharing plans because of work by CoAG on national water industry arrangements, the Council is still to finalise its 2003 assessment of the actions being taken by New South Wales and Victoria to allocate water to the environment in stressed and overallocated river systems, and by New South Wales to commence its new access licensing system and registry of water entitlements. The 2004 NCP assessment may need to consider these matters further.

Table 1.1 summarises the issues that the Council will consider in the 2004 NCP assessment.

⁶ CoAG senior officials agreed that public education and consultation obligations should be assessed at the time the relevant reform is due for assessment. The 2004 assessment will consider public education and consultation activity relating to rural cost recovery and pricing, water trading arrangements, water management arrangements and new rural water infrastructure.

Table 1.1: Water reform obligations to be assessed in 2004

- Rural water pricing reforms, including full cost recovery, consumption-based pricing, transparency of community service obligations and cross-subsidies: all States and Territories and the Murray–Darling Basin Commission.
- Urban water and wastewater pricing remaining matters: New South Wales, Western Australia and South Australia.
- Conversion of existing water allocations to new water entitlements systems: all States and Territories.
- Progress in implementing environmental water allocations against the 2005 target for substantial completion: all States and Territories and the Murray–Darling Basin Commission.
- Interstate and intrastate water trading arrangements: all States and Territories.
- Institutional reform remaining matters, including:
 - institutional structure: Victoria, Western Australia and Tasmania.
 - integrated catchment management: Western Australia and South Australia.
 - irrigation scheme management devolution: Western Australia, South Australia and Tasmania.
- The National Water Quality Management Strategy remaining matters: Western Australia.
- Investments in new or extended rural water schemes, including any remaining matters for Queensland, South Australia and Tasmania.
- The review and reform of all water legislation remaining matters: Victoria, Western Australia, South Australia and Tasmania.
- Public education and consultation on the above issues: all States and Territories.

Progress reporting in the 2004 NCP assessment against the 2005 water reform obligations

In addition to the water reform matters identified above (where the Council will assess governments' compliance in the 2004 NCP assessment), there are some matters which the Council found in the 2003 NCP assessment to be well advanced but not fully implemented. The Council considered that the progress demonstrated in these areas was sufficient for the 2003 NCP assessment, but noted that it would consider these aspects again in the full assessment in 2005 to ensure governments had fully implemented the reform obligation. These areas and the relevant jurisdictions are:

- urban water and wastewater pricing issues, including:
 - canvassing of pricing issues through the green paper review (DSE 2003), and the production of the first water industry regulatory order (to be finalised before 1 January 2004): Victoria;
 - adoption of full cost recovery and/or consumption-based pricing methods by the few remaining local government water businesses and/or bulk water suppliers: Queensland;
 - the transparent reporting of externalities (defined by CoAG for water pricing as the environmental and natural resource management costs attributable to and incurred by water businesses): New South Wales,

Victoria, Queensland, Western Australia, South Australia, and Tasmania;

- the identification and transparent reporting of residential wastewater charge cross-subsidies: Western Australia;
- progress toward achieving full cost recovery by local government water and wastewater businesses, and progress with resolving issues identified in the Government Prices Oversight Commission's 2003 annual audit: Tasmania; and
- development of a charging regime that accounts for specific trade waste: ACT;
- implementation of integrated catchment management: all State and Territory governments; and
- implementation of the National Water Quality Management Strategy: all State and Territory governments.

The Council will report any progress on the above matters in the 2004 NCP assessment report in preparation for the full assessment in 2005. Governments are encouraged, therefore, to outline progress in their 2004 NCP annual reports.

3.1 Water and wastewater pricing

Governments are to set prices so water and wastewater businesses earn sufficient revenue to ensure their ongoing commercial viability but avoid monopoly returns. To this end governments agreed that prices should be set by the nominated jurisdictional regulator (or its equivalent) as follows.

- To be viable, a water business should recover at least the operational, maintenance and administrative costs, externalities, taxes or tax equivalents (not including income tax), the interest cost on debt, dividends (if any) and make provision for future asset refurbishment/replacement. Dividends should be set at a level that reflects commercial realities and simulates a competitive market outcome.
- To avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities (defined for the purpose of the pricing obligation to be natural resource management costs attributable to and incurred by the water business), taxes or tax equivalent regimes, provision for the cost of asset consumption and cost of capital, the latter being calculated using a weighted average cost of capital.
- In determining prices, the regulator or equivalent should determine the level of revenue for a water business based on efficient resource pricing and business costs. Specific circumstances may justify transition arrangements to that level. Cross-subsidies that are not consistent with efficient and effective service, use and provision should ideally be removed.
- Where service deliverers are required to provide water services to classes of customers at less than full cost, the cost of this should be fully disclosed and ideally paid to the service deliverer as a community service obligation.
- Asset values should be based on deprival value methodology unless an alternative approach can be justified, and an annuity approach should be used to determine medium to long-term cash requirements for asset replacement/refurbishment.
- Transparency is required in the treatment of community service obligations, contributed assets, the opening value of assets, externalities including resource management costs, tax equivalent regimes and any remaining cross-subsidies.
- Water businesses are to set prices that reflect the volume of water supplied to encourage more economical water use. Businesses should implement a two-part tariff (comprising a fixed access component and a volumetric cost component), where this is cost effective. Bulk water suppliers should set use-based charges (or a two-part tariff with an emphasis on the volumetric component).

Reference: CoAG water reform agreement, clauses 3(a)–3(d); and guidelines for the application of section 3 of the CoAG strategic framework and related recommendations in section 12 of the expert group report (CoAG pricing principles)

The price that water businesses charge for the services they provide influences the amount of water customers use, businesses' provision of future supply capacity and the total amount of investment in the water industry. Recognising these links, the CoAG water reform agreement requires water businesses to charge their customers on the basis of the amount of water customers use, such that water businesses recover all costs of providing the

water service (where costs are based on efficient resource pricing and business costs). (Appendix 1 contains the CoAG pricing principles.)

Charging for water services according to use (including removing cross-subsidies that in the past disadvantaged certain classes of consumers) provides a financial incentive to use water efficiently, thus rewarding water conservation. Conserving water can defer the need to invest in new water infrastructure, meaning potentially substantial savings to the community and environmental benefits. Setting prices to fully recover efficient business and resource costs (avoiding monopoly pricing) encourages efficient customer-driven service and appropriate price signals for water consumers. Costs that should be recovered include operating and maintenance expenses, administrative costs, the natural resource management costs imposed on and incurred by the business, finance costs, rates and taxes (or equivalents), depreciation expenses and a non-negative rate of return reflecting the opportunity cost of capital.

Charging on a consumption basis for wastewater services provided to households and small commercial consumers is generally not efficient because most of the cost of providing wastewater services to these consumers is fixed. A fixed charge for the wastewater service may therefore be appropriate. For services provided to high level waste dischargers, however, wastewater charges should be related to use. This can be done, for example, by linking the charge to the volume of waste and the pollutant/toxicity load.

Most States and Territories now subject their monopoly water and wastewater businesses to price regulation by the jurisdictional economic regulator.

- In New South Wales, the Independent Pricing and Regulatory Tribunal regulates the prices of the four metropolitan water and wastewater businesses, the Sydney Catchment Authority, and State Water.
- In Queensland, the Queensland Competition Authority provides prices oversight for most of the State's significant water businesses and assesses local governments' compliance with full cost recovery obligations.
- In Tasmania, the Government Prices Oversight Commission audits compliance by local governments with State Government-imposed obligations on full cost recovery for water and wastewater services.
- In the ACT, the Independent Competition and Regulatory Commission sets the standards for economic performance and prices independently of the service provider.
- In the Northern Territory, economic regulation and the setting of service standards are the responsibility of the regulatory Minister, acting on independent advice from the Utilities Commission.

While the other governments do not currently have independent prices oversight, they are all intending to introduce mechanisms consistent with the CoAG water reform obligations.

- Victoria intends bringing the water industry under the jurisdiction of the Essential Services Commission from 1 January 2004, with the first price review to take effect on 1 July 2005.
- Western Australia will create the Economic Regulation Authority on 1 January 2004, and intends the authority to make recommendations on water and wastewater pricing.
- South Australia has undertaken to produce and publish an annual pricing report to transparently show the relationship of SA Water pricing to the CoAG pricing principles, with the Essential Services Commission of South Australia commenting on the annual pricing report.

Governments sometimes require water and wastewater businesses to provide services to certain classes of customers at a price below full cost. The CoAG water reform agreement does not require governments to discontinue these arrangements. Governments should, however, show that these arrangements do not undermine the overall policy objective of an efficient and sustainable water industry. Where governments require services to be provided at a price that is below cost, they should ensure that the cost to the water business is fully disclosed and ideally paid to the business as a community service obligation (CSO).

CoAG set a timeframe for implementing the pricing reforms: 1998 for urban service providers and 2001 for those in rural areas. Following the 2001 NCP assessment, in which the Council considered governments' progress against all elements of the water reform program, CoAG senior officials agreed the Council would assess governments' implementation of the urban and rural water pricing reforms in the 2003 and 2004 NCP assessments respectively, prior to it assessing governments' implementation of the entire water reform program in 2005. In accord with this timetable, governments should use their 2004 NCP annual reports to show that they have implemented rural pricing obligations. Governments should also use their 2004 NCP annual reports to outline the actions they have taken to address any urban pricing matters remaining from previous assessments.

For the 2003 NCP assessment, the Council is looking for the States and Territories to provide information which allows the Council to consider the following questions on water and wastewater supply services.

- Are all water businesses setting prices that achieve full cost recovery in accord with the CoAG pricing principles? Where a business is not achieving full cost recovery, has a price path been determined which will lead to it achieving full cost recovery within a reasonable time frame? If so, when will full cost recovery be achieved?

- Are water businesses applying appropriate asset valuation methods and are businesses earning a non-negative real rate of return on the written-down replacement cost of their assets?
- Are dividend payment policies and any dividend distributions by water and wastewater businesses reflecting commercial reality and simulating a competitive market outcome?
- Are the costs of natural resource management requirements imposed on and incurred by water businesses transparently passed on through prices charged to water users?
- Have cross-subsidies that are not consistent with efficient service provision been eliminated or, at a minimum, is the objective and quantum of remaining cross-subsidies transparently reported?
- Do CSOs have an explicit public benefit objective? Are they clearly defined, transparently reported and directly funded, with the cost fully disclosed?
- Is there a robust assessment of the cost of processing and enforcing arrangements for licensing water users and do licence fees fully recover this cost?
- Are water service providers charging on a consumption basis, where this is cost-effective? Where service providers are not setting prices on a consumption basis, is there evidence that to do so is not cost-effective?

Rural water pricing

For the purpose of assessing governments' implementation of the water and wastewater pricing obligations, the Council considers the rural water sector to include all government-owned water supply services other than those supplying metropolitan and nonmetropolitan urban customers. Under this approach, the rural water pricing obligations are relevant for:

- services to nonurban consumers provided by government-owned irrigation schemes and bulk water suppliers (including services provided, for example, to private irrigation schemes, power stations and processing and mining plants); and
- licence fees paid by users to extract surface water or groundwater using private infrastructure.

The Council most recently considered governments' progress with implementing rural water pricing obligations in the 2001 NCP assessment, when it considered whether:

- rural water services were achieving full cost recovery (as defined by the CoAG water reform agreement and CoAG pricing guidelines) or had at least established price paths to achieve full cost recovery within a reasonable time frame, with transitional CSOs made transparent;
- governments had identified schemes that are unlikely to achieve full cost recovery, and made the CSOs supporting these schemes transparent; and
- governments had removed inefficient cross-subsidies and made remaining cross-subsidies transparent.

In the 2001 NCP assessment, the Council found that, while most governments had advanced their implementation of water pricing obligations, many rural schemes were still to achieve full cost recovery and set prices on a consumption basis. The Council also identified a number of other rural pricing matters specific to particular jurisdictions that needed to be addressed.

For the 2004 NCP assessment, the Council will consider the extent to which rural water service providers are setting prices in accord with CoAG obligations. The Council is looking for governments to demonstrate that rural providers are fully recovering costs and are setting consumption-based prices consistent with the CoAG water agreement and pricing principles. Where a service provider will not achieve full cost recovery by 30 June 2004, governments should provide evidence that the service provider has made substantial progress towards the objective of full cost recovery (with any transitional CSOs made transparent) or demonstrate that the service provider has a price path in place that is likely to achieve full cost recovery within a short period after 30 June 2004 and identify schemes that are unlikely to achieve full cost recovery, with the CSOs supporting these schemes made transparent. Any remaining cross-subsidies should also have been made transparent.

Where rural providers are not achieving these pricing objectives, governments should provide information on the extent of compliance, such that the Council is able to assess reform performance. Governments should provide data that show the extent to which their rural schemes are recovering costs compared to the CoAG lower bound of cost recovery, and detail any pricing proposals for service providers not yet achieving full cost recovery. Where a service provider is not meeting the CoAG pricing obligations for some or all of its customers, the annual report should provide information on the significance of the service and the extent to which pricing objectives are not being met so that the Council is able to gauge the likely impact of pricing breaches. Governments should also outline the actions they have taken or are proposing to take to address the specific rural pricing compliance questions identified in earlier NCP assessments.

Specific rural water implementation matters by jurisdiction

New South Wales

Cost recovery: Bulk water services provided by State Water

State Water is a government-owned business that provides bulk water services to irrigators, industry, riparian users, local governments and the environment. The prices of State Water's bulk services are regulated by the Independent Pricing and Regulatory Tribunal (IPART), via a three-year price path (to 30 June 2004) aimed at moving bulk water supply prices towards full cost recovery. Under the price path, however, many of the bulk water services provided by State Water will not achieve full cost recovery by the time of the 2004 NCP assessment. Despite State Water providing services at less than full cost, the New South Wales Government did not transparently report the CSO payments it provides to State Water.

While the IPART public price setting process is an appropriate means of addressing State Water's compliance with CoAG pricing obligations, New South Wales has provided no timetable for the achievement of full cost recovery by State Water's bulk services. For the 2004 NCP assessment, the Council is looking for New South Wales to demonstrate substantial progress towards full cost recovery by State Water's bulk water supply services. New South Wales should report on the implementation of the IPART price path, indicating the services (to regulated, unregulated and groundwater systems on a valley-by-valley basis) for which full cost recovery is likely to be achieved by 30 June 2004 and those for which it is not. For bulk water supply services that will not achieve full cost recovery by 30 June 2004, New South Wales should show that State Water is continuing to move towards full cost recovery and indicate when full cost recovery is likely to be achieved. In reporting on rural pricing, the Council is also looking for New South Wales to outline the arrangements for price setting for State Water's bulk services after 30 June 2004, when the current price path concludes. Finally, New South Wales should provide information on rural sector CSO payments to demonstrate that it is transparently reporting these.

River Murray Water costs

The Murray River Basin States have different policies on passing on River Murray Water costs to water users. The approach taken in New South Wales was discussed in IPART's 2001 bulk water prices determination (IPART 2001). IPART noted that much information had been gathered on the Murray–Darling Basin Commission's costs and the allocation of the State's share of these costs to users. Given the availability of this information, IPART requested that the Department of Land and Water Conservation (now incorporated in the Department of Infrastructure, Planning and Natural

Resources) develop a robust and transparent method for allocating the Murray–Darling Basin Commission’s water resource management costs to users for the next price determination. For the 2004 NCP assessment, the Council is looking for New South Wales to show how it (robustly and transparently) allocates River Murray Water costs among users.

Consumption-based pricing: bulk water services by State Water

IPART’s 2001 bulk water prices determination noted that the staged process for the introduction of a two-part tariff on unregulated rivers had commenced. IPART expected to see this progressed significantly by the time of the next determination. IPART also identified wide variations in the balance between entitlement and usage charges in regulated systems, and considered that these variations may not reflect the different costs involved. It encouraged the Government to investigate the composition of the tariffs with reference to its implications for revenues, impact on customers and the potential signalling effects of the charges (IPART 2001, p. 73). For the 2004 NCP assessment, the Council is looking for New South Wales to demonstrate substantial application of consumption-based pricing. New South Wales should report on the outcomes of any investigation conducted in response to the IPART comments, and outline the basis for pricing of State Water’s bulk water supply services for the various customer categories across regulated, unregulated and groundwater systems.

Cost recovery and consumption-based pricing: water access licences

New South Wales imposes fees for water access licence applications and renewals and for permanent and temporary licence transfers. IPART considered the level of the fees in 2001, recommending that there be no change in the fees until it makes a specific determination or until it reviews the level of the fees associated with the State’s system of access licences (now due to commence on 1 July 2004). For the 2004 NCP assessment, the Council is looking for New South Wales to show that its approach to charging for licences meets cost recovery objectives. New South Wales should provide information on the fee structure for licence applications, renewals and permanent and temporary transfers, and on the extent to which the fees reflect costs and provide consumption-based incentives for users to apply water economically.

Victoria

Cost recovery: rural water authorities

Rural water services in Victoria are delivered by five regional water authorities. Goulburn–Murray Water is by far the largest authority, accounting for 90 per cent of all entitlements used for irrigation, and

supplying bulk water services to two other rural water authorities and several regional urban water areas.

In the 2003 NCP assessment, Victoria reported that some of its rural water authorities were not yet operating on a commercially viable basis (as defined by the CoAG pricing principles). For the 2004 NCP assessment, the Council is looking for Victoria to demonstrate substantial progress towards full cost recovery (consistent with all elements of the CoAG pricing principles) for the five rural water authorities. Where a rural water authority will not achieve full cost recovery by 30 June 2004, Victoria should show that the authority is continuing to move towards full cost recovery and indicate when full cost recovery is likely to be achieved. Victoria should also provide information on rural sector CSO payments showing that any CSO payments are transparent. As part of this, Victoria should report on any outcomes or implications for pricing arising from the Government's green paper (DSE 2003), which among other things is considering pricing principles (covering asset renewals, asset valuations and externalities) for achieving sustainable water businesses.

In the 2003 NCP assessment, Victoria also advised that some Goulburn–Murray Water irrigation supply services had not reached the lower bound of full cost recovery. Consistent with the CoAG pricing obligations, the Council is looking for substantial achievement of full cost recovery by all of Goulburn–Murray Water's irrigation services by 30 June 2004. Victoria should indicate which of the Goulburn–Murray Water irrigation supply services are achieving full cost recovery and which are not. Where an irrigation supply service will not achieve full cost recovery by 30 June 2004, Victoria should show that the service has made substantial progress towards full cost recovery and advise when full cost recovery is likely to be achieved. Victoria should also provide information on CSO payments showing that any CSO payments are transparently reported.

Consumption-based pricing: rural water authorities

In the 2001 NCP assessment, the Council found that prices for regulated rural water services satisfactorily reflected consumption-based pricing principles. Victoria previously reported that Goulburn–Murray Water is restructuring its irrigation services charge to improve signals to customers about the type and costs of its services and to reduce revenue volatility, with the restructure to be completed in 2003-04. For the 2004 NCP assessment, the Council is looking for Victoria to demonstrate that its rural water authorities are complying with consumption-based pricing principles. As part of this, Victoria should report on the outcome of Goulburn–Murray Water's restructure of charges, including showing how the restructured charges reflect consumption-based pricing principles.

River Murray Water costs

Victoria allocates its share of River Murray Water costs among irrigators, who bear the cost of irrigator services, and taxpayers, who bear the cost of

providing services that deliver broad community benefits. Victoria indicated that it will refine its approach after the future commercial reform of River Murray Water (see section below on the Murray–Darling Basin Commission). For the 2004 NCP assessment, the Council is looking for Victoria to demonstrate that River Murray Water costs are transparently reported. Victoria should advise on any development on its approach to the allocation of its share of River Murray Water costs since the 2003 NCP assessment.

Cost recovery and consumption-based pricing: water licence fees

Victoria imposes fees for various types of water licences. For the 2001 NCP assessment, Victoria provided the Council with a copy of Goulburn–Murray Water’s licence fee schedule for unregulated catchments. The schedule recovered administration costs for licence applications, renewals, transfers, amalgamations and amendments, with fees ranging from \$60 to \$500 depending on the nature of the licence. Victoria did not report on the degree to which the licence fee provides a consumption-based pricing signal. Victoria did not report more broadly on its water licence fee arrangements and the extent to which they recover costs. For the 2004 NCP assessment, the Council is looking for Victoria to demonstrate that all of its water licence fee structures meet CoAG cost recovery objectives. Victoria should provide information on water licence fees for areas other than those administered by Goulburn–Murray Water for applications, renewals, amendments, and permanent and temporary transfers, and show how the fees reflect costs and provide consumption-based pricing signals. If there have been amendments to Goulburn–Murray Water’s licence fees for unregulated catchments since 2001, Victoria should provide information on whether the fees are continuing to reflect costs and provide consumption-based pricing signals.

Queensland

Cost recovery: rural irrigation schemes

Queensland has 27 government-owned irrigation schemes managed by SunWater. In October 2000, the Queensland Government established five-year price paths aimed at ensuring that most of these schemes achieve full cost recovery by 2005-06. Queensland also asked SunWater to reduce its costs by 15 per cent by 2004. For the 2004 NCP assessment, the Council is looking for Queensland to report on improvements in cost recovery achieved via the rural price paths and SunWater’s cost reduction measures. Queensland should advise which schemes will achieve full cost recovery by the end of the price path and which will not. For the schemes that will not achieve full cost recovery via the 2000 price path, Queensland should provide timeframes for full cost recovery (where full cost recovery is achievable). Queensland should also report on its progress with the development of new prices to apply from 2005.

Transparency of CSO payments

Under Queensland's 2000 price path, annual subsidy payments to Sunwater's rural irrigation schemes were to be reduced by \$7 million over five years (leaving an annual subsidy of about \$1.5 million after 2006). Queensland indicated that SunWater would advise the value of the annual subsidy to each scheme in its annual reports. For the 2004 NCP assessment, the Council is looking for Queensland to show that CSOs provided to SunWater for delivering services at a price below efficient cost are transparent. Queensland should also show that these subsidies are reducing over time, as envisaged by the 2001 price path.

Consumption-based pricing: rural irrigation schemes

SunWater applies consumption-based pricing for its irrigation schemes. In the 2001 NCP assessment, the Council found that pricing by SunWater's rural water services reflected consumption-based pricing principles consistent with CoAG commitments. For the 2004 NCP assessment, the Council is looking for Queensland to advise changes in these arrangements since the 2001 NCP assessment.

Cost recovery and consumption-based pricing: water licence fees

Queensland imposes fees for water use in unregulated areas and for water harvesting. At the time of the 2001 NCP assessment, Queensland applied an annual volumetric charge for some water harvesting licences, which was capped at 500 megalitres. Queensland did not, however, provide detailed information on the extent of cost recovery and the application of consumption-based pricing principles for rural water licence charges because charges were then under review.

In the 2001 NCP assessment, the Council considered that the capped charge was unlikely to provide sufficient incentive for efficient water use by those using more than 500 megalitres. For the 2004 NCP assessment, Queensland should provide information on the rural water charges levied by the Department of Natural Resources and Mines. The information should show how the charges appropriately reflect the costs of processing and administering (including enforcing) the various activities, and whether the charges offer consumption-based incentives consistent with efficient water use.

Western Australia

Cost recovery and consumption-based pricing: rural water services

Western Australia provides some irrigation scheme and rural bulk water supply services. In the 2001 NCP assessment, the Council found that some

government-owned irrigation schemes and some government-owned suppliers of bulk water were not recovering the full cost of supply and/or were not charging on a consumption basis. The Council also noted that the Government was subsidising the cost of rural water services provided by the Water Corporation as part of a broader CSO, rather than a separately identified subsidy. For the 2004 NCP assessment, the Council is looking for Western Australia to show that it has substantially met full cost recovery and consumption-based pricing objectives. Western Australia should provide information on the extent to which rural water businesses recover costs and set prices on a consumption basis. Where a rural water businesses will not achieve full cost recovery by 30 June 2004, Western Australia should show that the business has substantially met full cost recovery objectives at 30 June 2004 or is applying a price path that should achieve full cost recovery within a short period after 30 June 2004, with any transitional CSOs separately identified and made transparent. As part of this, Western Australia should identify any rural water businesses that are unlikely to achieve full cost recovery, and demonstrate that the CSOs supporting these schemes are transparent.

Cost recovery and consumption-based pricing: water licence fees

Western Australia imposes fees for various types of water licences. In the 2001 NCP assessment, the Council found that the State's licence fees were not consistently applied, and reflected historical fees rather than resource management and other licensing costs. Western Australia did not provide information on whether licence fees provide consumption-based pricing signals. For the 2004 NCP assessment, Western Australia should demonstrate that licence fees for unregulated and groundwater water users reflect the cost of the relevant resource and provide consumption-based pricing signals.

South Australia

Cost recovery and consumption-based pricing: irrigation schemes and bulk water supply

South Australia has devolved the management or privatised many of its government-owned irrigation districts. For the 2004 NCP assessment, the Council is looking for South Australia to demonstrate that any remaining government-owned irrigation schemes or bulk water suppliers to irrigation schemes are achieving full cost recovery and that prices are set on a consumption basis. Where a service provider will not achieve full cost recovery by 30 June 2004, South Australia should provide evidence that the service provider has made substantial progress towards the objective of full cost recovery (with any transitional CSOs made transparent) or demonstrate that the service provider has a price path in place that is likely to achieve full cost recovery within a short period after 30 June 2004 and identify schemes that are unlikely to achieve full cost recovery, with the CSOs supporting

these schemes made transparent. Any remaining cross-subsidies should also have been made transparent.

River Murray Water costs

South Australia does not pass on River Murray Water charges for bulk water to irrigators. South Australia is undertaking a consultancy study (which was scheduled for completion in October 2003) to investigate cost recovery matters for River Murray Water in South Australia, New South Wales and Victoria. The study is also identifying the beneficiaries of the services provided by River Murray Water, comparing each State's water charging policies, commenting on the extent to which each State accounts for externalities, and discussing the effect of different policy, regulatory and administrative components. For the 2004 NCP assessment, the Council is looking for South Australia to report on the outcomes of this study and the Government's response to its recommendations. South Australia should also demonstrate that River Murray Water costs are transparently reported.

Cost recovery: water licence fees

South Australia imposes fees for water licences and applies levies to cover the costs of work undertaken by catchment management boards. In the 2001 NCP assessment, the Council found that the licence fees represent a reasonable approximation of the administrative costs of undertaking relevant activities, and that customers are likely to pay amounts that reflect the cost of services received. The Council reached a similar finding in regard to levies charged by catchment management boards: it appeared that the beneficiaries of the boards' activities were contributing appropriately to the cost of securing those benefits. For the 2004 NCP assessment, the Council is looking for South Australia to report on any changes to licence fee structures since the 2001 NCP assessment.

Tasmania

Cost recovery: irrigation schemes and bulk water supply

At the time of the 2003 NCP assessment, Tasmania reported that some government-owned irrigation schemes were not fully recovering costs as defined by the CoAG pricing guidelines. For the 2004 NCP assessment, the Council is looking for Tasmania to report on the extent to which it has achieved full cost recovery (consistent with all elements of the CoAG pricing guidelines) for these irrigation schemes, and for government-owned bulk water suppliers to rural water customers. Where government-owned irrigation schemes and government-owned bulk water suppliers to rural water customers will not achieve full cost recovery by 30 June 2004, Tasmania should provide evidence that the scheme or bulk water provider has made substantial progress towards the objective of full cost recovery (with

any transitional CSOs made transparent) or demonstrate that it has a price path in place that is likely to achieve full cost recovery within a short period after 30 June 2004. Tasmania should identify schemes that are unlikely to achieve full cost recovery, with the CSOs supporting these schemes made transparent. Any remaining cross-subsidies should also have been made transparent.

Consumption-based pricing: irrigation schemes and bulk water supply

Tasmania imposes charges for both regulated and unregulated water sources. In the 2001 NCP assessment, the Council found that Tasmania had implemented appropriate consumption-based pricing arrangements for water sourced from regulated and unregulated water sources. For the 2004 NCP assessment, Tasmania should report on any changes to these arrangements since the 2001 NCP assessment.

Australian Capital Territory

Cost recovery and consumption-based pricing: water licence fees

In the 2001 NCP assessment, the Council found that the ACT set fees for extraction licences on a relatively ad hoc basis, and that there would be benefit if the ACT were to streamline administrative and compliance arrangements to avoid unnecessary costs. The Council also considered that charges should, as far as possible, send effective price signals to water users so as to encourage efficient water use. The Council stated that the ACT should, when setting future fees, give consideration to more robust estimates of the costs of processing and enforcing licences, and to an appropriate method for allocating these costs (for example, using an avoidable cost method). The Council noted that independent expertise on these matters is likely to be available from the Independent Competition and Regulatory Commission. For the 2004 NCP assessment, the Council is looking for the ACT to report on any actions it has taken on licence fees since the 2001 NCP assessment, and that licence fees appropriately reflect costs and provide consumption-based pricing signals.

Northern Territory

Cost recovery and consumption-based pricing: water licence fees

In the 2001 NCP assessment, the Northern Territory advised that it does not charge fees for licences granted under the *Water Act 1992*. The Territory stated that the cost of administering the licensing regime is only a small proportion of total resource management costs, and that adopting a beneficiary pays approach would see the Government pay the bulk of these costs anyway. The Territory signalled, however, that it may consider passing

licence administration fees on to licensees. For the 2004 NCP assessment, the Council is looking for the Northern Territory to report on the treatment of administration costs, whether (and if so how) they are incorporated in licensing charges, and whether these charges provide consumption-based pricing signals.

Murray–Darling Basin Commission

In 2002 the Murray–Darling Basin Commission conducted an independent review of River Murray Water’s pricing arrangements. The review made a number of recommendations aimed at achieving economic and environmental sustainability, and imposing clear pricing signals (that recognise all costs with subsidies and CSOs disclosed) and appropriate institutional role separation. For the 2004 NCP assessment, the Council will consider the implementation by River Murray Water of the recommendations of the independent pricing review. As part of this, the Council will consider the adequacy of reporting in the Murray–Darling Basin Commission’s annual report of each government’s annual cost shares for River Murray Water and the corresponding bulk water volumes supplied in each State. The Council seeks information on these matters from the Murray–Darling Basin Commission.

Urban water and wastewater sector

At the time of the 2003 NCP assessment, most of Australia’s urban water providers (with 1000 or more property connections) were applying consumption-based prices (where cost-effective). Some businesses were, however, still setting prices on the basis of property value and/or providing free water allowances. Water charges linked to property value are less likely to provide a strong volumetric signal, and free water allowances in most cases inhibit incentives for economical water use. Most urban businesses were fully recovering costs, with the exceptions usually having only a small number of property connections.

The Council identified issues concerning the transparency of pricing arrangements in Victoria, Western Australia and South Australia. In each case, the relevant State Government had action to improve the transparency of pricing under way or proposed. The Council also noted that some jurisdictions, while incorporating natural resource management costs in prices, were not transparently reporting the natural resource management cost component of the price.

Urban water pricing assessment matters, by jurisdiction

New South Wales

The most recent pricing data available for New South Wales (2001-02) show that some local urban water and wastewater utilities (with more than 1000 connections) were not achieving full cost recovery or setting water prices on a consumption basis. New South Wales had taken a number of steps to improve cost recovery outcomes and the adoption of consumption-based pricing, and expected that most local utilities would meet full cost recovery and consumption-based pricing obligations in 2003-04. For the 2004 NCP assessment, the Council is looking for New South Wales to provide data to demonstrate that all remaining local water and wastewater utilities (with more than 1000 property connections) have substantially achieved full cost recovery and are applying consumption-based pricing.

Western Australia

While all of Western Australia's water and wastewater businesses, including the Water Corporation, are likely to be pricing their services to fully recover costs, there is no publicly available information to show that Western Australia's pricing arrangements satisfactorily address the CoAG pricing principles. Western Australia undertook to address pricing transparency questions by establishing the Economic Regulation Authority (ERA) and providing the authority with a reference (against the CoAG pricing principles) to investigate and recommend on water and wastewater pricing. By establishing the ERA and providing it with responsibility for regulation of the water industry, Western Australia would also meet its institutional structure reform obligations under the CoAG water reform agreement.

At the time of the 2003 NCP assessment, the Western Australian Government had legislation before the Parliament to establish the ERA. The Government advised that it was having difficulty in achieving passage of the legislation, but would, in anticipation of the Parliament agreeing to establish the ERA, develop a draft reference that asks the authority to investigate and recommend on water and wastewater pricing. On the Council's recommendation (in the 2003 NCP assessment), the Australian Government Treasurer suspended 10 per cent of Western Australia's 2003-04 competition payments until Western Australia establishes the ERA and provides it with a reference to investigate and report on water and wastewater pricing by the Water Corporation (and ideally also the Bunbury and the Busselton water boards).

Subsequent to the assessment, legislation to establish the ERA has passed through the Western Australian Parliament. The ERA will be formally established on 1 January 2004. Providing the ERA's work shows that water and wastewater pricing by Western Australia's water businesses is consistent

with the CoAG water agreement and the CoAG pricing principles and that there are future references that enable regular examination of pricing by the ERA, Western Australia would meet its CoAG pricing obligations. Western Australia would also meet its institutional structure obligations once it establishes the ERA with responsibility for the water industry.

For the Council to recommend the lifting of the suspension of Western Australia's 2003-04 competition payments, Western Australia will need to announce an investigation by the ERA of water pricing, covering at least urban water pricing by the Water Corporation (and ideally also the Bunbury and the Busselton water boards). Such an investigation could be a forward-looking examination of pricing arrangements, aimed at recommending to the Government on urban water pricing structures (consistent with the CoAG water agreement and pricing principles) that should apply into the future. The Council would look for the ERA to have completed its investigation of urban water pricing, and for the Government to have considered and applied the ERA recommendations, by the 2005 NCP assessment. Accordingly, the Council will consider Western Australia's progress on these matters in 2004 and again in 2005, when it will complete its assessment of the State's compliance with urban pricing obligations.

South Australia

The South Australian Cabinet determines the prices of SA Water's services each year, but provides no publicly available information on the basis of or reasons for its decisions. This lack of information means it is unclear whether pricing by SA Water reflects obligations under the CoAG water agreement and pricing principles (or will in the future). In particular, it is not possible to be sure that SA Water's prices reflect efficient business and resource costs as required by the CoAG principles. Also, SA Water's annual dividend to the Government frequently exceeded 100 per cent of its after tax profits in recent years. This raises a question as to whether the dividend policy is reflecting commercial reality as required by the CoAG pricing principles.

During the 2003 NCP assessment, South Australia undertook to publish annual pricing transparency reports on SA Water's water and wastewater prices, with the first statement to cover charges applying from 1 July 2004. The report is intended to establish the relationship of Cabinet decisions on water and wastewater prices to the CoAG pricing principles, provide information on SA Water's financial performance in the context of the decision and past and future expenditures, and address details of revenues, CSOs, SA Water's capital expenditure program and SA Water's profit and the distribution of that profit. The Essential Services Commission of South Australia (ESCOSA) will review the processes adopted and the information used in preparing the transparency report, with respect to the adequacy of the application of the CoAG pricing principles. ESCOSA's advice is to be incorporated in the transparency report.

The annual transparency report offers a process for South Australia to demonstrate that SA Water is complying with the CoAG requirements on

water and wastewater pricing. For the 2004 NCP assessment, the Council is looking for South Australia to have published its first annual transparency report. There should be robust evidence in the report showing that SA Water's 2004-05 water and wastewater prices satisfy the requirements of the CoAG water agreement and the pricing principles, particularly the requirements that prices are determined with reference to a revenue target for the business that is based on efficient resource and business costs, that dividends reflect commercial reality, and that there is appropriate transparency in pricing (including of any remaining cross-subsidies). The Council will look for ESCOSA to have had full opportunity to comment on the processes adopted in preparing the Cabinet advice on SA Water's pricing and the information made available to the Cabinet, addressing the adequacy of the transparency report's application of the CoAG pricing principles. The ESCOSA advice should form part of the transparency report.

The Council regards this as a significant matter concerning South Australia's compliance with water reform obligations. For the Council to conclude that South Australia has complied with obligations on this matter, South Australia will need to provide evidence that SA Water's 2004-05 water and wastewater prices and related matters (such as the level of dividend) satisfy the requirements of the CoAG water agreement and the CoAG pricing principles.

3.2 Water management: water entitlements and provisions to the environment

Establishment of water entitlement systems

Governments are to establish comprehensive systems of water entitlements backed by the separation of water entitlements from land title and the clear specification of entitlements in terms of ownership, volume, reliability, transferability and, if appropriate, quality. Governments must have determined and specified water entitlements, including reviewing dormant rights.

A comprehensive system of water entitlements is defined as *'establishing water allocations to be put in place which recognise both consumptive and environmental needs. The system is to be applicable to both surface and ground water. However, applications to individual water sources will be determined on a priority needs basis (as determined by an agreed jurisdiction-specific implementation program).'*

Reference: COAG water reform agreement, clause 4; and the January 1999 tripartite meeting. The tripartite meeting was held between representatives of the National Competition Council, the High Level Steering Group on Water (augmented by representatives from the Agriculture and Resource Management Council of Australia and New Zealand (ARMCANZ) and the Australian and New Zealand Environment and Conservation Council (ANZECC)) and the Committee on Regulatory Reform to consider the implementation of the CoAG water reform framework. CoAG subsequently endorsed the recommendations from the meeting.

The CoAG water reform agreement acknowledged a need to better define the nature of water entitlements and to separate them from land title. The agreement also obliged governments to specify the amount of water (in terms of ownership, volume, reliability, transferability and, if appropriate, quality) available for extractive uses and to formally recognise the environment as a legitimate user of water. Governments must make an appropriate amount of water available for the environment. This amount should be determined, wherever possible, on the basis of the best scientific information available and account for the water required to enhance/restore the health of river systems and groundwater basins.

All governments have legislated to establish systems of water entitlements separate from land title. Implementing these systems involves converting existing water allocations to the new entitlements systems, developing operational systems for registering entitlements, and developing and implementing water management plans for river systems and groundwater basins. Water management plans establish the amount of water that is available in a system and set out the arrangements for sharing that water among different users, including the environment.

In previous NCP assessments, the Council considered the legislative basis for establishing water entitlements in each jurisdiction. It also previously considered governments' progress in water management planning and in implementing the institutional arrangements needed to support effective water entitlement systems. On these matters, the Council draws the following interpretations from the CoAG water reform agreement and subsequent decisions.

- Water entitlements should be linked to a robust adaptive resource planning system.
- Water entitlements should be clearly specified so as to promote efficient trade within the social, physical and ecological constraints of the catchments.
- Water entitlements should be specified over the long term, exclusive, enforceable and enforced, transferable and divisible to provide for sustainability and community needs and to reflect the scarcity value of water.
- Water users should have the highest possible level of security in terms of the nature of the entitlement, and absolute security of ownership.
- Governments may provide compensation where, for example, reductions in reliabilities or other parameters are abrupt or extensive, but the CoAG 1994 water reform agreement does not require them to provide compensation. Consequently, whether compensation is provided is not currently relevant to the assessment of compliance.
- Any constraints on the capacity to trade water entitlements should be based on a sound public benefit justification and minimise impacts on efficient trading.

At its 29 August 2003 meeting, CoAG agreed to develop a National Water Initiative, which is likely to have implications for the nature of water entitlements. The initiative is to include a framework for a nationally compatible system of water access entitlements. Access entitlements are to be defined as open-ended, or perpetual, access to a share of the water available for consumption. The security of access entitlements is to be improved by the clear identification and assignment of risks between governments and water users of possible future reductions in water availability. The initiative is outlined in section 4.

In the 2004 NCP assessment, the Council will consider progress by all States and Territories in implementing new water entitlement arrangements. All States and Territories should report on:

- progress with developing water management plans, including the anticipated timing for completing the plans for the water sources nominated on each jurisdiction's agreed implementation program;

- progress with converting existing water allocations to new entitlement systems;
- their systems for registering water entitlements, including how these recognise third party interests (such as the interests of financial institutions); and
- the consistency of their water entitlement arrangements with CoAG obligations.

As part of this, governments should also report on the following jurisdiction-specific matters that the Council identified in previous NCP assessments. There are specific matters relevant to all jurisdictions except the ACT and the Northern Territory.

New South Wales

New South Wales was to have established a new access licensing system (including Regulations under the *Water Management Act 2000* to put in place a system for renewing access licences) and a new system for registering water access entitlements in January 2003. It deferred these measures — along with the commencement of its water sharing plans — to 1 January 2004 to accommodate foreshadowed CoAG work on national water industry arrangements. As a result, the Council deferred the 2003 NCP assessment of New South Wales's implementation of its access licensing system and registry. On 28 October 2003, New South Wales announced a further six-month deferral of its new water management arrangements to 1 July 2004, to allow more time for finalisation of the CoAG work (Minister for Natural Resources 2003).

As the outstanding obligation is for New South Wales to implement its new access licensing system and registry, the Council will consider this element of the deferred 2003 assessment as part of the 2004 NCP assessment.

For the 2004 NCP assessment, the Council requests New South Wales to:

- confirm the commencement of the new water access licensing and registry system (including the Regulations under the *Water Management Act*) on 1 July 2004;
- advise if the arrangements introduced on 1 July are changed significantly (for example, as a result of the current CoAG work) from those that the Council found in previous assessments to be consistent with CoAG obligations; and
- if there are any changes, provide details of the changes and an explanation of their consistency with CoAG requirements.

Victoria

In Victoria, water entitlements must remain attached to land (with a transfer detaching the water entitlement from one landholding and re-attaching it to another). Victoria is considering this requirement in its green paper review of the water industry, which is expected to be finalised in early 2004.

At the time of the 2002 NCP assessment, following a request from the Victorian Government, Sunraysia Rural Water agreed to review its decision that the tenure of private diverters' licences would be reduced from 15 years to five years on renewal. The Council was concerned that the reduction undermined irrigators' water entitlements and indicated it would re-examine the issue in 2004.⁷

For the 2004 NCP assessment, the Council is looking for Victoria to:

- have reviewed the requirement for water entitlements to attach to land and either removed it or demonstrated that it provides a net public benefit, including that it does not unjustifiably restrict the entry and behaviour of market participants (such as agents and brokers whose activities may facilitate trade in water entitlements) or the ability of financial institutions to obtain ownership of water entitlements in the event of default; and
- report on the outcome of Sunraysia Rural Water's review of the tenure of private diverters' licences and how the outcome addresses CoAG obligations.

Queensland

Under Queensland's May 2003 water management planning timetable, some of the State's water resource and resource operations plans are not scheduled to be completed until after 2005, the date specified by CoAG for substantial implementation of water entitlements for all river and groundwater sources. In addition, Queensland is proposing amendments to several water resource and resource operations plans after June 2005 to expand the plans' coverage.

- For the 2004 NCP assessment, the Council requests Queensland to advise on the significance of the water sources for which water resource and resource operations plans will remain to be completed after 2005.

⁷ Subsequently, in August 2003, CoAG agreed to develop the National Water Initiative, which includes access entitlements that are open-ended or perpetual.

Western Australia

In Western Australia, the holder of a water licence must own, occupy or have access to the land on which the water occurs, and must intend to use the water. Licences include a time limit for water entitlements to be used before the entitlement may be forfeited. The Water and Rivers Commission manages the licensing system (including forfeitures) and unused entitlements, and maintains a register of licences and entitlements. The commission has significant powers under the *Rights in Water and Irrigation Act 1914*, including the power to issue a direction overriding all other rights recognised by the Act.

The Water and Rivers Commission released draft policy guidelines on the management of unused licensed water entitlements for public consultation in March 2003. The commission also released a discussion paper on the use of its unused allocations in March 2003.

For the 2004 NCP assessment, the Council requests Western Australia to report on:

- the restrictions on who can hold a water licence — Western Australia should either remove the restrictions or demonstrate that they provide a net public benefit, including that they do not unjustifiably restrict the entry and behaviour of market participants (such as agents and brokers whose activities may facilitate trade in water entitlements) or the ability of financial institutions to obtain ownership of water entitlements in the event of default;
- the Water and Rivers Commission's final policy guidelines on the management of unused licensed water entitlements and how the management arrangements address CoAG obligations;
- the outcome of the commission's review of the use of its unused allocations, demonstrating that the commission's management arrangements are consistent with CoAG objectives such as the facilitation of trading in entitlements;
- any directions issued during 2003-04 by the commission overriding other rights recognised by the Act and whether the directions are likely to have a significant impact on the risks to entitlement holders and the value of water entitlements; and
- progress with providing Internet access to the commission's register of licences and entitlements.

South Australia

South Australia has converted most water allocations to a volumetric basis. The main area still to be converted is the South East Catchment, where the conversion process is not due to be completed until 2006. (In five of the seven

prescribed water resources in this area water allocations are only partly specified on a volumetric basis.) South Australia is upgrading its water licence register towards a full Torrens Title system and to enable access via the Internet. It expects the first stage of the upgrade to be implemented in 2003, with full implementation by 2004-05.

For the 2004 NCP assessment, the Council is looking for South Australia to:

- demonstrate continuing progress on the conversion process in the South East Catchment and provide information on the proportion of allocations, for the water resources on its agreed implementation program, that will not be specified in volumetric terms by 2005; and
- provide an update on the upgrade of its water licence register.

Tasmania

Within irrigation districts in Tasmania, only an owner or occupier of land in the district, or a person who may hold land in the district, may hold irrigation rights. A holder of an irrigation right who no longer owns or occupies land in the district must transfer the right within six months (with a possible extension of a further six months) or forfeit it. Tasmanian Government officials indicated a preparedness to consider the continuing need for this restriction before the 2004 NCP assessment.

For the 2004 NCP assessment, the Council is looking for Tasmania to have reviewed the requirement in irrigation districts that only an owner or occupier of land in the district may hold irrigation rights. Tasmania should either remove this requirement or demonstrate that it provides a net public benefit, including that it does not unjustifiably restrict the entry and behaviour of market participants (such as agents and brokers whose activities may facilitate trade in water entitlements) or the ability of financial institutions to obtain ownership of water entitlements in the event of default.

Provision of water to the environment

Governments are to establish a sustainable balance between the environment and other uses, including formal provisions for the environment for surface water and groundwater. In doing so, governments are to have regard for the ARMCANZ/ANZECC National Principles for the Provision of Water for Ecosystems.

Environmental requirements are to be determined wherever possible on the best available scientific information and governments are to have regard to the intertemporal and interspatial water needs required to maintain the health and viability of river systems and groundwater basins. For river systems that are overallocated or deemed to be stressed, governments are to provide a better balance in water resource use, including appropriate allocations to the environment to enhance/restore the health of river systems.

Governments should also consider environmental contingency allocations, with a review of allocations five years after they have been initially determined.

The 1999 tripartite meeting clarified the commitment to provide water for the environment and timeframes:

For the second tranche [1999], jurisdictions submitted individual implementation programs, outlining a priority list of river systems and/or groundwater resources, including all river systems which have been over-allocated, or are deemed to be stressed, and detailed implementation actions and dates for allocations and trading to the NCC for agreement, and to Senior Officials for endorsement. This list is to be publicly available.

For the third tranche [2001], States and Territories will have to demonstrate substantial progress in implementing their agreed and endorsed implementation programs. Progress must include at least allocation to the environment in all river systems which have been over-allocated, or are deemed to be stressed.

By 2005, allocations and trading must be substantially completed for all river systems and groundwater resources identified in the agreed and endorsed individual implementation programs.

Reference: CoAG water reform agreement, clauses 4(b)–4(f); and 1999 tripartite meeting

Achieving improved environmental outcomes is a central objective of the CoAG water reform agreement. Clause 4 of the agreement obliges governments to recognise the environment as a legitimate user of water by implementing comprehensive systems of water allocations, including environmental allocations, for surface water and groundwater resources. Governments are to achieve a better balance in water use in rivers that are overallocated or deemed to be stressed (by reallocating water where necessary) to restore/enhance the health of river systems. Environmental allocations must have regard to the water needs required to maintain the health and viability of river systems and groundwater basins and be determined, wherever possible, on the best scientific information available. Allocations for environmental purposes in all stressed and overallocated river systems were to be implemented by 2001, with allocations for all river systems and groundwater resources identified in governments' 1999 programs substantially completed by 2005 (1999 tripartite meeting on water).

The 1999 tripartite meeting on water agreed that governments should formally allocate water to the environment in accordance with the Agriculture and Resource Management Council of Australia and New Zealand/Australian and New Zealand Environment and Conservation Council (ARMCANZ/ANZECC) National Principles for the Provision of Water for Ecosystems (box 2.1). A key objective of the national principles is to sustain and, where necessary, restore ecological processes and the biodiversity of water-dependent ecosystems, recognising that appropriate water flow is critical for maintaining natural ecological processes and biodiversity.

- National principle 4 states that the provision of water for ecosystems should go as far as possible to meeting the water regime necessary to sustain the ecological values of aquatic ecosystems while recognising the existing rights of other users. This principle introduces scope for socioeconomic outcomes to also guide water allocations.

- National principle 5 requires action (including reallocation) be taken to meet environmental needs where environmental water requirements cannot be met because of existing uses.
- National principle 8 provides that environmental water provisions should be responsive to monitoring and improvements in understanding of environmental water requirements.
- National principle 12 requires that all relevant environmental, social and economic stakeholders be involved in water allocation planning and decision-making on environmental water provisions.

Box 2.1: ARMCANZ/ANZECC National Principles for the Provision of Water for Ecosystems

Principle 1: River regulation and/or consumptive use should be recognised as potentially impacting on ecological values.

Principle 2: Provision of water for ecosystems should be on the basis of the best scientific information available on the water regimes necessary to sustain the ecological values of water dependent ecosystems.

Principle 3: Environmental water provisions should be legally recognised.

Principle 4: In systems where there are existing users, provision of water for ecosystems should go as far as possible to meet the water regime necessary to sustain the ecological values of aquatic ecosystems whilst recognising the existing rights of other water users.

Principle 5: Where environmental water requirements cannot be met due to existing uses, action (including reallocation) should be taken to meet environmental needs.

Principle 6: Further allocation of water for any use should only be on the basis that natural ecological processes and biodiversity are sustained (that is, ecological values are sustained).

Principle 7: Accountabilities in all aspects of management of environmental water should be transparent and clearly defined.

Principle 8: Environmental water provisions should be responsive to monitoring and improvements in understanding of environmental water requirements.

Principle 9: All water uses should be managed in a manner which recognises ecological values.

Principle 10: Appropriate demand management and water pricing strategies should be used to assist in sustaining ecological values of water resources.

Principle 11: Strategic and applied research to improve understanding of environmental water requirements is essential.

Principle 12: All relevant environmental, social and economic stakeholders will be involved in water allocation planning and decision-making on environmental water provisions.

To assist it in assessing whether governments will achieve the CoAG goal of enhancing/restoring the health of stressed and overallocated river systems, the Council intends to apply the concept of a 'healthy working river' developed

by the independent Expert Reference Panel (ERP) of scientists under The Living Murray initiative. The ERP defines a 'healthy working river' as:⁸

... one that is managed to provide a sustainable compromise, agreed to by the community, between the condition of the river and the level of human use.

A healthy working river will not look like nor will it function in the same way as a pristine river. There is a relationship between the type and level of work we make a river do and its naturalness. In general, the more work the river is made to do the less natural it becomes. By most definitions a loss of naturalness represents a reduction in ecological integrity. For this report, ecological integrity is synonymous with river health. (ERP 2002, p. 13)

... assuming suitable water quality and physical habitat, there is a substantial risk a working river will not be in a healthy state when key system level attributes of the flow regime are reduced below two-thirds of their natural level (ERP 2002, p. 24).⁹

... when key flow attributes are greater than two-thirds of their natural level, there is a high probability or likelihood of achieving a healthy river (ERP 2002, p. 5).

A healthy working river reflects sustainable resource use, between ecological condition and consumptive use. In the words of the ERP, 'Whilst the river must "give up" some water for human consumptive use, this volume must be less than that which significantly risks the health and long-term functioning of the river system' (ERP 2002, p. 13). Consistent with this approach, the Council does not interpret the CoAG agreement as requiring governments to restore rivers to natural or near natural condition. Equally, however, while there will be legitimate trade-offs between ecological objectives and other water uses, the CoAG water reform agreement does not support maintenance of consumptive uses at levels that will mean continued or further degradation of stressed or overallocated river systems.

The healthy working river, as defined by the ERP, means that a working river can be in a healthy state even where its flows are below natural levels. For the River Murray, for example, the ERP considered that when key flow attributes are greater than two-thirds of their natural level, there is a high probability of achieving a healthy river. The two-thirds of key flow attributes

⁸ The Scientific Review Panel for the Murray–Darling Basin Commission Living Murray initiative and the Murray–Darling Basin Commission are currently further refining the 'healthy working river' concept.

⁹ The ERP 'two-thirds natural' guidance level 'applies only to regulated and other impounded rivers. It is a target for river restoration, not a level for 'acceptable degradation' or 'sustainable diversion' of minimally impacted rivers.' (ERP 2002, p. 6).

indicator, while a useful guide to river health, should not be viewed as an alternative to governments undertaking river-specific work, particularly for their stressed and overallocated river systems. For these systems, the Council will look for governments to provide scientific information at the river-specific level on the relationship between environmental flows and river health. Indeed, national principle 11 emphasises the importance of strategic and applied research to improve understanding of environmental water requirements.

The national principles imply that, where there are existing users, allocations of water for consumptive and environmental purposes should be decided on the basis of full and robust information about the ecological requirements of ecosystems and the impacts on existing users. Integral to this is that the reference groups developing water management arrangements (and therefore determining the amount of water for extractive uses and environmental allocations) should be broadly representative of the affected community. The appropriate application of the CoAG water reform agreement (incorporating the national principles) thus depends on governments ensuring that reference groups and their communities have access, wherever possible, to: scientific information on the water regime required to sustain ecological values (consistent with a healthy working river); information on the extent of any socioeconomic trade-offs and the rationales for the trade-offs; and science-based information on the expected impact of any trade-offs on ecological values. The availability of this information (particularly an awareness of the ecological risks of alternative environmental water allocations) and access to the views of a well-informed community mean that reference groups will be better placed to decide how much water should be provided for environmental purposes. The Council will look to ensure that the process used to determine environmental allocations and river health arrangements is open and consultative, that robust information on environmental water allocations, socioeconomic trade-offs and expected ecological outcomes is publicly available, and that reference committees taking decisions on water use are representative of all interests.

In some cases, recognition of the existing rights of other water users may mean that governments need time to implement appropriate environmental flow arrangements and river health activities. The Council considers that a period of transition may be appropriate, provided arrangements are likely to achieve the healthy working river objective of a sustainable balance between consumptive and environmental uses within a reasonable period. Where a transition period is proposed, the Council will look for the relevant government to outline its program and timetable for meeting environmental objectives and provide robust arguments supporting the length of the transition period.

In some cases, environmental water allocations / river health activities may require adjustment as more information on the hydrological cycle of rivers and ecological outcomes becomes available. To ensure that environmental water allocations and other management actions are effective over time, the Council will look for governments to institute ecological monitoring programs

and to adapt flow arrangements as necessary in response to monitoring outcomes (consistent with national principle 8). The Council will look for governments to briefly outline their arrangements for the adaptive management of river systems in their 2004 annual reports.

CoAG senior officials determined that the 2004 NCP assessment would include a stocktake of progress on environmental allocations against jurisdictions' agreed implementation programs to ensure States and Territories are on track to meet CoAG's 2005 deadline. In their 2004 annual reports on NCP implementation, each State and Territory should:

- report on its progress in implementing water management arrangements for river and groundwater sources against the 2005 CoAG deadline for substantial completion of allocations on governments' agreed implementation programs, including:
 - a list of all draft and final water management plans, and details of the stage of development of plans in progress (including when the plan and implementation arrangements are likely to be completed);
 - copies of a representative sample of completed water management plans or web addresses for completed plans; and
 - details of how the sample of water management plans (and related arrangements) address the obligations in the CoAG water reform agreement and the ARMCANZ/ANZECC national principles, including the extent to which the plans provide appropriate allocations to the environment (having regard to the seasonality, frequency, magnitude and duration of flow events).
- if the water allocated for environmental purposes for particular river and groundwater sources is significantly different from that recommended by the best available science, provide information on:
 - the process used to determine the environmental allocations, including the composition of reference groups and a summary of the information made available to the affected community;
 - the environmental risks posed by the environmental water allocations, including an estimate of the extent to which the environmental allocations are likely to affect the achievement of a healthy working river; and
 - the nature of and case for socioeconomic tradeoffs from recommended environmental allocations.

In addition to the matters above, governments should also report on the following jurisdiction-specific matters that the Council identified in previous NCP assessments. There are specific matters relevant to all jurisdictions except Western Australia.

New South Wales

New South Wales gazetted its State Water Management Outcomes Plan in December 2002 and 35 water sharing plans in early 2003. It deferred commencement of the water sharing plans, however, by six months to 1 January 2004 to accommodate foreshadowed CoAG work on national water industry arrangements. As a result, the Council deferred the 2003 NCP assessment of New South Wales's actions to provide water for environmental purposes in stressed and overallocated river and groundwater systems.

On 28 October 2003, New South Wales announced a further six-month deferral of the water sharing plans (Minister for Natural Resources 2003). While the plans will now not commence until 1 July 2004, New South Wales indicated that it would not be reopening the essential content of each plan. The water sharing plans do not need to have formally commenced for the Council to assess whether the plans are consistent with the CoAG obligations. New South Wales will, however, need to have activated the plans to comply with the CoAG water reform agreement on the provision of water to the environment.

The Council will conduct the deferred 2003 assessment during March/April 2004. The outcome of the deferred assessment may have implications for the 2004 NCP assessment.

Victoria

Victoria provided a three-year program for improving the health of its stressed rivers in 2001. Under this program, Victoria committed to establish flow rehabilitation plans for five priority river systems (the Thomson, Macalister, Maribyrnong and Lerderderg rivers and Badger Creek) by 30 June 2003. The program includes flow rehabilitation strategies for a further six river systems: the Avoca, Broken, Glenelg, Loddon, Snowy and Wimmera rivers.

At the time of the 2003 NCP assessment, Victoria was yet to finalise the flow rehabilitation plans for two of the priority rivers (the Thomson and Macalister rivers). While Victoria had completed the plan for the Maribyrnong River, it considered that further implementation would not be cost-effective relative to the environmental benefits. Victoria committed instead to implement the streamflow management plan for King Parrot Creek, which it considered would provide greater environmental benefits relative to implementation costs. Victoria referred the Maribyrnong River plan to the Port Phillip and Westernport Catchment Management Authority to incorporate specific actions to improve river health into the authority's regional catchment strategy and river health planning processes. Because Victoria's arrangements were significantly advanced, and to accommodate the foreshadowed CoAG work on national water industry arrangements, the Council deferred the 2003 NCP assessment of Victoria's compliance with the obligation to provide water for environmental purposes.

The Council will complete the 2003 NCP assessment of Victoria's compliance with CoAG obligations in relation to the environmental flow arrangements for the Thomson, Macalister and Maribyrnong rivers during March/April 2004. The outcome of this assessment may have implications for the 2004 NCP assessment.

For the 2004 NCP assessment, the Council requests Victoria to report on progress with the flow rehabilitation strategies for the Avoca, Broken, Glenelg, Loddon, Snowy and Wimmera rivers. The Council will look for Victoria to report on how the strategies (and related arrangements) address the obligations in the CoAG water reform agreement and the ARMCANZ/ANZECC national principles, including the extent to which they deliver appropriate allocations to the environment. If the water allocated for environmental purposes is significantly different from that recommended by the best available science, Victoria should also provide information on: the process used to determine the environmental allocations (including the composition of reference groups and a summary of the information made available to the affected community); the environmental risks posed (including an estimate of the extent to which the environmental allocations are likely to affect the achievement of a healthy working river); and the nature of and case for socioeconomic tradeoffs from recommended environmental allocations.

Queensland

At the time of the 2003 NCP assessment, Queensland had completed six water resource plans, with a further three almost finalised. It had also completed two resource operations plans (for the Burnett and Boyne basins).

Following an independent scientific study in 2003, Queensland is developing water planning arrangements for the Condamine–Balonne Basin, the State's only potentially overallocated river system. Queensland proposed to finalise the Condamine–Balonne Basin water resource plan by the end of 2003 and the resource operations plan in the first half of 2004.

For the 2004 NCP assessment, the Council is looking for Queensland to have finalised the Condamine–Balonne Basin water resource plan (including appropriate environmental outcomes) and the resource operations plan. Queensland should show that it has:

- finalised plans for the implementation of the event based environmental flow rules, as recommended by the scientific review panel, to provide appropriate flow for the ecological assets (including the Narran Lakes and Culgoa national parks) in consultation with the local community and stakeholders;
- provided an opportunity for the Murray–Darling Basin Commission Independent Audit Group to comment on the water resource plan, and considered the audit group's comments in finalising the plan;

- explained, in line with the requirements of the *Water Act 2000*, how the final water resource plan addresses issues raised during public consultations, and adopted monitoring arrangements to evaluate the performance of the plan; and
- committed to the further research recommended by the scientific review, particularly to refine the environmental flow requirements.

South Australia

South Australia has completed all of the water allocation plans on its original implementation program. In the 2002 NCP assessment, the Council indicated that it would consider any new systems that South Australia prescribes as additions to South Australia's implementation program (but not subject to CoAG's target for completion of 2005). At the time of the 2003 NCP assessment, South Australia had prescribed the Tintinara Coonalpyn wells area, Morambro Creek, the Great Artesian Basin, Marne River and Saunders Creek. It was also proposing to prescribe water resources in the Baroota area near Port Germein, in Greenock Creek adjacent to the Barossa Valley and on Kangaroo Flat on the northern Adelaide plains.

South Australia is undertaking a stressed resources review to improve its approach to identifying water resources under stress (or at risk of stress) and developing appropriate management responses. The review's findings on monitoring were to be further considered in a complementary review of the State's water monitoring programs.

For the 2004 NCP assessment, the Council requests South Australia to report on:

- the water allocation plan for the Tintinara Coonalpyn prescribed wells area (completed in January 2003) — while South Australia provided a copy of the plan for the Tintinara Coonalpyn prescribed wells area for the 2003 NCP assessment, the Council is still to consider whether the plan is consistent with CoAG obligations on the provision of water to the environment; and
- progress with its stressed resources review and the complementary review of water monitoring programs.

Tasmania

For the 2003 NCP assessment, Tasmania provided the Council with the penultimate draft of its first water management plan, for the Great Forester River, which it expected to be finalised in mid-2003. Following completion of the plan, Tasmania proposed to develop generic principles to guide the preparation of future water management plans, with the aim of accelerating the process. Instead of its previously proposed farm dams policy, Tasmania released draft guidelines for assessing applications for new water allocations

from watercourses (including for proposed dams) and commenced a project on the conservation of freshwater ecosystem values.

For the 2004 NCP assessment, the Council requests Tasmania to:

- confirm that the water management plan for the Great Forester River is finalised and report on any significant changes to the plan from the draft considered by the Council in the 2003 NCP assessment;
- advise on the development of the generic principles to guide the preparation of future water management plans and provide a copy of the principles; and
- report on progress in finalising the guidelines for assessing applications for new water allocations from watercourses and with the project on the conservation of freshwater ecosystem values.

ACT

The ACT's Water Resources Management Plan sets out the environmental allocations for each of its 32 subcatchments. Environmental flows were in place for all of the subcatchments at the time of the 2001 NCP assessment.

In November 2002, the ACT established a Senior Executives Water Coordinating Group to develop a comprehensive and integrated water resource strategy for the Territory. The group's work includes progressing the establishment of the ACT component of the Murray–Darling Basin Ministerial Council cap on water diversions. The ACT Government anticipated reaching a final position on the cap during 2003.

For the 2004 NCP assessment, the Council requests the ACT to:

- report on progress in developing its water resource strategy; and
- confirm that it has finalised the ACT component of the Murray–Darling Basin Ministerial Council cap on water diversions and provide details on its component of the cap.

Northern Territory

The Northern Territory is developing water allocation plans for four (of its six) water control districts, one of which (Ti-Tree) was completed in 2002-03.

In the 2001 NCP assessment, the Council found that the Northern Territory was at an early stage in developing a scientific basis for determining environmental water requirements. In subsequent assessments, based on the Northern Territory's completion of five major research projects on environmental flows in the Daly and Douglas rivers, the Council was satisfied that the Territory was addressing the obligation to establish a 'best available'

scientific basis for determining environmental flows. The Council indicated, however, that it would re-examine progress in the 2004 NCP assessment.

- For the 2004 NCP assessment, the Council asks the Northern Territory to report on any further progress in its scientific research on environmental water requirements.

Murray–Darling Basin Commission

The Murray–Darling Basin Ministerial Council cap on diversions sets an upper limit on the amount of water that can be taken from the Murray–Darling river system. On 15 October 2003, the Murray–Darling Basin Commission released an interim report on environmental flows for the River Murray (Scientific Reference Panel 2003) as part of The Living Murray initiative. The report provides independent scientific advice as initial guidance on the potential ecological impacts of three environmental flow reference points (350, 750 and 1500 gigalitres of flow restored in an average year) for analysing the recovery of water for the River Murray. The scientific reference panel's final report is due in mid-2004.

At its meeting on 14 November 2003, the Murray–Darling Basin Ministerial Council agreed to a First Step decision for The Living Murray, focusing on the protection of six significant ecological assets along the River (the Barmah–Millewa forest, the Gunbower and Koondrook–Perricoota forests, Hattah Lakes, Chowilla floodplain, the Murray mouth, Coorong and Lower lakes, and the River Murray channel), with specific ecological objectives and outcomes for each asset. It is estimated that this decision would require an estimated 500 gigalitres of water per year on average, depending on drought and flood events. A community consultation process concerning the first step decision will be conducted until March 2004. Subject to finalisation of a CoAG agreement, funding is to commence from 1 July 2004 from the \$500 million made available to address water overallocation in the Murray–Darling Basin announced by CoAG on 29 August 2003 and through realignment of the previously announced capital works program to effectively manage water to the six significant ecological assets (Murray–Darling Basin Ministerial Council 2003).

For the 2004 NCP assessment, the Council requests the commission to provide information on:

- implementation of the cap on water diversions, including compliance by jurisdictions with the cap;
- progress in improving environmental flows in the River Murray; and
- any other initiatives aimed at improving the environmental health of the Murray–Darling river system.

3.3 Water trading

Water trading arrangements are to maximise water's contribution to national income and welfare, within the social, physical and ecological constraints of catchments.

Reference: CoAG water reform agreement, clause 5

The CoAG water reform agreement emphasises the importance of maximising the contribution of water to national income and welfare (within the social, physical and ecological constraints of catchments) through water trading. Where they have not already done so, governments are to implement arrangements for water trading once they have settled water entitlements. The CoAG agreement recognises a need for consistency in trading arrangements, to facilitate cross-border trading where this is possible. CoAG reaffirmed the importance of water trading arrangements at its August 2003 meeting. The objectives of the National Water Initiative announced by CoAG include ensuring water is put to best use by encouraging the expansion of water markets and trading across and between districts and States (where water systems are physically shared), including clear rules for trading and robust water accounting arrangements.

In most jurisdictions, water entitlements may be traded temporarily (for an agreed number of seasons, including consecutive seasonal assignments) or permanently. In some jurisdictions, it is also possible to lease entitlements with no limit on the duration of the lease. The water management arrangements being developed under State and Territory legislation establish the quantum of tradeable volumetric allocations and set the rules governing trading.

Several implementation issues need to be resolved to achieve effective trading outcomes. The Murray–Darling Basin Commission is examining how best to manage many of these issues.

- Definitions of tradeable water entitlements (the commodity being traded) need to be consistent across supply systems. Where this is not possible, mechanisms such as exchange rates or the 'tagging' of water entitlements need to be in place to accommodate differences in entitlements across systems.
- Environmental clearance processes need to be robust.
- Appropriate administrative arrangements, including reliable and accessible water entitlement registers are necessary. Ready access to data on the price and volume of water being traded will help to develop water markets.

- Institutional and regulatory arrangements and operational decisions by licence holders (including irrigation trusts) need to facilitate trade unless there is a clear public interest argument for restricting trade.

CoAG senior officials determined that the National Competition Council should assess governments' progress with interstate water trading in 2004. In 2004, the Council will also consider intrastate trading issues remaining from the 2003 NCP assessment. By 2005, arrangements to enable trading must be substantially in place.

The Council evaluates the arrangements in each jurisdiction against a common set of key criteria, which are consistent with the findings of the High Level Steering Group on Water, 'A National Approach to Water Trading' (High Level Steering Group on Water 2000). These criteria broadly state that governments should establish a framework of trading rules, including developing necessary institutional arrangements from a natural resource management perspective, to eliminate conflicts of interest and remove impediments to trade. The Council considers the adequacy of trading rules to ensure that the scope for efficient trade is maximised. Where restrictions on trade exist, governments should provide information on the physical, social or ecological reasons for the restrictions.

For the 2004 NCP assessment of interstate and intrastate water trading, the Council is looking for States and Territories to provide information on:

- current trading rules and zones (including the trading rules in water management plans);
- legislative and institutional arrangements;
- the mechanisms in place to avoid adverse environmental impacts from trade on river and groundwater health;
- restrictions on trade (including restrictions in water management plans), including:
 - the physical, social or ecological reasons for the restrictions; and
 - a robust public benefit case for restrictions that are not aimed at protecting the environment or ensuring the practical management of trading;
- recent (intrastate and interstate) trade, including the value, volume, location and nature (for example, permanent versus temporary trades, transfers from lower to higher value uses) of trades; and
- the availability of market information (including on price) and trading mechanisms (such as water exchanges).

In addition, the Council's previous assessments (particularly of intrastate water trading) and consideration of work by the Murray–Darling Basin

Commission (on interstate water trading) identified the following issues. Many of the State and Territory intrastate trading issues are also of relevance to interstate trading. Governments should show they have addressed these matters via their 2004 annual reports on NCP implementation.

New South Wales

The Council previously identified the prohibition on trade out of some irrigation districts as a significant constraint on both intrastate and interstate trade. In the 2003 NCP assessment, New South Wales indicated it would consider its approach on trading prohibitions when the outcome of the Murray–Darling Basin Commission’s work on trading restrictions is available. While the trading rules are set by the irrigation corporations (rather than the New South Wales Government), the CoAG water agreement places responsibility on the Government to facilitate trading to enable water to be used to maximise its contribution to national income and welfare, where socially, physically and ecologically sustainable.

Although they will generally facilitate water trading, some water sharing plans contain restrictions on trading, not all of which appear to be related to a need to protect the environment or to ensure the practical management of trading. Some constraints (for example, the restriction on dealings involving a change of water source where the movement is from an unregulated to a regulated river) appear to be a response to socioeconomic concerns.

For the 2004 NCP assessment, the Council is looking for New South Wales to:

- have made substantive progress towards removing constraints on trade out of irrigation districts, or replacing them with less-restrictive alternatives, accounting for the Murray–Darling Basin Commission’s work on trading restrictions; and
- report on the trading rules in the water sharing plans.

Victoria

Victoria has maintained several trading constraints that the Council identified in 2001 as likely to be inconsistent with CoAG water trading obligations, including:

- the requirement for water entitlements to attach to land, with a transfer detaching the water right from the seller’s landholding and re-attaching it to that of the buyer (see section on establishment of water entitlement systems above);
- the differential return on assets incorporated in the price charged for bulk water supplied by rural water authorities to regional urban customers and

irrigators, which results in the charge for supply to country towns being higher than the charge to irrigators for water from the same system;

- the 2 per cent rule in irrigation districts, under which a transfer may be refused if it would result in more than 2 per cent (net) of the total water entitlement being transferred out of selected districts in a given year; and
- the restrictions in unregulated systems north of the Great Dividing Range, which prohibit trade upstream and impose a 20 per cent reduction on trade downstream (unless under a winter-fill licence), and the restrictions across the whole State that limit downstream trade from an unregulated system to a regulated system to the amount of upstream trade.

Victoria is considering two of these constraints — (1) the requirement for water entitlements to attach to land and (2) the differential returns on bulk water supply — as part of the green paper review of the water industry (expected to be finalised in early 2004). The constraints on trading in unregulated rivers appear to be transitional measures to mitigate adverse environmental effects pending the finalisation of streamflow management plans. The streamflow and groundwater management plans may include trading rules.

In relation to interstate trading, in the 2001 NCP assessment the Council noted that Victoria implemented a ban on temporary trades into New South Wales after the end of February each year. The ban was introduced in response to differences between the two States in the provisions for the carry-over of water entitlements into the following year.

For the 2004 NCP assessment, the Council requests Victoria to report on:

- the outcome of its review of two of the trading constraints — (1) the requirement for water entitlements to attach to land and (2) the differential returns on bulk water supply — as part of the green paper review of the water industry;
- the continuing appropriateness of the 2 per cent rule in irrigation districts, accounting for the Murray–Darling Basin Commission’s work on trading restrictions, and any actions proposed in relation to the rule;
- the trading rules in streamflow and groundwater management plans;
- its intentions regarding the constraints on trading in unregulated rivers once the streamflow management plans have been completed; and
- the continuing need for the ban on late-season temporary transfers into New South Wales, accounting for the Murray–Darling Basin Commission’s work on interstate trading.

Queensland

Queensland is in the early stages of permanent water trading. A trial of permanent trading commenced in the Mareeba Dimbulah scheme in 1999 and was extended to a small proportion of the water in the Nogoia McKenzie scheme and to the lower parts of the Mary River scheme. Several provisions in the interim arrangements are inconsistent with the CoAG water trading obligations. In particular, an interim water allocation must be re-attached to land and the water transferred must be used for primary production or stock and domestic purposes. These are interim arrangements, however, pending finalisation of the relevant resource operations plan.

Final resource operations plans are necessary to enable permanent trading (outside areas covered by the water trading trial) and to define the water trading rules. The first resource operations plan, for the Burnett Basin, commenced in May 2003.

Outside areas that will be covered by a water resource plan and resource operations plan, water will remain tied to the land title and trading will continue to be restricted to temporary transfers. Queensland advised in 2003 that these arrangements will apply only in areas of limited demand, accounting for no more than 20 per cent of the State's water use, and that regulations may provide for transfers of water licences to other land holdings.

For the 2004 NCP assessment, the Council is looking for Queensland to:

- report on developments in the permanent water trading trial;
- report on the trading rules in subsequently completed resource operations plans;
- report on the expected extent of demand for water trading in the water sources for which resource operations plans will remain to be completed after 2005;
- confirm that the demand for trading in the areas not intended to be covered by a water resource plan and resource operations plan is low and commit to considering the implementation of water management (including trading) arrangements if demand increases;
- report on the timeliness of approval processes for applications to trade (in the Burnett Basin as well as in the schemes covered by the permanent trading trial); and
- outline developments in water trading mechanisms and the availability of market information.

Western Australia

Western Australia has policy guidelines for water trading and an interim subpolicy to guide the operational management of trading. The Rights in Water and Irrigation Act contains provisions that may constrain trade in water entitlements, including: (1) scope for local by-laws to prohibit trade; (2) a requirement that a licence holder must be an owner or occupier of land or have access to land; and (3) a time limit for water entitlements to be used (before the entitlement may be forfeited). (The second and third of these constraints are discussed in the section on water entitlements above.) The Water and Rivers Commission may refuse trade in entitlements that have not been used, though it is reviewing its policy guidelines on unused entitlements (also see the section on water entitlements). The commission may also refuse trades to prevent monopolies in water.

Subregional and local area water management plans may include trading rules. The trading rules in the plans are required to be compatible with the Statewide guidelines or to address potential conflicts or limitations on the implementation of the guidelines.

For the 2004 NCP assessment, in addition to the issues raised in the section on water entitlements, the Council requests Western Australia to report on:

- any local by-laws introduced to prohibit water trade and the rationale for those by-laws;
- the Water and Rivers Commission's power to refuse trades to prevent monopolies in water, particularly the need for the power given the *Trade Practices Act 1974* and the nature of the competition test applied in reaching a decision to refuse approval for a trade;
- the outcome of the commission's annual review of the effectiveness of the policy guidelines for water trading;
- the trading rules in subregional and local area water management plans; and
- the timeliness of trading approvals.

South Australia

In South Australia there are limits on the volume of water that can be traded out of some irrigation districts in any given year. The Central Irrigation Trust has imposed a 2 per cent cumulative limit on the proportion of irrigation entitlements that can be sold out of its districts. Other reported trading restrictions include limits on temporary trade out of districts in the Central Irrigation Trust and on permanent trade out of districts in other trusts. While the trading rules are set by the irrigation trusts (rather than the South Australian Government), the CoAG water reform agreement places responsibility on the Government to facilitate trading to enable water to be

used to maximise its contribution to national income and welfare, where socially, physically and ecologically sustainable.

Trading rules are included in the water allocation plans for prescribed areas. In some areas, reduction factors are applied to transfers of water allocations. In the northern Adelaide plans, permanent and temporary transfers are subject to a 20 per cent reduction in the total volume of water allocations transferred, so that the amount of water acquired by the buyer is 20 per cent less than that sold. A reduction factor is also applied to transfers of water allocations in McLaren Vale from use on other crops to grapevines.

For the 2004 NCP assessment, the Council is looking for South Australia to:

- provide details of the trading rules of each of its irrigation trusts, particularly rules that limit permanent or temporary trade out of irrigation districts;
- show that it has made substantive progress towards removing constraints on trade out of irrigation districts, or replacing them with less-restrictive alternatives, accounting for the Murray–Darling Basin Commission’s work on trading restrictions;
- report on the trading rules in recently completed water allocation plans;
- demonstrate that the reduction factors on water allocations that are traded in some areas are consistent with CoAG obligations; and
- provide data on the timeliness of trading approvals.

Tasmania

During 2002-03, Tasmania removed two restrictions on water trading identified by the Council in the 2001 NCP assessment. It also indicated a preparedness to review the remaining restriction on trading in irrigation districts that is likely to be inconsistent with CoAG obligations: the requirement that only an owner or occupier of land in the district may hold irrigation rights. The *Water Management Act 1999* includes a provision applying to unregulated systems that appears to have similar objectives, with scope for transfers to be refused if the quantity of water available would exceed the amount that could be used sustainably for the intended purpose. Water management plans may also include trading rules.

For the 2004 NCP assessment, the Council is looking for Tasmania to:

- have reviewed the remaining restrictions on trade and either removed the restrictions or demonstrated that they provide a net public benefit;
- report on the trading rules in recently completed water management plans;

- report on developments in water trading mechanisms and the availability of market information; and
- provide recent data on intrastate trade, including the value, volume, location and nature (for example, permanent versus temporary trades, transfers from lower to higher value uses) of trades.

ACT

The *Water Resources Act 1998* permits the permanent or temporary transfer of all or part of a water allocation with the approval of the Environment Management Authority. In previous NCP assessments, the ACT Government indicated that there is insufficient demand for trading to warrant developing intraterritory trading rules. As part of its work on developing a water resource strategy for the Territory, the ACT's Senior Executives Water Coordinating Group is developing arrangements for cross-border trading.

For the 2004 NCP assessment, the Council is looking for the ACT to report on any developments in relation to intraterritory and cross-border trading.

Northern Territory

The Northern Territory removed previous legislative impediments to water trade. Water allocation plans may include trading rules. The Territory has agreed in principle with Western Australia for that State's water trading arrangements to apply throughout the Territory sector of stage 2 of the Ord Irrigation Project.

For the 2004 NCP assessment, the Council is looking for the Northern Territory to report on the trading rules in recently completed water allocation plans.

Murray–Darling Basin Commission

The Murray–Darling Basin Commission established a pilot project for permanent interstate water trading in 1998. The pilot is limited to the permanent transfer of high-security water entitlements held by private diverters in the Mallee region of South Australia, Victoria and New South Wales (downstream of Nyah). At the time of the 2003 NCP assessment, the Murray–Darling Basin Commission was examining several issues relating to interstate trade in water.

For the 2004 NCP assessment, the Council requests the commission to report on:

- the pilot project for permanent interstate water trading;

- arrangements for the extension of interstate water trading beyond the pilot project, including the development of:
 - a system of exchange rates to allow trading between regions and between different water entitlements in different States;
 - adequate environmental controls for trading;
 - efficient administrative arrangements for processing and approving trades; and
 - a system of access to State-based registry systems to enable those interested in interstate trading to obtain the information necessary to conduct such trades; and
- its work on barriers to interstate water trade, which it is undertaking in consultation with governments, including analysis of:
 - barriers to trade out of irrigation districts; and
 - the impact (on interstate trade) of differential financial arrangements for bulk water between the States.

3.4 Institutional reform

As far as possible, the roles of water resource management, standard setting and regulatory enforcement, and service provision are to be separated institutionally.

Service providers, in metropolitan areas in particular, are to have a commercial focus, whether achieved by contracting out, corporatisation or privatisation as determined by the relevant government. Service providers are to benchmark their performance and should seek to achieve international best practice.

Constituents are to be given greater responsibility in the management of irrigation areas, for example, through devolution of operational responsibility to local bodies, subject to appropriate regulatory frameworks being established.

Governments are to adopt an integrated approach to natural resource management practices, including:

- demonstrated administrative arrangements and decision-making processes to ensure an integrated approach to natural resource management and integrated catchment management;
- an integrated catchment approach to water resource management, including consultation with local government and the wider community in individual catchments; and
- a consideration of land care practices to protect rivers with high environmental values.

Reference: CoAG water reform agreement, clause 6

The CoAG water reform agreement established institutional reform obligations to separate the roles of water standards setting and regulation, and service delivery, devolve irrigation scheme management to local bodies, implement integrated catchment management, and ensure a commercial focus by water and wastewater businesses.

For institutional role separation, governments should — at a minimum — separate the responsibility for the provision of water and wastewater services from the responsibility for regulation, water resource and environmental management and standards-setting in areas such as health and plumbing. The separation of roles is intended to remove the potential for conflicts of interest, which might arise if, for example, a monopoly water business (or its Minister) has responsibility both for providing water and determining the price and quality of that water. Independent economic regulation is appropriate, given water and wastewater businesses are public monopolies. (Independent economic regulation, where the regulator recommends on prices taking account of the CoAG pricing principles and provides its recommendations in a public report, also addresses pricing obligations.) If water businesses are too small to justify full monitoring (as is often the case for local government businesses), then there should at least be transparency and accountability in the setting and reporting of prices and service standards. The CoAG agreement does not rule out a water industry regulator and a service provider being responsible to the same Minister, but the

relevant government must adequately address potential conflicts of interest in such cases.

The requirement to benchmark businesses' performance and the objective that businesses seek to achieve international best practice aim at ensuring that water services are delivered as efficiently as possible. Consistent with this, and with the pricing reforms that seek to ensure water and wastewater businesses earn sufficient revenue to maintain and refurbish their infrastructure, services in metropolitan areas must have a commercial focus. It is up to each State and Territory government to determine how its businesses achieve a commercial focus, whether by contracting out, corporatisation or privatisation.

The devolution of irrigation scheme management to local bodies can take different forms, ranging from the scheme manager's consultation with local constituents on irrigation management issues to the devolution of operational responsibility to the local level, although the obligation does not require governments to go that far. Any devolution of operational responsibility should occur within an appropriate regulatory framework; that is, a regulatory environment that ensures all of CoAG's water reform objectives can be met.

The objective of integrated catchment management is to establish institutional arrangements that enable management outcomes that achieve sustainable ongoing use of land and water resources. Problems such as salinity, river degradation and pollution, biodiversity loss and soil degradation threaten agriculture, rural communities, urban communities and other environmental assets, and are a focus of catchment management activity. Institutional arrangements best have a statutory underpinning and incorporate mechanisms for ensuring effective stakeholder participation. Catchment management should be implemented via partnerships among the different levels of government and nongovernment organisations. Relevant regional strategies include those being developed under bilateral agreements between the Australian, State and Territory governments under the National Action Plan for Salinity and Water Quality.

Some institutional reform matters remain to be implemented. These are detailed below. Governments should show they have addressed areas relevant to them in their 2004 annual reports on NCP implementation.

Institutional role separation

Victoria

Victoria reported in 2003 that it intended to develop obligations statements for its regional urban and rural water businesses to formally articulate the businesses' obligations. It expected to publish the statements by March 2004. For the 2004 NCP assessment, the Council is looking for Victoria to confirm

that: (1) the statements have been published and (2) the statements demonstrate that the regional urban and rural water businesses, as service providers, have no role in water industry regulation or standards setting. Victoria could help explain how its obligations statements address institutional reform obligations by providing a copy of an obligations statement for one of its water businesses. The Council will also look for Victoria to report on its undertaking to legislate to establish the Essential Services Commission's jurisdiction over the water industry from 1 July 2004.

Western Australia

Because Western Australia's water and wastewater pricing arrangements are not transparent, it is not clear whether these arrangements satisfactorily reflect the CoAG pricing principles. Western Australia undertook to address pricing transparency questions via legislating to establish the ERA and providing the authority with a reference against the CoAG pricing principles to investigate and recommend on water and wastewater pricing. The ERA would need to show that water and wastewater pricing is consistent with the CoAG pricing principles for Western Australia to achieve compliance with pricing requirements (see discussion of urban pricing reforms for Western Australia at section 3.1). Establishing the ERA with responsibility for the economic regulation of the water industry would meet CoAG obligations on institutional role separation. For the 2004 NCP assessment, Western Australia should report on its progress with establishing the ERA and providing the ERA with a reference to investigate water and wastewater pricing.

Tasmania

Tasmania is considering arrangements for the handling of customer complaints by local governments as part of a wider review of the *Local Government Act 1993*. For the 2004 NCP assessment, Tasmania should provide details of the outcome of the review (in relation to the handling of complaints about the service standards of local government water businesses) and the Government's decision on this aspect of the review.

Devolution of irrigation scheme management

Western Australia

For the 2003 NCP assessment, Western Australia reported that management of the South–West Irrigation Cooperative and the Carnarvon Irrigation Scheme had been devolved to local irrigators and that management devolution of the Ord Irrigation Scheme was under way. For the 2004 NCP assessment, Western Australia should report on progress with devolution in the Ord Irrigation Scheme.

South Australia

At the time of the 2003 NCP assessment, South Australia was developing arrangements to devolve management in the remaining government-owned irrigation districts (in the Lower Murray Reclaimed Irrigation Areas), including through the provision of financial incentives. For the 2004 NCP assessment, the Council will look for South Australia to:

- report its progress with devolving management in the Lower Murray Reclaimed Irrigation Areas; and
- demonstrate that the Government retains appropriate regulatory responsibility to ensure that water trading out of the Lower Murray Reclaimed Irrigation Areas is not unjustifiably restricted.

Tasmania

Tasmania reported for the 2003 NCP assessment that it had transferred responsibility for the management of two of the three government-owned irrigation schemes to local irrigators. For the 2004 NCP assessment, Tasmania should report on its progress with devolving management responsibility in the remaining scheme – the South East Irrigation Scheme.

Integrated catchment management

Western Australia

At the time of the 2003 NCP assessment, none of Western Australia's regional natural resource management strategies was endorsed under State processes. Progress with refining the strategies to meet national accreditation criteria was slow due to delays in Natural Heritage Trust extension funding and the absence of a bilateral agreement with the Australian Government on the National Action Plan for Salinity and Water Quality. Western Australia has now received Natural Heritage Trust extension funding and has reached a bilateral agreement on the national action plan. For the 2004 NCP assessment, Western Australia should report on progress with finalising and accrediting the State's six regional natural resource management strategies.

For the 2003 NCP assessment, Western Australia reported that the Waterways WA framework would be in place by the end of 2003. The framework was developed to facilitate and support land care practices to protect rivers with high environmental values. For the 2004 NCP assessment, the Council is looking for Western Australia to report on implementation of the Waterways WA framework in accord with the timetable proposed by the Government.

South Australia

South Australia's review of the *Water Resources Act 1997* recommended that administrative arrangements for natural resource management should be reformed as a matter of urgency. At the time of the 2003 NCP assessment, South Australia had released the Natural Resources Management Bill 2003 for consultation. The Bill reduces the administrative complexity of the State's natural resource management arrangements by consolidating the 72 regional groups involved in natural resource management into eight natural resource management boards. For the 2004 NCP assessment, South Australia should report on progress in enacting its proposed reforms.

3.5 National Water Quality Management Strategy

Governments are to support ANZECC and ARMCANZ in developing the National Water Quality Management Strategy, by adopting market-based and regulatory measures, water quality monitoring, catchment management policies, town wastewater and sewage disposal measures, and community consultation and awareness.

Governments are to demonstrate a high level of political commitment and a jurisdictional response to the ongoing implementation of the principles contained in the National Water Quality Management Strategy guidelines, including on-the-ground action to achieving the policy objectives.

Reference: CoAG water reform agreement, clauses 8(b) and 8(d)

The National Water Quality Management Strategy (NWQMS) is a response to community concern about the condition of the nation's water. The policy objective is to achieve sustainable use of Australia's water resources by protecting their quality, while maintaining economic and social development. The strategy incorporates a full mix of approaches including, but not limited to, regulatory and market based approaches, education and guidance. It is based on principles of ecologically sustainable development, an integrated approach to water quality management and community involvement in setting water quality objectives. The strategy requires governments to adopt an overarching jurisdictional water quality management plan, supported by endorsed objectives for particular water bodies, catchments or uses.

The NWQMS comprises 21 guidelines for delivering a high standard, nationally consistent approach to water quality management.¹⁰ The guidelines have a shared national objective but offer governments the flexibility to respond differently to circumstances at regional and local levels. In particular, developments in integrated resource management (for example, through the National Action Plan for Salinity and Water Quality and the Natural Resource Management Ministerial Council process) have enhanced the original NWQMS guidelines.

The Australian Government, after consulting with the States and Territories, proposed a two-yearly review to assess the implementation of the NWQMS guidelines. The Council indicated in the 2001 NCP assessment that it would look in subsequent assessments for governments to show how they have adopted the NWQMS guidelines. Because the two-year timeframe expired in 2003, the Council expected State and Territory governments to have largely

¹⁰ The process for water quality management is described in the NWQMS Implementation Guidelines (1998), the Australian and New Zealand Guidelines for Fresh and Marine Water Quality (2000) and the Australian Guidelines for Water Quality Monitoring and Reporting (2000).

implemented the NWQMS by the 2003 NCP assessment. Most governments have some elements remaining: in particular, Western Australia had scheduled significant elements of the NWQMS for implementation in 2003-04.

Western Australia

Western Australia has been slow to implement elements of the NWQMS. For the 2004 NCP assessment, the Council will look for Western Australia to have significantly advanced its implementation of NWQMS arrangements, particularly in areas that the Government undertook to address in 2003-04 — including implementation of guidelines for fresh and marine water quality and guidelines for water quality monitoring and reporting.

3.6 New rural water infrastructure

Investments in new rural water schemes or extensions to existing rural schemes are to be undertaken only after appraisal indicates that the scheme/extension is economically viable and ecologically sustainable.

Reference: CoAG water reform agreement, clause 3(d)(iii)

The CoAG water reform agreement seeks to ensure investment in water infrastructure is justified by requiring that all new investments in rural water schemes or extensions to existing schemes are undertaken only if they are shown, prior to construction commencing, to be economically viable and ecologically sustainable. The Council considers evidence on economic viability where governments contribute funds to a project. It considers evidence on ecological sustainability for all new rural projects, including private investments.

The Council found in the 2001 NCP assessment that State and Territory government mechanisms for appraising the economic and ecological aspects of new schemes are generally satisfactory. Governments' processes appear to provide for appropriate independence, public consultation and scrutiny, and have enough flexibility to match the depth of analysis with the size and significance of the project. The Council's task of assessing compliance involves considering whether governments are applying approval processes appropriately, so new infrastructure decisions are based on robust economic and environmental assessments.

For evidence of economic viability, the Council looks for governments to have analysed relevant economic and social costs and benefits, including any costs of mitigating adverse environmental effects resulting from the new scheme.¹¹ For large developments, a robust cost-benefit analysis is an effective way of meeting the CoAG obligation. Appraisals should be based on the best information available, with any assumptions and limitations clearly stated. For appraisals of ecological sustainability, the Council is looking for information on the nature of the assessment and decision-making processes as well as mechanisms to monitor the impacts of the development and its compliance with environmental standards.

In the 2004 NCP assessment, the Council will further consider projects proposed by or under way in Queensland, South Australia and Tasmania (see below). The Council will also consider new investments in rural water schemes or extensions to existing schemes since the 2003 NCP assessment. Governments should show they have addressed rural infrastructure matters,

¹¹ Economic viability assessments should discount cash flows using an appropriate discount rate such as a project-specific weighted average cost of capital.

by providing sufficient information to demonstrate compliance with the CoAG obligations on economic viability and ecological sustainability.

Queensland

The Burnett Water Infrastructure Project in Queensland involves the construction of the 300-gigalitre Burnett River Dam, Eidsvold Weir and Barlil Weir, and the raising of Jones Weir and Ned Churchward (formerly Walla) Weir.

In the 2003 NCP assessment, the Council concluded that Queensland met CoAG obligations on economic viability and ecological sustainability for the project, with the exception of the raising of the Ned Churchward Weir for which the environmental processes were still to be completed.

If the raising of the Ned Churchward Weir proceeds, Queensland will need to demonstrate compliance with the CoAG obligation on ecological sustainability. In the 2003 NCP assessment, the Council indicated that approval of the weir raising under Queensland's and the Australian Government's environmental approval processes, and a commitment by Queensland to meet any conditions imposed as a result of these processes, would demonstrate compliance with the CoAG obligation.

South Australia

The Clare Valley Water Supply Scheme in South Australia involves the construction of 83 kilometres of new pipeline and related infrastructure to transfer up to 7.3 gigalitres per year of filtered and treated River Murray water to the Clare Valley. The water will be used to improve the reticulated supply of high quality water to several townships, to augment supplies to the Mid-North region and to supply water to the Clare Valley region for irrigation and bulk water purposes. The project, undertaken by SA Water, was expected to be completed in November 2003. The South Australian Government's approval of the scheme was subject to the establishment of an ongoing groundwater and surface water monitoring program.

In the 2003 NCP assessment, the Council concluded that South Australia complied with the CoAG obligation on economic viability for the Clare Valley project. Based on an ecological study of the project, the Council's preliminary view was that South Australia would also comply with the CoAG obligation on ecological sustainability provided it implemented appropriate responses to the study's recommendations.

For the 2004 NCP assessment, South Australia should report on (1) how it has acted to address the matters raised in the ecological study for the Clare Valley project and (2) the initial outcomes of the regional monitoring of groundwater and surface water.

Tasmania

The Meander Dam project in Tasmania is a proposal for the construction of a 43-gigalitre dam on the Meander River to supply licensed water users including irrigation, town domestic water supplies and a proposed mini hydroelectric power plant, and to provide environmental flow requirements for the Meander River. At the time of the 2003 NCP assessment, the Australian Government's approval process for the project under the *Environment Protection and Biodiversity Conservation Act 1999* was still to be completed.

In the 2003 NCP assessment, the Council indicated that, if the Australian Government approved the project during 2003-04, it would conduct a supplementary assessment to consider whether Tasmania complied with the CoAG obligations on economic viability and ecological sustainability. The Council's preliminary view was that Tasmania had provided a robust case to show that the project would be economically viable. The Council had insufficient information to reach a preliminary view on ecological sustainability.

The Australian Government Minister for the Environment and Heritage approved the project on 18 September 2003 subject to conditions, including the submission of management plans for the two nationally threatened species (*Epacris aff. exserta* and the spotted tailed quoll). The project cannot commence until the plans have been approved by the Australian Government Minister. The Minister's decision to approve the project has been appealed.

If the Meander Dam project proceeds, the timing of the Council's assessment of Tasmania's compliance with the CoAG obligations for new rural infrastructure will depend on the timing of the appeal and the Australian Government Minister's approval of the management plans. If the project proceeds according to a timeframe that means the Council is unable to conduct the assessment during 2003-04, Tasmania will need to demonstrate compliance with the CoAG obligations on economic viability and ecological sustainability for the 2004 NCP assessment.

3.7 Public education and consultation

Governments are to consult on the significant CoAG reforms. They should implement education programs on the benefits of reform.

Reference: CoAG water reform agreement, clauses 7(a)-7(e)

The CoAG water reform agreement recognises the importance of governments consulting on water reform and involving the community in taking decisions on policy. Governments also agreed to put in place educational programs that show the benefits of reform. Wide consultation and community involvement produce better information on which to base decisions. Decisions that are consensus driven are more likely to satisfy stakeholders, and a community that is well informed about water issues is much more likely to accept change.

The Council assesses governments' performances against public education and consultation obligations each year, focusing on the areas of reform that are due for assessment. For the 2004 NCP assessment, governments should report on their implementation of education and consultation commitments relating to:

- rural cost recovery and pricing;
- water management arrangements;
- water trading arrangements; and
- new rural water infrastructure.

Governments should detail their approaches to education and consultation in each area and, where possible, provide copies of relevant material.

3.8 Water legislation review and reform

As well as implementing the CoAG water reform agreement, governments are to review and, where appropriate, reform water industry legislation that restricts competition. In accord with the Competition Principles Agreement, governments must ensure that existing and new legislation does not restrict competition unless:

- the benefits of the restriction to the community as a whole outweigh the costs; and
- the objectives of the legislation can be achieved only by restricting competition.

Reference: Competition Principles Agreement, clause 5

Governments agreed to review and, where appropriate, reform all existing legislation that restricts competition by 30 June 2002. Reform is appropriate where competition restrictions do not provide a net benefit to the whole community and are not necessary to achieve the objective of the legislation. Any new legislation that restricts competition must also meet this test.

Completion of all reviews of legislation that restricts competition and implementation of appropriate reform was a key element of the 2003 NCP assessment. While most States and Territories had substantially completed these tasks, four were still to complete their reform program (see below). Governments should show via their 2004 annual reports on NCP implementation that they have addressed these matters.

Victoria

Victoria completed a review of the *Water Act 1989*, the *Water Industry Act 1994*, the *Melbourne and Metropolitan Board of Works Act 1958* and the *Melbourne Water Corporation Act 1992* in 2001. The Council found in the 2003 NCP assessment that Victoria had made significant progress in several areas, but was still to implement some of the review recommendations. The Government advised that the nature and timing of the remaining implementation work depended of the outcomes of the State's water industry green paper review.

For the 2004 NCP assessment, the Council is looking for Victoria to have implemented all key recommendations from the NCP review of its water industry legislation. The Council also draws Victoria's attention to the State's remaining constraints on water trading, some of which derive from Regulations under the Water Act.

Western Australia

For the 2003 NCP assessment, Western Australia listed 35 water industry regulatory instruments for NCP review, and had completed reviews of 32. The Government endorsed the findings of each review, mostly in 1999 or 2000 but had not completed all recommended reforms. Western Australia originally intended to reform eight water Acts in 2003 via a competition policy omnibus Bill but subsequently decided to progress the water matters separately. There is currently no proposal before the Parliament in relation to the State's water legislation.

For the 2004 NCP assessment, the Council is looking for Western Australia to implement appropriate reforms to all remaining water legislation. Given the Competition Principles Agreement requirement that review and appropriate reform of legislation that restricts competition be completed by 30 June 2002, the Council considers that the existence of significant remaining reform activity is likely to raise substantial NCP compliance questions.

The Council also draws Western Australia's attention to provisions in the Rights in Water and Irrigation Act that may constrain trading in water entitlements (see the discussion on water trading above). The Council will consider in the 2004 NCP assessment whether Western Australia's regulatory arrangements meet the CoAG obligation to facilitate water trading.

South Australia

South Australia will complete its legislation review and reform program for the water industry with the repeal of two Acts (the *Irrigation (Land Tenure) Act 1930* and the *Loans for Fencing and Water Piping Act 1938*), proposed for late 2003. The Council asks South Australia to confirm that it has repealed both Acts.

Tasmania

Tasmania's Water Management Act includes a provision applying to unregulated systems that allows the Minister for Primary Industries, Water and Environment to refuse transfers of water entitlements if the quantity of water exceeds the amount that could be used sustainably for the intended purpose. The *Irrigation Clauses Act 1973* (as amended in 1997 and 2001) imposes a requirement that appears to have a similar objective — only an owner or occupier of land in the district, or a person who may hold land in the district, may hold irrigation rights. These provisions could affect the development of the water trading market by limiting the activities of agents, brokers and other potential participants in the market and, as a result, may reduce returns available to holders of irrigation rights and constrain the extent to which water is used for its highest value purpose.

For the 2004 NCP assessment, the Council is looking for Tasmania to consider the need for provisions in the Water Management Act and the Irrigation Clauses Act that may impinge on the development of water trading.

4 Recent national developments

Work currently under way by governments on how Australia uses its water resources may lead to governments agreeing to courses of action that affect the obligations relevant to the 2004 and/or 2005 NCP assessments. Where this work results in decisions by governments that amplify or refine the 1994 water reform agreement, the Council will account for these in assessing governments' compliance with the CoAG water reform obligations.

CoAG August 2003

At its 29 August 2003 meeting, CoAG reaffirmed its commitment to the 1995 NCP agreement and agreed to develop a National Water Initiative that will build on the achievements of the 1994 water reform agreement, the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality (see below). CoAG agreed to detail the initiative in an intergovernmental agreement, following extensive consultation, for consideration at its first meeting in 2004.

CoAG proposed that the initiative would:

- develop a nationally compatible framework for water access entitlements, including by the clear assignment of risks between Governments and water users for possible future reductions in water availability, and by the return of overallocated systems to environmentally sustainable levels of extraction;
- promote better use of water by encouraging an expansion of water markets and trading across and between districts and States, supported by clear rules for trading, robust water accounting arrangements and pricing based on full cost recovery and user pays principles;
- ensure ecosystem health through arrangements to manage water at a whole-of-basin, aquifer or catchment level; and
- encourage urban water conservation, including through better use of stormwater and recycled water.

CoAG also noted that member jurisdictions of the Murray–Darling Basin Commission had agreed to provide new funding of \$500 million over five years to address water overallocation in the basin.

The CoAG communique from the 29 August 2003 meeting is provided at Appendix 2 of this document.

The National Action Plan for Salinity and Water Quality

The Natural Resource Management Ministerial Council is working on water reform issues under the National Action Plan for Salinity and Water Quality, endorsed by CoAG in November 2000. The national action plan builds on the achievements of the Natural Heritage Trust, individual State and Territory initiatives, the CoAG water reforms, and the work of the Murray–Darling Basin Commission. The plan involves new expenditure by the Australian, State and Territory governments in 21 priority regions over seven years. The Australian Government will contribute \$700 million for implementation of regional action plans to be matched by new State and Territory financial contributions.

The Natural Heritage Trust

The Australian Government established the Natural Heritage Trust in 1996 to restore and conserve Australia's environment and natural resources. The trust is implemented through partnership agreements with each State and Territory. In launching the trust, the Australian Government committed \$1.5 billion for community groups to invest in environmental and natural resource management projects over the period to 2002.

The Australian Government committed an additional \$1 billion to the trust and extended it to 2006-07 in the May 2001 budget. The Natural Resource Management Ministerial Council and State, Territory and Australian Government Ministers endorsed the implementation framework in October 2002. The Australian Government is entering bilateral agreements with each State and Territory to deliver the trust extension. A significant focus is on measures to improve water quality. The trust also aims to address erosion and improve estuarine health, vegetation management and soil condition.

The Living Murray initiative

In October 2002, the Murray–Darling Basin Ministerial Council established the Living Murray initiative in response to substantial evidence that the River Murray is degraded and the Ministerial Council's concern that the degradation threatens the Basin's agricultural industries, communities, natural and cultural values, and national prosperity (Murray–Darling Basin Ministerial Council 2003). The Murray–Darling Basin Commission contracted the Cooperative Research Centre for Freshwater Ecology to establish a scientific reference panel to provide independent scientific advice on the ecological benefits or impacts associated with three environmental flow reference points (350, 750 and 1500 gigalitres of flow restored in an average

year) for the return of water for the River Murray. The commission released the scientific reference panel's interim report in October 2003. The interim results of the ecological assessment indicated that a further 1500 gigalitres of environmental flow allocation, combined with improved structural, operational and water quality management, provide a possibility for delivery of a healthy working River Murray system (Scientific Reference Panel 2003). The scientific reference panel's final report is due for submission to the Murray–Darling Basin Commission in mid-2004 (see also section 3.2).

At its meeting on 14 November 2003, the Murray–Darling Basin Ministerial Council agreed to a First Step decision for The Living Murray, focusing on the protection of six significant ecological assets along the River (the Barmah–Millewa forest, the Gunbower and Koondrook–Perricoota forests, Hattah Lakes, Chowilla floodplain, the Murray mouth, Coorong and Lower lakes, and the River Murray channel), with specific ecological objectives and outcomes for each asset. It is estimated that this decision would require an estimated 500 gigalitres of water per year on average, depending on drought and flood events. A community consultation process concerning the first step decision will be conducted until March 2004. Subject to finalisation of a CoAG agreement, funding is to commence from 1 July 2004 from the \$500 million made available to address water overallocation in the Murray–Darling Basin announced by CoAG on 29 August 2003 and through realignment of the previously announced capital works program to effectively manage water to the six significant ecological assets (Murray–Darling Basin Ministerial Council 2003).

5 Contributing to the assessment: governments' annual reports and interested party submissions

The 2004 water reform assessment provides for two forms of external contribution.

- All governments report annually on their progress with implementing the NCP and related reforms, including water.
- There is an opportunity for interested parties to make submissions on governments' application of the CoAG water reforms.

Governments' annual reports on NCP progress

The Council relies heavily on governments' annual reports on their progress with implementing the water reform agreement. The Council asks that governments provide their annual reports, including relevant information on their progress with implementing the CoAG water reforms, by 12 April 2004. Governments' 2004 annual reports should focus on developments over the period since their previous annual report up to 31 March 2004.

The Council will hold discussions with governments on relevant matters, including matters raised in submissions by other parties, as part of the assessment.

Submissions by other parties

The Council provides an opportunity for interested parties to comment on governments' progress with reform implementation. Accordingly, the Council invites submissions on the matters discussed in this assessment framework. Submissions should focus on aspects that will be assessed in 2004.

It would be appreciated if parties could supply their submission both electronically and in writing. Written submissions should be sent to:

Executive Director
National Competition Council
GPO Box 250B
Melbourne VIC 3001
(and emailed to ross.campbell@ncc.gov.au)

Submissions should be provided to the Council by 12 April 2004. It is open for parties to make supplementary comments on matters set out in governments' annual NCP reports. Comments should be provided as early as possible to enable the Council to give full consideration to the issues raised. The Council is available to meet with stakeholder representatives if they wish to discuss their submissions.

Unless confidentiality is requested, the Council will treat all submissions as public documents. It will place submissions received on its website. If confidentiality is requested, submission makers should ensure that as much of the submission is publicly available as possible. Any sections that are confidential should be clearly marked so that the remainder of the document can be made available. If sections of a submission are confidential, two copies should be provided — one with the confidential sections omitted and the other with the confidential sections included and marked as confidential.

If the Council considers that a submission does not warrant confidential treatment, it will advise the party providing the submission. The party will then have the choice of either withdrawing the claim for confidentiality or withdrawing the submission.

6 Further information

For further information on the issues in the 2004 NCP assessment framework, please refer to previous NCP water assessments, the CoAG water reform agreements contained in the compendium of NCP agreements (published by the Council) and relevant CoAG communiques. Previous water assessments and the compendium of NCP agreements are available on the Council's web site (at www.ncc.gov.au). The web site also provides a link to relevant CoAG communiques. Should you have any queries, please email ross.campbell@ncc.gov.au or contact the appropriate officer as set out below.

<i>2004 reform area</i>	<i>Officer</i>
Water and wastewater pricing	Sam Drummond 03 9285 7781
Water management: water rights and provisions to the environment	Paul Emery 02 6258 1756 Elisa Curry 03 9285 7785
Water trading	Paul Emery 02 6258 1756 Elisa Curry 03 9285 7785
Institutional reform	Stephen Dillon 03 9285 7481
National Water Quality Management Strategy	Stephen Dillon 03 9285 7481
New rural water infrastructure	Paul Emery 02 6258 1756
Water legislation review and reform	Stephen Dillon 03 9285 7481
Other matters	Elisa Curry 03 9285 7785 Ross Campbell 03 9285 7485

Appendix 1

Guidelines for the application of Section 3 of the Strategic Framework and Related Recommendations in Section 12 of the Expert Group report (the CoAG pricing principles)

1. Prices will be set by the nominated jurisdictional regulators (or equivalent) who, in examining full cost recovery as an input to price determinations, should have regard to the principles set out below.
2. The deprival value methodology should be used for asset valuation unless a specific circumstance justifies another method.
3. An annuity approach should be used to determine the medium to long term cash requirements for asset replacement/refurbishment where it is desired that the service delivery capacity be maintained.
4. To avoid monopoly rents, a water business should not recover more than the operational, maintenance and administrative costs, externalities, taxes or TERs [tax equivalent regime], provision for the cost of asset consumption and cost of capital, the latter being calculated using a WACC [weighted average cost of capital].
5. 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 (as noted in (3) above). Dividends should be set at a level that reflects commercial realities and stimulates a competitive market outcome.
6. In applying (4) and (5) above, economic regulators (or equivalent) should determine the level of revenue for a water business based on efficient resource pricing and business costs. Specific circumstances may justify transition arrangements to that level.
7. In determining prices, transparency is required in the treatment of community service obligations, contributed assets, the opening value of assets, externalities including resource management costs, and tax equivalent regimes.

Source: NCC (1998)

Notes

- The reference to 'or equivalent' in principles 1 and 6 is included to take account of those jurisdictions where there is no nominated jurisdictional regulator for water pricing.
- The phrase 'not including income tax' in principle 5 only applies to those organisations which do not pay income tax.

- ‘Externalities’ in principles 5 and 7 means environmental and natural resource management costs attributable to and incurred by the water business.
- ‘Efficient resource pricing’ in principle 6 includes the need to use pricing to send the correct economic signals to consumers on the high cost of augmenting water supply systems. Water is often charged for through a two-part tariff arrangement in which there are separate components for access to the infrastructure and for usage. As an augmentation approaches, the usage component will ideally be based on the long-run marginal costs so that the correct pricing signals are sent.
- ‘Efficient business costs’ in principle 6 are the minimum costs that would be incurred by an organisation in providing a specific service to a specific customer or group of customers, or the minimum amount that would be avoided by not providing the service to the customer or group of customers. Efficient business costs will be less than actual costs if the organisation is not operating as efficiently as possible.

Appendix 2

Council of Australian Governments Communique 29 August 2003

The Council of Australian Governments (COAG) agreed that there is a pressing need to refresh its 1994 water reform agenda to increase the productivity and efficiency of water use, sustain rural and urban communities, and to ensure the health of river and groundwater systems.

Investment in new, more efficient, production systems is being hampered by uncertainty over the long-term access to water in some areas. Fully functioning water markets can help to ensure that investment is properly targeted and water is put to higher value and more efficient uses. However, current arrangements are preventing those markets from delivering their full potential. Furthermore, there are significant concerns over the pace of securing adequate environmental flows and adaptive management arrangements to ensure ecosystem health in our river systems.

COAG has therefore agreed to develop a National Water Initiative to:

- improve the security of water access entitlements, including by clear assignment of risks of reductions in future water availability and by returning overallocated systems to sustainable allocation levels;
- ensure ecosystem health by implementing regimes to protect environmental assets at a whole-of-basin, aquifer or catchment scale;
- ensure water is put to best use by encouraging the expansion of water markets and trading across and between districts and States (where water systems are physically shared), involving clear rules for trading, robust water accounting arrangements and pricing based on full cost recovery principles; and
- encourage water conservation in our cities, including better use of stormwater and recycled water.

The National Water Initiative will build on the achievements of the 1994 COAG strategic framework for the reform of the Australian water industry, the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality. Details of the Initiative are to be settled over the next six months, for consideration at the first COAG meeting in 2004. Further details are attached.

Recognising the declining health of the River Murray system in particular, COAG noted that member jurisdictions of the Murray–Darling Basin have agreed to provide new funding of \$500 million over five years to address water overallocation in the Basin. Forty per cent of this \$500 million would be contributed by the Australian Government and 60 per cent by New South Wales, Victoria, South Australia and the Australian Capital Territory. Contributions are: Australian Government (\$200 million), New South Wales (\$115 million), Victoria (\$115 million), South Australia (\$65 million) and the Australian Capital Territory (\$5 million). This funding would be subject to finalisation of details.

COAG reaffirmed its commitment to the 1995 National Competition Policy agreement.

ATTACHMENT: PROPOSED NATIONAL WATER INITIATIVE

The Council of Australian Governments (COAG) agreed to the following scope of a National Water Initiative, for consideration at its first meeting in 2004.

Nationally Compatible Water Access Entitlements

A key focus of the National Water Initiative will be to implement a robust framework for water access entitlements that encourages investment and maximises the economic value created from water use, while ensuring that there is sufficient water available to maintain healthy rivers and aquifers. The framework will be compatible between jurisdictions and reflect regional variability in the reliability of water supply and the state of knowledge underpinning regional allocation decisions.

A key element of the framework will be a nationally-compatible system of water access entitlements including:

- firm pathways and open processes for returning overallocated surface and groundwater systems to environmentally sustainable levels of extraction;
- unless fixed-term water access is required for particular purposes, access entitlements to be defined as open-ended, or perpetual, access to a share of the water resource available for consumption (subject to water users meeting their conditions of entitlement);
- clear identification and assignment of risks between governments and water users over possible future reductions in water availability. Water access entitlement holders should generally bear the risks associated with natural events, such as reductions in water due to climate change or drought, and risks associated with bona fide improvements in the knowledge of water systems' capacity to sustain particular extraction levels. Governments should bear the risks arising from changes to water access entitlements not previously provided for, arising from changes in government policy (for example, new environmental objectives). A framework will also be established to address water use where water is intercepted before entering ground or surface water systems due to

changes in land use (for example, large scale plantation forestry, changes in agricultural use, harvesting of surface water flows, revegetation for salinity control et cetera);

- water-sharing plans based on best-practice system modelling developed through transparent processes involving all stakeholders, subject to review when necessary, and with regular reporting on progress; and
- best practice specification of the responsibilities of water users.

Nationally Functioning Water Markets

An objective of the National Water Initiative is to achieve an efficient water market structure and expand markets to their widest practical geographical scope, enabling increased returns from water use. Where applicable, and particularly in the Murray–Darling Basin, this will involve a review of the various water entitlement products, pricing policies, exchange rates and trading rules with a view to ensuring compatibility across jurisdictions.

Best Practice Water Pricing

A key objective of the National Water Initiative will be the establishment of best practice water pricing. Best practice water pricing will involve the principles of user pays and full cost recovery, and include where appropriate, the cost of delivery, planning, and environmental impact.

Integrated Management of Environmental Water

The National Water Initiative will establish new arrangements dedicated to the management of water at a basin, aquifer or catchment scale to deliver agreed environmental outcomes. For example, in the Murray–Darling Basin, a basin-wide system of mechanisms will be established to enable environmental water management, including through the market. A flexible trading model has the advantage of being able to purchase water for the environment in a cost-effective manner when needed, and selling or leasing water back to other water users at other times.

Water will also be provided for the environment through targeted public and private investment in engineering works to improve 'leaky' infrastructure, based on rigorous investment criteria.

Measuring, Monitoring and Information

Accurate measurement, monitoring and reporting is raised to a new level of importance when there is increasing competition for water and where the proposed water management system depends on secure entitlements, market approaches, water recovery and environmental flow management.

Under the National Water Initiative, jurisdictions will establish a robust, transparent regulatory water accounting framework that protects the integrity of entitlements.

Governments will also continue to invest in improving the scientific understanding of our water resources, and the industries and ecosystems which depend on them.

Urban Water Reform

The urban component of the National Water Initiative will reinforce the need for urban users to use water efficiently for example by promoting water reuse and recycling, the adoption of more efficient technologies and by reviewing the effectiveness of pricing policies. These issues will continue to be progressed through a number of Ministerial Councils.

Next Steps

The National Water Initiative will be detailed in an intergovernmental agreement, based on the scope outlined above, for consideration at the first COAG meeting in 2004. The agreement will indicate specific actions for addressing the issues outlined above in each jurisdiction.

Development of the agreement will involve advice from experts in the water industry, the environment and the finance sector. Governments will also consult with stakeholders representing industry, environment, local government and Indigenous interests.

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