

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARING INTO BULK WATER PRICES

Tribunal Members

Professor C Parry - Chairman
Mr Jim Cox
Professor Warren Musgrave

Held at Meeting Room 1, Level 2,
44 Market Street, Sydney, NSW 2000

On Friday, 22 June 2000, at 9.00am

ComputerReporters Pty Ltd
Level 10
233 Macquarie Street
Sydney NSW 2000

Tel: (02) 9221-6660

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1 DEPARTMENT OF LAND AND WATER CONSERVATION

2

3 THE CHAIRMAN: Thank you. For the record, it is 22 June
4 2000 and today the Tribunal is holding its formal
5 hearing day into the consideration of bulk water
6 prices submitted by the Department of Land and Water
7 Conservation.

8

9 As well as the formal hearing today, we are
10 having two days of workshops - a day in Armidale and
11 a day in Griffith. We have been doing this for a
12 number of years, as many of you in this room know.
13 This is probably yet another opportunity for a lot
14 of stakeholders to get together and swap stories. I
15 assure you we swap stories before we come in not
16 after we go out.

17

18 I have sort of noticed, and I think my fellow
19 Tribunal members have noticed that whilst there are
20 still difficult issues to be nailed to the wall, as
21 some of you will appreciate the analogy, there has
22 been progress over the last few years in terms of
23 certainly crystallising the key issues and narrowing
24 down, if not resolving, the areas of difference
25 between stakeholders, so these are important issues
26 not just in terms of the actual prices that bulk
27 water users pay but in terms of the impacts of that
28 pricing and the use to which some of those revenues
29 go in terms of resource management issues, so they
30 are the very important issues, both in terms of the
31 economy and the environment and, of course, the
32 activities of stakeholders.

33

34 So we thank again all those participants in the
35 process for your submissions. For those of you who
36 will be here today and for the workshops over the
37 next few weeks, we thank you in assisting us in what
38 continues to be a difficult but important task.

39

40 We start with the Department of Land and Water
41 Conservation, who have put in a detailed submission
42 to which stakeholders have responded. We will ask
43 you again, for the record, to just formally identify
44 yourselves and we will then have a bit of an
45 overview of that presentation and an opportunity to
46 ask some questions.

47

48 MR GUEST: I am Chris Guest from the Department of Land
49 and Water Conservation and I am accompanied by
50 Robert Marsh, also from the department and Able
51 Immaraj from State Water, General Manager State
52 Water. I propose to talk for about 20 minutes and
53 then leave the remainder of our allotted time to you
54 ask some questions.

55

56 I guess it is always a good idea to start off
57 by telling a joke of some kind particularly when you
58 are the first speaker on a cool winter's morning,

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1 but, unfortunately, I do not know any jokes about
2 bulk water; indeed, I cannot imagine there being any
3 jokes about it, so I might have to launch straight
4 into what we have to say.

5

6 The DLWC submission covers quite a substantial
7 amount of ground. As those who have looked at it
8 will see, it is quite a weighty document and clearly
9 there is more in that document than I can cover in
10 the remarks that I make this morning. For the
11 purpose of this hearing, what I want to do is to
12 divide the submission into two parts. The first
13 part is a general approach or framework to the
14 policy principles that ought to be applied, we
15 believe, to bulk water pricing. The other part of
16 our submission is a quite detailed empirical
17 presentation relating to the way in which we believe
18 these principles ought to be implemented and an
19 identification of the quite detailed estimates of
20 expenditures and incomes that follow from that
21 implementation.

22

23 I propose in the remarks I make this morning to
24 only cover the first part of our submission; that
25 is, to talk about the broad principles that underlie
26 the detail in the submission. It is not going to be
27 possible to cover adequately the details of all the
28 data in the time available, so I leave to the
29 judgment of the Tribunal, what aspects of data and
30 implementation they would like to pursue once they
31 turn to the question time.

32

33 In presenting the policy principles, the
34 framework that underlies our submission, I want to
35 do more than simply restate the case that is
36 presented in our submission. What I intend to do is
37 to try to reconstruct our submission so as to try to
38 address some of the key themes that have emerged in
39 the submissions that have been made by other
40 parties.

41

42 So I turn now to identify and discuss the key
43 policy principles that underlie the DLWC submission
44 to the Tribunal, and there are three key principles.
45 The first principle we identify and upon which we
46 base our submission is the principle of cost
47 recovery; in other words, that the costs of supply
48 should be recovered through payments made by
49 consumers. There are a number of very well-known
50 external pressures on governments to achieve this.
51 Full cost recovery is an element of the Council of
52 Australian Government's framework to which New South
53 Wales, along with all other jurisdictions, is a
54 party. The National Competition Council, as is well
55 known, requires full cost recovery as one of the
56 conditions upon which the payment of the so-called
57 tranche payments is to be made.

58

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1 These commitments made through COAG and the NCC
2 follow from a recognition that bulk water is an
3 input to commercial production for irrigators and
4 industrial water for users, just like other inputs
5 such as diesel fuel. Bulk water is also supplied to
6 local water authorities for reticulation, and these
7 authorities are under the same pressures through the
8 same external arrangements to move to cost recovery.

9
10 The trend in cost recovery: This trend to
11 seeking cost recovery in policy is built on a
12 recognition that, after all, water is a scarce
13 resource, so decisions about its use should have
14 regard to the costs of the supply of that resource.

15
16 It is worth noting at this point that those
17 costs of supply ought to include a cost of capital
18 as measured by commercial rate of return. Bulk
19 water supply requires large pieces of expensive
20 long-lived capital. The cost of this capital is
21 part of the cost of the provision of bulk water, so
22 these costs must be recovered as part of the cost
23 recovery, along with operating expenses.

24
25 Current prices recover about 54 per cent of the
26 costs attributable to consumers. The proposed price
27 increases, the increases we proposed in our
28 submission, would yield an 82 per cent cost recovery
29 by 2004. In dollar terms, the annual bulk water
30 service cost is estimated to be \$104m by 2004. The
31 cost of supply to bulk water customers would be
32 \$69m. The proposed price increase would then mean
33 that customers would pay \$56.7m requiring a
34 government top-up contribution of \$12.3m.

35
36 I think there can be very little objection
37 to the principle of cost recovery. It is now a
38 well-established element of the policy landscape
39 within Australia. Although there is one, I guess,
40 key difference with bulk water in relation to other
41 inputs that irrigators and industrial water users
42 have, and that is that the supplier, State Water, is
43 a publicly owned monopoly supplier, which, of
44 course, is why we are here today to assist the
45 Tribunal in its determination in relation to the
46 prices charged by that monopoly supplier.

47
48 As I say, if there can be no reasonable
49 objection to the principle of cost recovery, what
50 issues might be raised in relation to costs? Here I
51 will pick up a couple of the concerns that emerge in
52 some of the submissions.

53
54 I think essentially that two concerns have been
55 raised in submissions, and the first is that,
56 although cost recovery may well be a sound principle
57 to apply to pricing, the costs that are recovered
58 ought to be efficient costs, and the concern is that

1 State Water's production costs are either too high
2 or in some sense unnecessary; that is, that they are
3 seeking to recover expenditures that ought not to be
4 treated as part of the costs of supplying bulk water
5 to consumers. However, needless to say, I think
6 there is significant evidence that these particular
7 concerns that the costs are either too high or in
8 some way unnecessary are not well founded.

9
10 In looking at the level of costs that State
11 Water is seeking to recover, it is important to bear
12 in mind that State Water faces some particular
13 challenges as a bulk water supplier. Unlike other
14 water authorities in Australia, its responsibilities
15 extend to managing systems that are spread across
16 the entire State, and that imposes some particular
17 cost pressures on the way in which State Water
18 performs its responsibilities.

19
20 State Water's track record over the past few
21 years, I think, has been impressive. It has
22 demonstrated an ability to deliver quite significant
23 efficiency improvements. In 1998, IPART sought a
24 reduction in bulk water services expenditure of
25 \$7.1m. I note that this requirement has been
26 achieved by State Water within the required time.

27
28 The costs reported and projected in the
29 submission of State Water are based on information
30 from a number of solid decision-making tools and
31 processes. The State Water Total Asset Management
32 Process is one example of such a decision-making
33 tool. This is a 30-year plan based on an extensive
34 program of engineering assessments of the water
35 asset infrastructure and regulatory standards. The
36 current plan, which was released in August last
37 year, for customer service committees to review, was
38 independently reviewed against this practice. The
39 plan has been assessed as demonstrating improvements
40 across nearly all processes and practices, bringing
41 State Water close to best practice.

42
43 Obviously in saying that, I recognise that
44 there is further scope for improvement; but, in
45 saying that, it is critical to recognise that State
46 Water sees itself as engaging in a continuing
47 process of improving its management and financial
48 arrangements. In that context, we welcome the
49 current IPART investigations as to the
50 appropriateness and reasonableness of the costs
51 reported.

52
53 State Water has also achieved a great deal in
54 other ways. It has established a financial
55 reporting and management system, a customer charter,
56 a customer complaint handling protocol, and a
57 monitoring system. The billing system has been
58 centralised, computerised and standardised - that

1 sounds a bit evil - to ensure more timely and
2 accurate billing. It has established a formal
3 communication process to draw on the expertise of
4 customers.

5
6 A second concern that might be raised in
7 relation to the level of costs being sought, given
8 acceptance of the principle of cost recovery, is
9 that, in some way, the present institutional
10 structure is flawed. This is the question of the
11 degree to which State Water is separated from DLWC.
12 The point has been made from time to time that, in
13 order to ensure sufficient accountability,
14 transparency and pressure, on State Water, State
15 Water ought to be formally separated from DLWC,
16 presumably by corporatising it.

17
18 IPART has previously sought the ring fencing of
19 State Water within the DLWC, and this has occurred.
20 As a consequence of that ring fencing, State Water
21 functions as a separate commercial business entity
22 within the DLWC; so the question is, I guess, what
23 does that mean?

24
25 State Water is established as a separate
26 company within the DLWC financial accounting system.
27 This provides for separate financial operation and
28 reporting by State Water. The general manager is
29 accountable for the performance of State Water,
30 State Water has been issued with an operating
31 authority and access authority that provides the
32 framework for separating roles, responsibilities and
33 accountabilities for State Water as well as placing
34 conditions on the way in which it must operate.
35 These standards and conditions preclude non-relevant
36 activities from State Water costs.

37
38 These authorities have recently been reviewed
39 in light of the Water Management Act and
40 strengthened to better meet the objectives of
41 separation. In other words, there has been a quite
42 extensive program of ensuring that State Water
43 operates in an independent and clearly identifiable
44 separate way from DLWC and that it is assessed in
45 relation to the performance against financial
46 targets - commercial targets.

47
48 A particular issue in the submission we have
49 made in this round is that we are seeking greater
50 recovery from local water authorities in relation to
51 unregulated rivers. The purpose of this proposal is
52 to place water authorities on an equitable footing
53 with irrigators in relation to cost recovery. I
54 think while that proposal in itself is justifiable,
55 that like users be treated in like ways, it is worth
56 noting that proposed price increases would
57 constitute a cost to local water authorities
58 equivalent to less than one half of a per cent of

1 their income. In other words, we believe that would
2 be quite a modest impact on those authorities.
3 Given the strength of the principle of the equity of
4 cost recovery, we believe it is a reasonable
5 proposition.

6
7 The second principle we have identified in the
8 submission, and on which I will say a little now, is
9 that of beneficiary pays. This is particularly
10 relevant in determining the allocation of costs of
11 supplying services that are jointly consumed. There
12 are a number of quite significant costs and services
13 provided by State Water that in some sense are
14 jointly consumed between the community at large and
15 individual identifiable consumers.

16
17 The question of deciding on an appropriate
18 allocation is complicated and contentious. The
19 approach we have adopted is to defer to the
20 decisions made by IPART on the allocation of costs.

21
22 The prices we propose would recover \$34.5m of
23 State Water expenditure based on a 90 per cent share
24 of operating costs, including the depreciation in
25 the form of renewals annuity and the rate of return,
26 and a 50 per cent share of operating costs relating
27 to flood mitigation and the capital compliance
28 annuity. A 50 per cent recovery is sought for
29 surface water resource management. This comprises
30 water quantity and quality data collection,
31 hydrological analysis investigation, resource
32 assessment for the purpose of managing current year
33 allocations, and strategy planning to produce a
34 sustainable use of surface water.

35
36 We are seeking 100 per cent recovery in
37 relation to water use compliance activities which
38 safeguard water users' rights by ensuring that water
39 is being used in accordance with licensing
40 conditions and announced allocations. This is to
41 occur using a mix of enforcement, prosecution and
42 education strategies.

43
44 Groundwater resource management is 70 per cent
45 recoverable and entails water quantity and quality
46 data collection, hydrological analysis and
47 investigation, resource assessment for the purpose
48 of managing current year allocations and strategy
49 planning to produce a sustainable use of
50 groundwater.

51
52 Externality cost recovery of 50 per cent is
53 being sought, which was the number recommended by
54 IPART. These costs include blue-green algae and
55 in-stream salinity monitoring and reporting.

56
57 In this submission, we have argued for the
58 inclusion of certain new costs which we believe

1 ought to be shared between consumers. There are
2 three new costs. The first is the cost of
3 environmental and safety compliance upgrades; the
4 second is water management planning and
5 implementation program costs; and the third is
6 unregulated river metering and monitoring costs. In
7 each case the submission has adopted the cost shares
8 suggested by existing work by IPART.

9
10 There has been some discussion amongst
11 stakeholders about the inclusion of capital
12 environmental and safety compliance costs. Meeting
13 environmental and safety standards is a cost of the
14 provision of bulk water, just as standards are in
15 other industries such as airlines. The annuity for
16 this capital expenditure is \$10.4m of which it is
17 proposed 50 per cent should be recovered through
18 bulk water charges. These costs have been estimated
19 through the State Water total asset management
20 planning process, or TAMP as it is known. These
21 costs were not included in the previous prices
22 because State Water delayed planning expenditure
23 until a review of the standards and completion of
24 dam risk assessments as part of the TAMP.

25
26 The third principle upon which we have based
27 our submission is that any proposed price increases
28 ought to be phased in. The rationale for that
29 principle is, of course, that we recognise that
30 increasing cost recovery will cause some cost
31 impacts, obviously and, as a consequence, some
32 potential dislocations.

33
34 In order to mitigate those dislocation costs,
35 we are proposing that increases be spread evenly
36 over the three-year period under consideration. In
37 this context, we have sought some evidence on what
38 the impact of bulk water price increases might be.
39 We have got two kinds of evidence available to us.
40 The first is from some work we have done ourselves
41 in relation to gross margins and the second is some
42 work we commissioned from the Department of
43 Agriculture in relation to the impact that price
44 increases would have on some representative farms.

45
46 The gross margin study found that, as a
47 consequence of the proposed increase, the largest
48 annual decline in gross margins as a result of the
49 proposed price increases would be less than 2 per
50 cent for the commodities of wheat and sunflowers in
51 the region of Macquarie, Lachlan and the Namoi/Peel
52 regions. In half of the region we studied - we
53 studied 10 regions - the decline in gross margin was
54 less than one per cent and, in most of them,
55 significantly less than one per cent.

56
57 The Department of Agriculture has undertaken a
58 couple of reviews itself, as I have said, to examine

1 the impact on farm enterprises of the proposed bulk
2 water price changes. Both reviews found that the
3 proposed increases would have small impact or those
4 impacts could be more significant for already
5 marginal farms.

6
7 It is for that reason that the submission
8 proposes the phased implementation of cost recovery
9 to achieve the target of 82 per cent at the end of
10 the three years and leaving the government
11 contribution of 18 per cent of the costs of supply
12 to customers. That compares with current cost
13 recovery of 54 per cent.

14
15 It has been suggested in a couple of
16 submissions that the price determination by IPART
17 either be delayed by one year or that the
18 determination by IPART be for one year only. This
19 is not a position we support. There are a couple of
20 reasons for that. I suppose the first is that there
21 is considerable evidence that agriculture is
22 currently experiencing one of its better periods and
23 that would suggest a reasonable capacity to pay or
24 at least a better capacity to pay than might have
25 been the case in more difficult times.

26
27 Similarly, it is difficult to see the benefits
28 of determining only one year's prices. The proposed
29 price path for three years provides that certainty.
30 A determination for one year would appear to leave
31 open the question of what the long-term price path
32 might be. To delay a determination or to limit it
33 to one year would make an expectation that
34 fundamental principles of price determination are
35 still matters of debate.

36
37 Finally, and by no means least, I guess the
38 cost of annual determination is very high for all
39 participants. There is a considerable quantity of
40 resources behind all of us being here today that
41 includes the stakeholders and IPART. As much as I
42 am sure we all agree that this is a valuable
43 process, equally I am sure we would all agree that
44 it is a process that we would not want to
45 participate in more than is necessary.

46
47 THE CHAIRMAN: Truer words were never said, as much as
48 we enjoy it. Thanks for that. Perhaps just to
49 respond to the first statement part of your
50 question. The detailed work underlying your
51 submission, particularly on the opex/capex and
52 resource management side of your proposal really
53 will be worked through at the workshops. At the
54 workshops we will have our consultant reports in
55 those areas. I think those two days will really
56 give an opportunity for all the stakeholders to
57 pretty well work through that. They can discuss it
58 then. We just will not have the time here, but they

1 will have the opportunities to do that as a group.
2 Obviously we have been doing a lot of work on them
3 and we will continue to do the work on them, as no
4 doubt will stakeholders.

5
6 I am not sure if this is a question or an
7 observation, and I suppose it is not as much a
8 question. It goes to what we will be doing in more
9 detail in a couple of days. One of the real
10 problems I have - sort of coming back to this
11 reasonably fresh after a few years - is that we
12 thought we were getting reasonably close to the
13 dimensions of the jelly, but that has changed. In
14 2000 I think the costs we were looking at were \$82m,
15 and the costs that we are now looking at are \$104m,
16 so it is a 25 per cent increase.

17
18 I am not saying the additional costs are wrong,
19 and you have identified some of the areas. As I
20 say, that is something that we will work through
21 with the assistance of our consultants and, no
22 doubt, the input that we receive with stakeholders,
23 but it does make it a little more bit difficult to
24 try and finely pin this down in terms of a medium
25 term price path where we have a moving target.

26
27 I also really don't quite understand - again
28 maybe we will not get the detail until the
29 workshops; I will only be at the Griffith workshop,
30 but I will get the feedback and see the reports -
31 what some of these new costs really mean. I again
32 cannot help but wonder whether it is a little bit of
33 rebadging of some existing costs, I don't know. So
34 maybe there is a bit of question there.

35
36 MR GUEST: I might get Able to take that question.

37
38 MR IMMARAJ: My comment with regard to the increase to
39 the \$104m, for example, as Chris alluded to it, part
40 of it is the increased cost of compliance for the
41 safety upgrade of dams as well as increased
42 standards in terms of what we are attempting to
43 meet --

44
45 THE CHAIRMAN: You might move the microphone a bit
46 closer.

47
48 MR IMMARAJ: I will just repeat: the increase in costs
49 is attributed to the compliance costs associated
50 with dams and weirs. So that is a significant part.

51
52 THE CHAIRMAN: All safety?

53
54 MR IMMARAJ: Not all. Compliance with dam safety is the
55 primary one, compliance with environmental
56 requirements at dams, for example, inlet structures
57 to mitigate thermal pollution, those costs have also
58 been included. They are not insignificant.

1 Similarly, there are some additional resource
2 management costs, so Robert might make comment on
3 those.

4
5 MR MARSH: I think there are the \$82m/\$104m
6 is a bit confusing because we have been through an
7 evolution process on the reform, and are awaiting
8 some development from State Water. So a whole range
9 of costs were, in principle, discussed and looked at
10 and sought to be included in a future date when
11 better information was available, et cetera.

12
13 So the capital compliance costs is one of those
14 and the rate of return is another. There are some
15 resource management costs that are in addition to
16 what is in that cost recovery target now, or the
17 full cost. Water management planning implementation
18 programs is one of those and, previously, it in many
19 ways is a similar cost that's being incurred
20 currently for the water management process that
21 occurred under the reforms, but excluded, rightly,
22 because they were seen as one-off costs and funded
23 by the government, so the New South Wales government
24 made announcements it was going to fund those. The
25 cost now is seen more on an ongoing basis because of
26 the Water Management Act. So that's why they've
27 included at this stage --

28
29 MR GUEST: I think it is relevant to note that this is
30 an area where there are two quite complex pressures.
31 One is that it's an area of considerable change in
32 policy. We've had in the past, since 1995, enormous
33 changes in both the framework within the
34 organisation, like State Water, at a national level,
35 and also within the State level we've made some
36 quite substantial changes to the environment within
37 which State Water operates.

38
39 What that means is that it's extremely
40 difficult to find the kind of steady state of
41 equilibrium. You don't find that because things are
42 changing around you. I guess the other thing
43 occurring is that State Water itself, in an effort
44 to meet the challenge posed by its responsibilities
45 to government, its responsibilities under the
46 regulatory framework and its responsibilities to the
47 community are in the process of trying to do a
48 better job, and doing a better job you review and
49 revise your understanding of what it is you're
50 doing.

51
52 So we cannot pretend that in some sense we're
53 looking at here a stable business that does things
54 routinely; we're looking at a business in an
55 environment of considerable change and a business
56 that, itself, is in a state of quite substantial
57 evolutionary change. That will mean that it may
58 appear to be jelly, but in fact what it is

1 evolution.

2

3 THE CHAIRMAN: I understand that. It's certainly the
4 case when you set up a business and when that
5 business starts to operate increasingly as a
6 stand-alone business, you identify activities and
7 the cost of those activities. As I'm sure people
8 will realise that the workshop process, our
9 consultants reports and work that's being done
10 around that hopefully will help us in this debate
11 about what are those costs. Is there some
12 duplication, and the difficult question of what's
13 an appropriate allocation to users beneficiaries.
14 So that's a key issue that we obviously will need to
15 work through.

16

17 You talked about impacts and we've also done
18 some work and looked at the work that's been done
19 for you by the Department of Agriculture. There is
20 no doubt that certainly in some areas, and for some
21 infra-marginal farms, potentially, in terms of the
22 prices proposed, there is quite substantial impacts
23 on prices. In some cases over 70 per cent compound
24 over the period. For some of the marginal users of
25 water, rather than the large irrigator, these could
26 well have dramatic or critical effects on viability.

27

28 The difficulty we have is that we set prices,
29 we don't set subsidies. So with electricity, for
30 example, we set electricity charges, we don't set
31 pensioner concessions. With transport we don't set
32 pensioner concessions or other concessions. That's
33 what people do need to realise, we're not here to
34 accommodate. We have to have, and we do have,
35 regard for impact absolutely on all stakeholders,
36 including users of bulk water but we don't try and
37 influence incomes; we set prices.

38

39 Recognising that important constraint, if it's
40 the case that there are substantial effects on a
41 large margin which go to viability, and there is an
42 otherwise compelling case for the sorts - or not
43 necessarily the absolute, but the sorts of increases
44 in terms of appropriate and efficient cost recovery
45 with appropriate cost sharing and appropriate
46 phasing, but there is still a large group that will
47 be severely impacted that your phasing won't
48 actually accommodate. Any suggestions?

49

50 MR GUEST: Our starting point, as yours is, has to be
51 that first and foremost that we speak here in
52 relation to State Water and its obligations and they
53 are to deliver water efficiently at a cost recovery
54 price.

55

56 Now, having said that, we are mindful, as you
57 are, of the impacts of that, so we would like to
58 ensure that those impacts are minimised or managed.

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1 It's only within our valley region to manage them by
2 phasing. There is no instrument that we have beyond
3 that to cater for the particular consequences that
4 might have.

5

6 Although, there are, of course, just as you say
7 in relation to electricity, other arrangements, so
8 there are with agriculture and government policy.
9 There are other arrangements to assist farm
10 enterprises that do face particular problems either
11 as a result of this particular cost consequence, or
12 of any of the other pressures that those enterprises
13 might be under.

14

15 In our view it's important, and in saying this
16 I'm not unmindful or insensitive to the consequences
17 of pressures or enterprises, but as a matter of good
18 policy it's important to separate your instruments
19 and the perspective in this case is to ensure that
20 bulk water is supplied appropriately.

21

22 That is not to say there won't be consequences
23 that occur that government in another part would be
24 concerned about. We would expect the government in
25 that other part to take up any of the issues that
26 the are proposed, but we do have to separate the
27 instruments to ensure clarity about what we're
28 doing.

29

30 THE CHAIRMAN: I do understand that. Whilst we're all
31 talking cutely, can DLWC bring any of those
32 instruments to our table, or are we talking about a
33 set of things where there is an important missing
34 bit that we cannot talk about? Can you bring that
35 bit to the table - DLWC?

36

37 MR GUEST: The vast bulk of the necessary instruments
38 lie in through the Department of Agriculture, the
39 Minister of Agriculture, rather than DLWC. DLWC
40 participates in a number of programs that are
41 designed to assist enterprises adapt to, for
42 instance, improved water efficiency, but it's not
43 solely a program that lies with us. It's primarily
44 an agricultural program.

45

46 THE CHAIRMAN: That's helpful. Just the last one from
47 me - and we will be hearing from certainly Hunter
48 later, and Sydney Catchment Water Authority. There
49 are some quite significant increases in proposed
50 charges for the metro areas. If the note in front
51 of me is correct - I can't remember from the body of
52 the proposal - \$1.80 per megalitre, 2.15, and then
53 20 per cent increases. It is not quite obvious what
54 those charges relate to for Hunter and what's now
55 Sydney Catchment Authority. Can you answer that
56 question?

57

58 MR MARSH: I think there's a couple of factors that come
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1 into play here. First of all, if we look at
2 unregulated services for bulk water supply on the
3 coast, they are substantially under-recovered and
4 unlike the inland, the extractions of water by water
5 extractors in the urban areas in total account for a
6 substantial portion of those extractions.

7
8 So about 68 per cent of water from extractors
9 goes to the urbanised areas, and the State Water
10 Customer Service Committee has made - and one other
11 submission has made - the same comments that in this
12 cost sharing that we've been doing, you can easily
13 under-value the share that should be borne by those
14 urban areas of our unregulated costs.

15
16 That's because the urban areas not only extract
17 more of the water, but there is a greater benefit to
18 the people in those urbanised areas of the resource
19 management outcomes from those rivers from the
20 unregulated rivers.

21
22 So much as the case in IPART's 1998
23 determination, where it saw that the revenue from
24 these large areas, from Hunter Water and Sydney
25 Catchment Authority, should go in part to meeting a
26 subsidy of the cost, or a bigger portion or share of
27 the cost than that would be recovered through the
28 normal water price.

29
30 I think the other reasons are that the price
31 hasn't changed since 1995. In fact, it's reduced in
32 real terms because it hasn't changed. It doesn't
33 change by CPI, unlike that that we charge to the
34 irrigators. Also, we've been through a proposing
35 period of substantial change in price.

36
37 You mentioned the dangers of the impacts of
38 those on irrigators, and yet here we have a large
39 water user, or a couple of large water users that
40 pull out a substantially large portion of the water
41 and have the ability to pay a great amount, yet
42 we're holding their price back at 1995 levels. So I
43 think they are really the key ideas behind the
44 change in the \$1.80.

45
46 The Aquatic Weeds Task Force is a different
47 matter entirely. We would see that as a perfect
48 match with IPART's principles on beneficiary pays or
49 a direct impactor pays. Sydney Catchment Authority
50 is clearly the largest extractor of water off the
51 system and benefits from that large extraction.
52 Sydney Water itself returns the high nutrient levels
53 into the unregulated rivers there that is causing -
54 or is at least the cause of the weed problem.

55
56 I think the other thing that we'd like to
57 mention is that the Aquatic Weeds Task Force
58 processes involved the Sydney Catchment Authority,

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1 and it was with some surprise that we did see the
2 Sydney Catchment Authority submission declining to
3 contribute in that way.

4
5 The issue about whether it gets passed on to
6 their customers is one for IPART. We would see no
7 difficulty with that because you set their prices,
8 but it would seem appropriate that those sort of
9 things would be passed through and the impact is
10 negligible.

11
12 MR COX: Thank you very much for your submission and
13 for your presentation this morning. I'd just like
14 to make sure I understand properly the way in which
15 you are dealing with the socioeconomic impacts. As
16 I understand it, you are proposing to cap price
17 increases at 20 per cent a year; is that correct?
18 Perhaps you could explain why 20 per cent. I
19 realise it's consistent with IPART's practice, but
20 what was the thinking in underlying that as being
21 the right or tolerable rate of price increase?

22
23 MR GUEST: I guess there is an element of judgment
24 involved in why 20 per cent. There is no objective
25 signs about it. The forces that played on that
26 judgment, though, were the desire for or the belief
27 that in the long-term the objective ought to be
28 achievement of 100 per cent cost recovery.
29 Recognising, though, that if we were to move to
30 100 per cent within three years, that would impose
31 perhaps an unduly high impact on some groups of
32 irrigators.

33
34 So we thought that we ought to reduce the
35 ambitions for the following three years, recognising
36 those impacts, but at the same time feeling the
37 pressure that we do have to be able to demonstrate
38 significant progress toward full cost recovery
39 within a reasonable period of time. Striking on an
40 82 per cent recovery after three years seemed to
41 strike a reasonable compromise between that external
42 pressure to seek full cost recovery and the need to
43 be mindful of the impacts on consumers of full cost
44 recovery.

45
46 So there is a judgment in trying to trade off
47 the policy pressure for full cost recovery and a
48 concern about the consequences of that full cost
49 recovery if it were to be sought within three years.

50
51 MR COX: I guess someone has very kindly provided me
52 with a figure, at the end of the day you are within
53 striking difference of full cost recovery on your
54 regulated rivers, but there seems to be quite a gap
55 in percentage terms for the unregulated rivers and
56 for groundwater. Is that something the Tribunal
57 should be concerned about?

58
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1 MR MARSH: In many ways there is no reason why there
2 shouldn't be a more substantial increase to get
3 closer to full cost recovery on unregulated rivers
4 and for groundwater. There are two aspects that
5 came into play.

6
7 First of all, on unregulated, the submission
8 also seeks a change in the structure of the
9 unregulated price. So this will in fact change
10 individual bills, and while we do some modelling on
11 that, I think we need to see the outcome of those
12 changes.

13
14 One of the changes we know on the unregulated
15 bills is that for town water and towns and industry,
16 there will be a much more significant rise as they
17 are given entitlements and move to a two-part
18 tariff. So currently, as the submission says, town
19 water and towns and industry pay much less than
20 irrigators on unregulated rivers, and we would see
21 that being brought back into line.

22
23 That means in the order of about 150 per cent
24 increase in their bills that they would receive as
25 that change occurs. So because of the restructuring
26 on unregulated, it seems like a more reasonable
27 approach, or balanced approach. So that's
28 substantially the reason for maintaining it at that
29 sort of level. Thank you.

30
31 MR COX: Thank you. If we can move to the cost shares.
32 I understand and I appreciate that you have chosen
33 to stick with IPART cost shares where we have talked
34 about that, or where we've determined ones in the
35 past. But I am a bit less clear about the process
36 that's led you to suggest cost shares for the new
37 activities you are now bringing to the table. Can
38 you tell us the bit about the factors that came into
39 play and how you reached the judgments that you did
40 offer those new items?

41
42 MR MARSH: One of the major items being the compliance
43 annuity. In fact, the department was proposing a
44 90 per cent share based on the belief that it's a
45 cost to the business of State Water, a cost of
46 complying with regulatory standards and then
47 therefore should be passed on to the customers.

48
49 In taking that around to customer service
50 committees before we produced the submission, they
51 had us rethink the attribution of that cost, mostly
52 because of the requirements to address safety
53 standards, flood mitigation has been determined by
54 IPART in the operational sense to be a 50 per cent
55 share.

56
57 So we've really aligned that compliance annuity
58 in meeting those safety standards with the

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1 determined flood mitigation share. So that is to
2 address the issue that those sort of costs have
3 provided the community with a greater benefit.
4 That's the thinking behind that proposed share which
5 is a substantial cost.

6
7 The water management planning is really seen as
8 the future strategic planning of the river resource.
9 Again, we look back at the workshops and the
10 previous IPART determinations where for groundwater
11 it was determined to be a 70 per cent share for that
12 sort of strategic planning, but a less of a share on
13 rivers because, again, of the idea that you can
14 obtain greater community benefit from surface water
15 or attribute a greater benefit to the community for
16 surface water than groundwater. So the sharing was
17 really based on those sort of works.

18
19 MR COX: Finally from me, we received a number
20 suggestions in submissions that insufficient time
21 has been allowed for consultation with users on your
22 submission. I wonder if you'd like to respond to
23 those comments?

24
25 MR MARSH: I would disagree with those comments. Apart
26 from the fact that we've been looking at these
27 issues and galvanising these issues over a period
28 since 1996, we started suggesting the key elements
29 of this submission in late 1999, certainly with
30 customer service committees, and early 2000.
31 The DLWC's submission last April detailed these key
32 issues, so we've been through some process of
33 putting this information to customer groups and
34 obtaining some feedback.

35
36 I think in relation to items of total asset
37 management plan, which is another key element that
38 some of the submissions talk about in relation to
39 not enough time, that has been available for six
40 months and some of the elements of that were spoken
41 again to customer service committees in April last
42 year.

43
44 So we are going through a process of those. I
45 wouldn't say that customers are satisfied with the
46 items in the total asset management plan, but all of
47 those things are evolving tools and information on
48 those will change as time goes on as well, and will
49 need to continually be re-evaluated. I am not sure
50 that we'll ever satisfy the customers that they've
51 had enough time to look at the proposals in this
52 regard.

53
54 PROF MUSGRAVE: Thanks for your contribution. First of
55 all, with regard to the ringfencing of accounting
56 processes, there is pressure for moving towards
57 audited valley accounts; how are we going in that
58 respect?

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1
2 MR IMMARAJ: We haven't got to the level of audited
3 valley accounts as yet. We've prepared valley
4 accounts and circulated them to the Customer Service
5 Committee and we will be expecting next year that
6 we'll have audited valley accounts. We were hoping
7 to trial one out before this possibly in one or two
8 valleys, but that hasn't happened yet.

9
10 MR MARSH: I think we need to be clear. This has come
11 up before at a workshop with customer groups in
12 October. One of the clear things we're not going to
13 be able to do in State Water is to set up separate
14 companies within State Water.

15
16 So, therefore, an auditor is unable to produce
17 an audit statement on a set of independent valley
18 financial accounts as such. The expense of setting
19 up such a mechanism is seen as unwarranted, so we're
20 able to already produce a set of financial accounts
21 that can be reviewed. State Water can produce a
22 forward balance sheets as they are a separate
23 company, but I think we need to be careful not to go
24 down a line that just creates an additional expense
25 and inefficiency.

26
27 PROF MUSGRAVE: Then in relation to performance
28 indicators, we've still got some way to go with
29 regard to those. I just wonder if you've got
30 any comment on that?

31
32 MR IMMARAJ: I would agree we have a long way to go with
33 regard to performance indicators. Obviously we need
34 to get to first base, which is a clearer definition
35 of accountabilities and roles.

36
37 As Chris alluded, we've got the Water Access
38 Authority and the operator authority. At this stage
39 we are still in the process of developing a
40 statement of financial performance, so we've started
41 down the track of a balanced score card approach
42 which incorporates a number of performance
43 indicators into State Water's operations.

44
45 The main issues for us would be in the area of
46 how we enter into consultations with our customers
47 with regard to performance indicators - both the
48 service levels for water delivery as well as
49 compliance standards for the structures. So there
50 are some complexities in there.

51
52 So clarification in the area of roles and
53 responsibilities, ownership responsibilities, risk
54 management responsibilities and flow on
55 decision-making associated with each of those
56 responsibilities needs to be clearly demarcated
57 before we can undertake which performance indicators
58 we select, otherwise we'd be reporting on things

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1 that we really have very little control over.

2
3 PROF MUSGRAVE: Could we turn to the question of the
4 separation of State Water from DLWC and the fairly
5 consistent pressure for that to happen from
6 stakeholder groups across the spectrum. DLWC has a
7 number of arguments for retaining the present
8 ring-fence situation. One notices in other
9 jurisdictions that there is such separation. I
10 wonder if it is possible for us to explore the
11 strength of the various arguments for and against
12 that, and make some comments just in general about
13 the situation.

14
15 MR GUEST: I suppose our view is that we believe we can
16 achieve the substantive benefits of separation under
17 the current structure without incurring the quite
18 significant costs that are required for
19 corporatisation. Corporatisation would be the
20 alternative to achieving the effective separation of
21 State Water from DLWC. Underpinning the view is
22 that within the current government policy framework,
23 we can achieve the benefits of that formal
24 separation achieved by corporatisation by pursuing
25 the direction we are following at the moment without
26 incurring the costs of change. We know from the
27 experience of corporatising other authorities that
28 there are quite substantial costs.

29
30 I suppose there is a judgment that the record
31 of corporatisation has been a little mixed, that it
32 works well in some places, but it can be very
33 difficult to secure long-term improved performance
34 under corporatisation because of the difficulty of
35 securing an appropriate performance-monitoring
36 regime. The experience, I think, of some
37 corporatised entities has been that, once they have
38 made the initial adjustment, they have wound up
39 performing in some ways not all that differently
40 from how they might have if they had remained under
41 more formal control, with some changes in management
42 structure. I think the appetite for
43 corporatisation, with experience, has probably
44 diminished.

45
46 PROF MUSGRAVE: Thanks, Chris. Has the National
47 Competition Council expressed any view on the New
48 South Wales situation or do we have to wait until
49 the end of the current review?

50
51 MR MARSH: I think we would have to wait for the current
52 review. The National Competition Council has just
53 sought the same information that IPART has sought in
54 its last determination on the separation mechanisms
55 that were in place.

56
57 PROF MUSGRAVE: I think that is all, thank you.

58
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1 THE CHAIRMAN: I would like just to pick up two points
2 that were raised in the Irrigators Council
3 submission that I wanted your reaction to. They
4 make what, on the face of it, does not seem an
5 unreasonable proposal which goes to the issue of
6 cost sharing and payment by the group of users for
7 some of these activities, including new activities,
8 and they make the point that their involvement in
9 decision-making, or perhaps at a different level the
10 consultation process, from their perspective does
11 not appear to reflect the proportion of costs that
12 irrigators or the irrigator community is being asked
13 to bear. So they are really suggesting why cannot
14 they have greater representation, greater
15 consultation, if indeed they are to be paying some
16 of these greater costs. On the face of it, it seems
17 quite reasonable. What's your reaction?
18

19 MR GUEST: Perhaps before Robert says something - he
20 knows more about the consultation process because he
21 has been involved in it - can I just say that my
22 impression is that we have now quite an extensive
23 program of consultation. We have a formal
24 arrangement by having customer service committees
25 which provide a formal opportunity for that
26 consultation and we have a regular program of
27 contact and meeting with those communities, both
28 through State Water and through DLWC.
29

30 Consultation is a kind of difficult concept.
31 How much is enough consultation? There has to be a
32 line drawn at the point at which you make the
33 judgment that sufficient opportunity has been
34 provided and, in a sense, so long as the outcome is
35 not quite what people might have wanted, then the
36 consultation might not seem to have been long
37 enough. There is no right answer about how long
38 consultation ought to be or how detailed the
39 consultation arrangements ought to be.
40

41 We believe that we have, in the structure we
42 put in place through the customer service
43 committees, an appropriate form of opportunity for
44 that consultation to occur, and I guess we also
45 believe that through the regular contact we have
46 with customers through these committees, we have
47 quite substantial communication. We also, of
48 course, separate from the customer service
49 committees, have direct contact with the Irrigators
50 Council.
51

52 In the six months that I have been with the
53 department, we have found it useful to meet with the
54 Irrigators Council from time to time in order to
55 develop some mutual understanding to see where we
56 differ and see where we agree. I think that is a
57 valuable further avenue for consultation. So, I
58 think in those ways the door is always open in that

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1 informal sense, and the door is certainly formally
2 open in terms of the consultation arrangements we
3 have established.
4

5 THE CHAIRMAN: Do you want to add anything?
6

7 MR MARSH: I just might make the distinction between the
8 customer service committees and their role and just
9 step back and look at the water management
10 committees and their role which is very different.
11 Customers have control of the customer service
12 committees. So we need to step back and say, "What
13 are the resource management committees about? What
14 is the implementation planning about?" It is about
15 sustaining the use of that resource in the future.
16 It is also about a range of other issues to the
17 community's benefit. The make-up of those water
18 management committees is to represent what is the
19 strategic management of the river system into the
20 future, given the customers' water extractions and
21 given some of the other requirements or other
22 benefits that are perceived. So I do not think you
23 can equate voting rights on river management
24 committees to how much should be paid by customers.
25

26
27 PROF MUSGRAVE: Just on that point, the cost shares is
28 something we might touch on here. I think this is
29 really a matter that will be explored in the
30 workshops at Armidale and Griffith, but I worry that
31 the IPART cost share system will get the tablets of
32 stone status, which I think surprised me anyhow. I
33 just wonder if you are completely comfortable with
34 that.
35

36 MR IMMARAJ: I think there is certainly a lot more
37 information available now which would assist us in
38 terms of refining those cost shares. I am hoping
39 to work closely with Chris with this intention to
40 revise those cost shares based on - from an
41 operator's perspective, I believe there is certainly
42 ample information now to refine especially in the
43 area of compliance.
44

45 PROF MUSGRAVE: You agree there is scope for change?
46

47 MR IMMARAJ: There certainly is.
48

49 THE CHAIRMAN: Just the last point: whilst there might
50 be some debate with respect to transparency and
51 accountability with respect to State Water - there
52 certainly is a degree about that; we will argue
53 about how much, and it depends on where one sits -
54 the Irrigators Council and others have made the
55 point, and I think we have considered it in the
56 past, about what probably is the far less degree of
57 transparency and accountability of MDBC, the costs
58 of which are being passed through.

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1
2 It is a problem for all of us because that is a
3 bit of a box that even we have trouble seeing into.
4 Can you help us see whether there might be some
5 light on the horizon on that one and is the NCC
6 doing anything about that given their interests in
7 everybody else's costs?
8
9 MR MARSH: I think in the latter part we would have to
10 take that on notice because I am not sure what the
11 NCC are doing. New South Wales has influence over
12 the MDBC through the commission and it is sitting on
13 the commission. There is also influence on their
14 relative committees such as the finance committee.
15 The regional director of the Murray sits on their
16 finance committee, so there is some degree of
17 influence.
18
19 We would agree about the difficulties -
20 certainly inferences - for instance, in imposing the
21 20 per cent efficiency dividend on the MDBC. For
22 pricing purposes we have not done that; we have
23 taken the costs that actually exist there and
24 attributed a 20 per cent reduction to the costs that
25 we have reported through to put them on equal
26 footing with the standards that you set for State
27 Water. So it is a difficult question. We have
28 tried to take a balanced approach in presenting the
29 costs which should flow through the cost recovery.
30
31 THE CHAIRMAN: Jim Cox has just reminded me - he has
32 pointed out something that I didn't even know -
33 that our consultant will hopefully have a look at
34 some of the MDBC costs; so that will come up in the
35 workshop next week and the week after. Thank you
36 very much indeed. That was helpful, thanks.

1 NEW SOUTH WALES IRRIGATORS COUNCIL
2
3 THE CHAIRMAN: We now have the New South Wales
4 Irrigators Council. Thanks for your submission and
5 thank you for coming. Just for the record, I will
6 ask you to identify yourselves and then ask you to
7 present the highlights of your submission and we
8 will have a few questions.
9
10 MR MORGAN: Thank you. I am Ted Morgan, chairman of the
11 working group on the New South Wales Irrigators
12 Council with respect to this pricing determination
13 and also long-term institutional arrangements. I am
14 from the Lachlan River. I will now hand over to
15 Brad to introduce himself.
16
17 MR WILLIAMS: Brad Williams, Executive Director of New
18 South Wales Irrigators Council.
19
20 MR THOMPSON: Dick Thompson, I am a member of the
21 Irrigators Council and also I am a member of the
22 River Management Committee in the Murrumbidgee, plus
23 a member of the State Water Advisory Committee. I
24 am also a member of the Catchment Management Board.
25
26 MR WILLIAMS: Chairman, what we propose to do today is
27 to give a brief overview of our submission
28 addressing three specific issues, those being the
29 COAG water reform principles, some aspects of the
30 Department of Land and Water Conservation
31 submission, and then perhaps to focus on the impact
32 assessment process which we have spoken about
33 earlier and also to reiterate some of the key
34 recommendations.
35
36 As part of that process, I will deliver a brief
37 presentation and I will then ask Mr Thompson to
38 address some specifics in relation to the TAMP and
39 the rate of return.
40
41 I would like to think that I had a joke to tell
42 to sort of lighten proceedings a little bit.
43 Unfortunately that is my weak point, so I, like
44 Chris, will probably stick to the principles.
45
46 I guess from your point of view it is probably
47 refreshing, although we are probably arguing the
48 same things, at least you have a different voice to
49 argue the points. Hopefully, I will not send you to
50 sleep.
51
52 I would like to preface our presentation or
53 submission today by reiterating the points we made
54 in our submission that there is insufficient
55 evidence to suggest that the Department of Land and
56 Water Conservation can justify a medium-term pricing
57 determination. In our opinion many of the
58 requirements and principles established by IPART in
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1 1998 and again in 2000 have not been addressed with
2 any vigour in the Department of Land and Water
3 Conservation submission. This is particularly clear
4 from their approach to appendix 5 from the previous
5 IPART determination, and we have addressed these
6 issues individually in our submission.

7
8 We maintain our position that the only way
9 forward on the pricing of bulk water is for the
10 service provider, the regulator and the customers to
11 adopt a more strategic framework that provides for
12 transparency and accountability but does not ignore
13 the principles of the COAG water reform process
14 including cost recovery.

15
16 I think the COAG water reform principles are
17 worth reiterating here. I will not spend too much
18 time on them, but I see them as fundamental to the
19 pricing process because they are tools that IPART
20 can use in future pricing determinations as, I
21 guess, check points on matters that need to be
22 addressed - issues like efficient cost recovery and
23 the ability to identify appropriate community
24 service obligations.

25
26 The property rights issue is a case in point.
27 It is relevant to IPART in two regards; that is
28 IPART's role in determining the appropriateness of
29 Department of Land and Water Conservation pricing
30 objectives such as full cost recovery as an
31 incentive to reduce water extraction and also the
32 distortion of pricing signals due to ill-defined
33 property right, which limits customers flexibility
34 to invest in efficiencies or higher value
35 enterprises.

36
37 I turn now to the beneficiary pays principle.
38 We are aware that this principle allows for an
39 equitable and inclusive cost sharing ratio provided
40 that all beneficiaries, including those who do not
41 directly use the resource, are factored into the
42 ratio. We would argue that DLWC has not identified
43 all the beneficiaries or community service
44 obligations by considering environmental
45 requirements and other non-user beneficiaries.
46 Consequently we believe that there is an inequitable
47 application of the cost-sharing arrangements in the
48 Department of Land and Water Conservation
49 submission.

50
51 OVERHEAD: KEEPIT DAM FIGURES

52
53 I would just like to put a slide up now that we
54 can have a look at that relates specifically Keepit
55 Dam. I want to use this to illustrate our point in
56 terms of, I guess, this relates to the cost sharing
57 and the beneficiary pays principle. We see here the
58 estimated consequence of the Keepit Dam failure

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1 under an extreme flood event, and these are in
2 millions of dollars. You can see the total there is
3 \$1.6 billion. If we look at the agricultural
4 component of that, we see \$213m, which in itself is
5 significant. In itself it is inclusive of all
6 agriculture, not just irrigation, and represents
7 only 12.61 per cent of that total impact of that dam
8 failure.

9
10 These figures are department figures so they
11 are quite legitimate. I just wanted to use that to
12 illustrate the point of how we need to perhaps look
13 at these beneficiary pays and the cost sharing
14 principles.

15
16 In terms of cost recovery we do not necessarily
17 disagree with the principle, but as mentioned in the
18 Productivity Commission draft report into cost
19 recovery that was made available in May this year,
20 they state that:

21
22 Those expected (or required) to pay have a
23 clear interest in the costs, efficiency
24 and quality standards of activities and
25 this interest should be harnessed.

26
27 I think we will touch on this a little later in the
28 presentation.

29
30 The matter of institutional separation has been
31 discussed and it is a continuing argument.
32 Obviously I am new to the process but it is
33 certainly an issue that has been around for some
34 time. I think it needs to be looked at in the
35 context of outcomes we are trying to achieve from
36 institutional separation, and I see those as cost
37 effective delivery of services, identification and
38 apportioning of appropriate costs, transparency of
39 the financial process, and genuine involvement in
40 the decision-making process through the customer
41 service committees. So I think if we focus on the
42 outcomes that are required from institutional
43 separation, we will be able to develop a model that
44 will deliver that particular aspect.

45
46 As I mentioned, with regard to the TAMP and
47 rate of returns issue I will ask Mr Thompson to
48 focus on that in some detail. I would like to talk
49 a little bit about the water management planning and
50 implementation process that was mentioned in the
51 previous presentation and I will reiterate some
52 points that were made.

53
54 The issue of cost recovery for resource
55 management functions is a contentious one. We would
56 argue that water users are subsidising the
57 government's regulatory responsibility in many
58 areas. Without direct input into the resource

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1 management programs either at planning or
2 implementation level it is illogical to propose that
3 50 to 70 per cent of water management costs should
4 be borne by irrigators. We talked before not so
5 much about the customer service committees; this is
6 specifically in terms of the water management
7 committees on a valley by valley basis.

8
9 Those committees can have a maximum of 20
10 people participating. At this stage I think most
11 have 11, and out of that 11 there are two irrigator
12 representatives on the committee. We would argue
13 that that does not represent an appropriate
14 apportioning of the cost-sharing and decision-making
15 process. If we are expected to pay 50 to 70 per
16 cent of those costs that come about as a result of
17 those decisions then, consequently, we should have
18 50 to 70 per cent say in the decisions of those
19 committees. That is the logic that I apply based on
20 the logic put forward in the Department of Land and
21 Water Conservation submission.

22
23 There is also an obvious move by DLWC to extend
24 the cost net in this submission and I would argue
25 that the issue of cost recovery, whilst it is a
26 broad principle, it seems, and we have alluded to
27 this fact, that the costs are shifting all the time.
28 So where do we draw the line in the sand and say we
29 have achieved 100 per cent cost recovery and how do
30 we work around that particular issue?

31
32 We are also, I must say, outraged to see that
33 other government agencies, such as New South Wales
34 Fisheries, are looking to put their "snout in the
35 trough" as far as irrigators are concerned. Their
36 submission proposes a recovery of \$4.69m over the
37 next three years as part of their normal regulatory
38 responsibility. Now, without getting emotional, the
39 bottom of the irrigators' pocket is starting to come
40 very, very close to the surface, and I think this is
41 an issue that IPART needs to consider in some
42 seriousness.

43
44 I think that the two consultancy reports will
45 provide a good basis for IPART to review the cost
46 sharing rations. I think it is important that we
47 stay focused on the outcomes of those consultancies
48 and the need to perhaps explore some of those issues
49 further. We believe there has been no genuine
50 attempt by DLWC to address inefficiencies, and this
51 is evidenced by the fact that we have not seen any
52 benchmarking studies, CSBs, have not had access to
53 benchmarking studies, and for us to move towards a
54 process of reducing efficiencies and being able to
55 see these efficiencies addressed I think it is
56 important that we have a benchmark.

57
58 On that note, I believe, or the New South Wales

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1 Irrigators Council believes, that there is no
2 incentive for the Department of Land and Water
3 Conservation to address this and other issues. I
4 think this is important as well. At least with a
5 benchmarking process we can look at milestones and
6 time frames.

7
8 Chairman, I would now like to move on to the
9 impact assessment process, if I could, and I will
10 make some general comments before I go into a
11 specific example from one of the river valleys.

12
13 The current situation in rural New South Wales
14 clearly demonstrates that the government has not
15 worked with affected stakeholders to develop "change
16 management" policy that identifies the impacts of
17 the reform process. COAG clearly intended that
18 State Governments weigh up the costs and benefits of
19 implementing reforms. This has been paid cursory
20 attention to in DLWC's submission, in our opinion.

21
22 There are concerns about the accuracy and
23 comprehensiveness of the two impact studies provided
24 by DLWC and we expect specific issues regarding
25 these reports on the Peel and Lachlan valleys will
26 be raised in the workshops in Armidale and Griffith.

27
28 We must remember that this pricing process is
29 not necessarily about taking off items on a to-do
30 list, but it should be about a genuine attempt to
31 address the COAG water reform principles.

32
33 The other issue that I would like to address -
34 I guess this is the benefit of talking after the
35 Department of Land and Water Conservation - is the
36 issue of the present economic climate in rural
37 Australia and rural New South Wales in particular.

38
39 The industries that are enjoying particularly
40 buoyant times are, in fact, wool, wheat and the beef
41 industry. We would argue that those industries
42 don't necessarily reflect irrigation industries; so,
43 we need to keep that in perspective. I will not go
44 into detail, but we have addressed some of those
45 specific concerns about the commodities related to
46 irrigation in our submission.

47
48 OVERHEAD: GROSS ANALYSIS

49
50 If I could get Michelle to put an example on
51 the board. With the gross margin calculations, we
52 sat down and went through some of the DLWC
53 calculations. We were actually quite shocked to
54 find that in the example in both the Murray and
55 Murrumbidgee valleys, in their gross margin
56 analysis, instead of using an actual cost per
57 hectare in terms of the water, the DLWC apparently
58 have mistakenly used the actual water usage rate.

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1
2 As we see in 2001-01, they have used 13 per
3 hectare, that is in fact for long grain rice, the
4 actual megalitre water usage. That needs to be
5 multiplied by the actual price of the water to allow
6 you to accurately calculate your gross margins and
7 therefore your total variable costs. So we can see
8 quite clearly there, Mr Chairman, that the actual
9 price per hectare for water in this particular
10 example is not \$13 but in fact \$202.54. The
11 percentage of total variable cost is not in fact
12 1.55 per cent; it is in fact 23 per cent.
13
14 Similarly with the gross margins, we can see
15 that has an impact on the gross margins further
16 down. We are looking at, and as quite rightly said
17 by the Department of Land and Water Conservation,
18 based on the work that they have done, the
19 reasonably insignificant impacts on gross margins.
20 But if you actually take the real dollar numbers
21 into account we can see that those impacts on gross
22 margins are in fact higher and the total over the
23 three years is reasonably significant, particularly
24 on those irrigators in the lower income - I guess,
25 if you like, not the high income irrigators but
26 those perhaps in the lower 10 to 20 per cent where
27 this will have the greatest impact.
28
29 Mr Chairman, this applies, in fact, in all the
30 calculations for gross margins in both the Murray
31 and Murrumbidgee. I have highlighted one particular
32 example, and I think that makes the point quite
33 clearly.
34
35 Having argued that, I will say that gross
36 margin analysis as we see it is not an appropriate
37 method of calculating impact assessment. What it
38 does do is focus on an enterprise and not on the
39 farm business as a whole. So we are not actually
40 seeing in the calculations the total impact on the
41 farm business. If we extrapolate those figures into
42 the farm business, I am sure it is safe to argue
43 that the impact will be even greater.
44
45 The gross margin calculations will also take
46 into account fixed costs, infrastructure costs
47 associated with changing enterprises. In fact, the
48 DLWC have not even bothered to include a sensitivity
49 analysis which would at least allow us to take into
50 account price and yield fluctuations. Their
51 assumptions that all things remain the same is, in
52 our opinion, naive and indicative of the
53 department's attitude towards this process.
54
55 I think, on that basis, there is a real need
56 for some further work in this area, and we are quite
57 willing to participate in this process. I note that
58 the Tribunal made reference in a previous
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1 determination to a discussion paper on the
2 socioeconomic impact of water reform, and we believe
3 that DLWC should apply these guidelines when
4 assessing the impact of its proposals for the next
5 pricing path. We would strongly argue that these
6 guidelines were ignored at that time and also in
7 this current round.
8
9 We believe that an independent socioeconomic
10 assessment should be undertaken before IPART agree
11 to a medium-term price path. The terms of reference
12 for this assessment process must be consistent with
13 previous IPART determinations and/or the COAG public
14 benefits test. As I said, we are prepared to
15 commit to this process.
16
17 Chairman, I might just, in summary before I
18 hand over to Mr Thompson just touch on some of our
19 key recommendations to wrap up the presentation. We
20 recommend that the Independent Pricing and
21 Regulatory Tribunal not proceed with the medium-term
22 pricing determination on the following basis:
23
24 (a) that the issue of institutional
25 commercial separation of DLWC and State
26 Water has not been resolved;
27
28 (b) DLWC and State Water have failed to
29 adequately address the information
30 requirements outlined in appendix 5 of the
31 IPART 2000 determination;
32
33 (c) DLWC have not implemented a
34 benchmarking framework for its bulk water
35 supply business unit, that demonstrates
36 standards that can be used as a basis for
37 determining future efficiency gains; and
38
39 (d) DWLC have not completed an appropriate
40 impact assessment process.
41
42 We also recommend that in not proceeding with
43 medium-term pricing determination and deferring this
44 decision until 2002 that this will allow for the
45 following:
46
47 Industry stakeholders to agree on a
48 strategic approach to pricing which
49 reflects the complexities of the process,
50 is consistent with the implementation of
51 the Water Management Act and recognises
52 the need for a continued demonstration of
53 the commitment to recovery of efficiently
54 delivered and necessary costs.
55
56 Chairman, we are looking for a way forward for all
57 parties that will deliver agreed outcomes based on
58 transparent and credible data and will avoid the
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1 continued adversarial approach that we currently
2 adopt.

3
4 MR THOMPSON: The first thing you asked me to look at
5 with the TAMP, is why so much in the first few
6 years. I think that clearly highlights a neglect
7 that has taken place and that's happened in the
8 past.

9
10 The first thing we need to agree is what should
11 be in the TAMP. If this is from an environmental
12 point of view, we need to know what is necessary to
13 overcome the environmental problems and then we go
14 on to discuss who pays. I think my environmental
15 friends here today will agree that, really, we've
16 got to look at the outcome for the environment.
17 That is the priority, but then we must look at who
18 really should pay.

19
20 I was at a thermal pollution workshop in Albury
21 on only Monday and Tuesday where there were
22 scientists and bureaucrats from all over Australia,
23 and there is clearly a changing attitude as to who
24 should pay for environmental.

25
26 In pointing out the problem of thermal
27 pollution for fish breeding, John Cohen, who is an
28 expert in this area, highlighted the problem by
29 asking the audience to put their hand up if they'd
30 ever had sex in the snow. Now, there weren't too
31 many hands that went up, but I believe all he
32 pointed out was who will be the beneficiaries of
33 fixing up the temperature of the water? Clearly the
34 fish, not the irrigators. It was generally agreed
35 that mistakes of the past are not the responsibility
36 of present day irrigators.

37
38 Some of the examples that were pointed out
39 there were mistakes of the past. You have got
40 Pindari Dam. Only in recent years was the variable
41 level of offtake put in. We're so poorly designed
42 that it's never been used. I don't think it's up to
43 irrigators to turn around now and fix that.

44
45 When Dartmouth Dam was built they knew there
46 was a need for variable level offtake that would be
47 a problem. They decided that they wouldn't put it
48 in at that stage. A lot of our weirs had fish
49 ladders attached to them. Unfortunately, engineers
50 at the time didn't understand the need of Australian
51 native fish.

52
53 The Federal Government is changing its attitude
54 to contributing to natural resource management and
55 it's clear from the funds that they are setting
56 aside. I believe a lot of these funds should also
57 go to river management. They should share in it
58 just the same as the catchment problems.

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1
2 In looking at what needs to be funded and how
3 it is to be funded, we come to the topic of
4 externalities. I notice in the consultancy it
5 appears that people consider externalities all to be
6 negative. I doubt if, really, consultants look at
7 the positive sides of it.

8
9 I can just give you some local examples of the
10 amenities provided for water sport in the Griffiths
11 area. It looks like the Fibebaugh Swamp in that
12 area, which was created by irrigation, will be
13 RAMSAR listed. Wanganella Swamp on the Yanco Creek,
14 has only been created since the eco weir was built.
15 This year we had to put environmental water into
16 that swamp, it is now seen as such an important
17 wetland.

18
19 The other issue is safety - or the big issue
20 with TAMP is safety. I go back to mistakes of the
21 past are not the responsibility of present day
22 irrigators. Blowering Dam was only built 40 years
23 ago. They are now telling us it's 16 or 20 million
24 to fix up the safety problems. Looking at safety,
25 Wyangala Dam I think is a classic. It is suggested
26 that the spillway should be able to empty the dam
27 three times in one day. I'd hate to see what
28 happens to the people who live in the Lachlan Valley
29 area if there is no dam there.

30
31 The other topic I was asked to comment on was
32 the rate of return. I believe the misunderstanding
33 on both sides is how that has actually been worked
34 out. It really is a case of who funds the works.
35 If you look at some of the accounts - and I can only
36 speak for the Murrumbidgee on this issue - for the
37 last few years there has been a surplus which would
38 have covered the cost of what those works had been,
39 and yet there is still a rate of return being
40 charged. Thank you.

41
42 THE CHAIRMAN: Thanks for that. Thanks for your
43 submission and the offer to continue working in a
44 non-adversarial environment, which will probably
45 take away some of the fun.

46
47 You're involved at the, I can't say cold face,
48 but at the water's edge, as it were, and you've
49 identified a number of things where you believe
50 irrigators shouldn't be paying. The one that stands
51 out is mistakes of the past.

52
53 DLWC has put forward a number of new items
54 where they believe there is an appropriate
55 contribution. Is there anything in there that you
56 believe you should be paying for? You have
57 indicated the things that you say you shouldn't pay
58 for; are there things that you think as a

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1 user and being involved in some of the
2 consultations/decision-making processes, have they
3 persuaded you of things that you should be paying
4 for?

5
6 MR THOMPSON: I think I've been persuaded by the
7 environmentalists that some of these works have got
8 to be done, but I have not persuaded that it's an
9 irrigator's responsibility. In fact, we fully
10 support a lot of these environmental issues - no
11 problem with that.

12
13 THE CHAIRMAN: And, again, I think picking up from that
14 you mentioned what appears to be a suggestion that
15 some of the other agencies are now putting their fin
16 in the water, or their snout in the
17 trough - whatever the appropriate analogy
18 is - getting onto the bandwagon in terms of resource
19 management. I've certainly noticed that in terms of
20 the Department of Agriculture, it now talks very
21 much more about its activities as resource
22 management activities.

23
24 We've talked about this and I'm sure I've asked
25 this question in different forms on at least three
26 other occasions over the years, and that is that one
27 of the potentially worrying things is duplication
28 and lack of coordination between local activities,
29 between State government activities and Federal
30 activities. You may not be able to answer it here,
31 but if you can give us some evidence of duplication,
32 overlap, lack of coordination, between State
33 Government agencies and any others so that in fact
34 we can identify where dollars are in fact not being
35 efficiently directed towards dealing with the
36 problem which you're being asked to pay for?

37
38 Again, I don't know if you can address that now
39 or perhaps take it on board for the workshop
40 processes.

41
42 MR WILLIAMS: Chairman, we'll take it on board. There
43 are some areas we can go into more detail. I think
44 if we just very quickly looked at the New South
45 Wales Fishery submission, some of the areas that
46 they were raising in there were research into fish
47 passages, et cetera, et cetera, which sound very
48 similar to research that's being done through the
49 department. So that's one area that I noted looking
50 at in that submission.

51
52 In fact, if you speak to DLWC, I think it's
53 quite safe to say they were not aware that the
54 Fishery were putting in a submission, but we'll take
55 that on notice and bring up some specifics.

56
57 THE CHAIRMAN: Including, if you can, from the actual
58 catchment areas where down at that level you can

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1 identify here is this mob running around doing this
2 mob following them afterwards digging up the road
3 again. That sort of thing would be quite useful to
4 me just to get a bit of a handle on it.

5
6 MR THOMPSON: I think in the Murrumbidgee we are getting
7 a lot better corporation in the last couple of years
8 than there has been.

9
10 MR COX: Thank you very much for your submission and
11 presentation.

12
13 As a general, would I get the impression that
14 you have no objection to the principle of full cost
15 recovery? The debate really is what elements of
16 cost in your submission should be against users; is
17 that correct?

18
19 MR WILLIAMS: I think we made that point in our
20 submission, that the principle of cost recovery is
21 one that's been established in the COAG process. I
22 think what our argument would be is that the
23 interpretation and implementation of those
24 principles, particularly cost recovery at a State
25 level, is where we have significant problems.

26
27 The process of self-auditing by the States in
28 terms of compliance with those COAG recommendations
29 is one where, I guess, the stakeholders don't have
30 the opportunity to participate in the process and to
31 have some influence over the process in
32 implementation.

33
34 MR COX: I wonder if you could sort of turn your minds
35 to the new activities that have been brought in by
36 DLWC for this process - I suppose, particularly, the
37 compliance annuity and the water management
38 activities - and suggest how you think that IPART
39 should address the issue of determining an
40 appropriate cost share to be paid for by users for
41 those new activities?

42
43 MR THOMPSON: I think that should be left for the
44 workshop to have a discussion on that. There was
45 one topic mentioned in the previous session where it
46 was suggested that there was sufficient consultation
47 and that the river committees were being consulted
48 with the environmental committees.

49
50 The river committees are still in the process
51 of putting together a river plan. They are not in
52 any position to make any recommendation on what's
53 necessary as yet, or to help State Water or DLWC out
54 in that manner.

55
56 MR WILLIAMS: If I could add to that, that I think one
57 of the points we made in our submission about the
58 water management planning process and

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1 implementations of the new legislation as part of
2 that reform process, was that in previous
3 determinations, and it was highlighted earlier,
4 IPART apportioned a zero per cent in terms of that
5 cost being borne by the government in that it was a
6 one-off cost.

7
8 Our logic, I guess, in terms of the water
9 management planning and implementation process is
10 that you could also argue that was a one-off cost in
11 the sense that those plans would be in place for ten
12 years. So this process is leading to a mechanism or
13 to put in place plans that will be there for ten
14 years.

15
16 MR MORGAN: They also come in over the top of, in a
17 sense, the river management committee works and the
18 river plans that are going on in the State. So what
19 you have is, as a result of the water management
20 legislation, you have the process of planning which
21 is very much the one-off to set it up for ten years,
22 and it is in fact conjunctive but in addition to
23 what has been going on in an already predated sense.

24
25 MR COX: Thanks for that. Perhaps we will just put you
26 on notice it is an issue we'd like to canvass at the
27 workshops.

28
29 MS WARD: My name is Michelle Ward from Macquarie
30 Food & Fibre. I might just add a comment about our
31 advice on dealing at least with the compliance cost
32 part of your question, in terms of cost sharing.

33
34 Obviously, the beneficiary pays principle would
35 be the logical approach. Robert Marsh referred to
36 the 50-50 ratio currently reflecting community
37 benefit, and I draw your attention to the slide that
38 we put up in terms of looking at the consequences as
39 one way of trying to determine cost shares.

40
41 A second argument which could also apply is in
42 terms of the precedent that was set up when the
43 private irrigation schemes were handed over in the
44 south of the State in terms of the conditions that
45 were required of maintenance for those structures to
46 be handed over.

47
48 So maintenance being required, all that was
49 noted as required in 1997 shouldn't be now being
50 funded by irrigators, which picks up on Dick's
51 earlier point about why so much expenditure was
52 being required in these first few years for the
53 TAMP.

54
55 MR COX: Thank you. I think I'll leave the majority of
56 questions on social impacts to my esteemed colleague
57 Dr Musgrave. I would just like to perhaps pick up
58 on a couple of points. I think I heard Brad saying

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1 that the problem was really at the bottom end, or
2 bottom 10 to 20 per cent of farmers. Do I
3 understand you correctly?

4
5 MR WILLIAMS: I think the point I was making was that
6 those impacts - you need to look at those in the
7 context of the impact. It's all levels of farm
8 enterprises. The impact is going to be felt
9 greater, obviously, by those at the lower end of the
10 scale.

11
12 I am not saying they are not going to impact on
13 everyone else, I am just saying being aware of the
14 impact of those gross margin numbers on those whose
15 bottom line is perhaps they are going to feel it the
16 most. Just bear that in mind in the total context.

17
18 MR COX: Do you have any comments on DLWC's proposed
19 20 per cent limit? Is that something you would
20 support, or do you have some thoughts on that?

21
22 MR MORGAN: The basic proposition we're putting is that
23 the 20 per cent shouldn't go ahead because of all
24 the inadequacies that we've outlined in terms of the
25 separation process, in terms of accountability and
26 in terms of consultation with the whole
27 process - the Customer Service Committee and the
28 whole process.

29
30 So our view is the whole thing is inadequate.
31 They haven't dealt with the recommendations from the
32 previous IPART hearings adequately, in our view,
33 and, therefore, there should be a one-off increase
34 that is minimal and there should be a longer term
35 strategic planning process put in place of which we
36 are an integral part, which looks at a long term
37 pricing framework that has genuine consultation.

38
39 MR COX: On that point, I guess the thing that worries
40 me about the suggestion that we don't make a
41 decision this year, or make a minimal decision this
42 year, is that we may find ourselves in one year's
43 time no more advanced and basically having the same
44 sort of arguments, no real new evidence and really
45 being no better off having done the process twice at
46 great cost to everyone and really being no further
47 advanced. Do you want to comment on that?

48
49 MR MORGAN: I think that is a concern and, in fact, I
50 think you could argue - a lot of the regional
51 people, including myself, would argue that in fact
52 it's gone backwards in the last ten years.

53
54 The discussion about amalgamating all the water
55 accounts back into a state-based presentation, in
56 our view is totally the wrong way to go. But this
57 appears to me to be a political process and one over
58 which we have no control. So we have regional

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1 accounts on the Lachlan river ten years ago, and,
2 you know, those accounts were prepared, albeit late.
3 They were at least presented and we could see them.

4
5 Now we have the presentation of accounts in
6 March the following year, and we have been told that
7 we should not expect to get a valley by valley
8 analysis. I think that's a totally inadequate
9 response to what we, the customers, are asking and
10 there is no customer base on which you can say that
11 the customers are being satisfied in the process.

12
13 So I would acknowledge that we may still have a
14 problem in a year's time with the sort of
15 presentation of accounts that we want, but what you
16 will get through this process is the irrigator's
17 point of view about what we think should be able
18 to - as in the customers - the customers' response
19 as to what is required and that might be some basis
20 on which IPART can make also a determination. The
21 overall costs that are imposed upon us are a
22 reflection of what we see to be the inefficiencies
23 of the whole process that is in place at the moment;
24 so there may be a problem.

25
26 There may be a problem with that, but, from our
27 point of view, just putting a 20 per cent increase
28 on to irrigators because we cannot do any better and
29 we cannot see any better is not the right way to
30 attack it. It should be attacked from a far more
31 fundamental position, and that is our position.

32
33 MR COX: Thank you.

34
35 MR WILLIAMS: If I could very quickly add to that. I
36 think there is a genuine commitment to the process
37 over the next 12 months, and I can assure you that
38 we are committed to resolving some of those issues.
39 I am a fresh face and new to the job so I could
40 probably stand it for the next 10 years, but the
41 people that are here with me have been doing this
42 for the last 10 years and they are probably sick of
43 saying the same thing. So there is a genuine
44 commitment in identifying, as we have listed in our
45 submission, these issues of concern. If we can work
46 through these with a genuine outcome in mind, then I
47 think that we can be realistic about getting 12
48 months down the track and not going through this
49 process again.

50
51 PROF MUSGRAVE: Thanks for your contribution. In
52 relation to the socioeconomic work and the
53 assessment of impacts, first of all, I did not quite
54 follow the overhead about the gross margin,
55 particularly the first part. Is that in the
56 submission or can we get some information on that?

57
58 MR WILLIAMS: I actually have a subsequent submission

1 for that.

2

3 PROF MUSGRAVE: Thanks.

4

5 MR WILLIAMS: I am happy to go through it again.

6

7 PROF MUSGRAVE: No, thank you. I think if you can just
8 give it to us; it was just a bit fast for those who
9 are a bit aged. You referred to some guidelines
10 that had been produced in the department reform
11 process. I am not quite sure what those guidelines
12 are. Are they the guidelines produced by the
13 independent advisory committee on socioeconomic
14 analysis?

15

16 MR WILLIAMS: That's correct, which I think were
17 referred to in the previous IPART determination, and
18 we have included it as an attachment in our
19 submission.

20

21 PROF MUSGRAVE: Yes, they were attached. That does
22 raise some questions about the process as to how you
23 actually do that because those guidelines were
24 produced with the work of the River Management
25 Committees in mind and I think we are in a slightly
26 different context here. Have you got any comment?
27 Taking on board your comments on gross margins and
28 the weakness of that approach and then the other
29 comments that were made particularly in submissions
30 about the Department of Agriculture work, have you
31 got any advice on how we might go about this impact
32 assessment further and not just refer to those
33 guidelines only. I have some reservations about the
34 credibility of those guidelines

35

36 MR THOMPSON: I have a comment from an environmental
37 point of view that it is farmers being sustainable
38 and economically sustainable. We are looking at
39 putting in a water management plans where there is
40 enormous expenditure by farmers. If you want these
41 works to go on, that has to be part of the process
42 of evaluation.

43

44 PROF MUSGRAVE: That's a question of costs and who pays
45 and so on, and I agree that that is an issue, but
46 how do we go about informing ourselves about how the
47 20 per cent impacts on those who might be put in
48 difficulty and so on? It would seem that the
49 analysis that has been undertaken to date has left
50 us in a situation where we still have question
51 marks, and I ask this question in the context of a
52 recurring theme this year; that is, the cost of this
53 process and the costs of, say, going to a one-year
54 determination, the costs of corporatising State
55 Water, the costs of doing socioeconomic analysis
56 which is satisfactory. Now, what is satisfactory,
57 and how much money should we spend on this exercise?

58

1 MR THOMPSON: The point I was trying to make is you
2 cannot treat this as a separate exercise, but it is
3 a question of which straw is going to break the
4 camel's back. You have to look at it in totality,
5 the total concept of what irrigators are facing
6 at the moment, if you just put each one in
7 individually, you can justify it. If you put them
8 all together, you cannot.

9
10 MS WARD: Could I answer that. It makes more sense to
11 consider the capital tied up in a farm enterprise
12 and existing development and infrastructure when you
13 are trying to understand the impact of a price rise
14 rather than just a comment on what would be more
15 appropriate than a gross margin analysis.

16
17 PROF MUSGRAVE: Indeed.

18
19 MS WARD: And we would be happy to be working with the
20 Department of Agriculture or being proactive
21 basically to provide some quantifications of those
22 figures on a regional and an individual basis.

23
24 PROF MUSGRAVE: The offer is very generous. But could I
25 be just more explicit. It would seem to me that if
26 we are really going to get a hold on it, and if we
27 want to get a hold on it, that you have to go out
28 there and campaign. You have to do a survey of the
29 actual situation of farmers. That costs money and
30 also it imposes burdens on those farmers involved in
31 this. What's your feeling about this? Should we
32 spend money on that sort of thing in order to get
33 this superior information? You may wish to take
34 that on board.

35
36 MS WARD: I might just make one comment about the
DLWC's

37 approach on representative farms. I suppose if
38 irrigators were consulted in the construction of
39 what a representative farm looked like, you might be
40 able to minimise the costs of doing huge surveys.

41
42 PROF MUSGRAVE: Indeed. I understood that such
43 consultation had occurred and that the Department of
44 Agriculture --

45
46 MS WARD: All I can say, not being from the Peel, is
47 that I know that there was a breakdown in
48 communication in that valley and the irrigators, for
49 whatever reason, did not feel part of it. But we
50 are saying from this that there is an information
51 gap and the reason why there will be benefit in
52 delaying the determination is that we are wanting to
53 be proactive and work with the Department of
54 Agriculture to provide some useful figures rather
55 than what is on the table at the moment.

56
57 PROF MUSGRAVE: I think this will be discussed at
58 Armidale; so I think we might go into that a bit

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1 further there. But in relation to the one-year
2 delay, it would seem to me the virtue from your
3 point of view of getting a three-year price path is
4 that at least you are not going to get new costs or
5 new levels of costs, new categories of costs sprung
6 on you by DLWC within that three-year period.

7
8 If you go for the one-year determination, you
9 are in danger of being surprised again in 12 months
10 time. How do you think we should handle that
11 prospect of such surprise? Should we prepare
12 ourselves for such an eventuality?

13
14 MR WILLIAMS: I must say, in my limited time in this
15 role, I am not surprised by anything that I see that
16 comes up from the Department of Land and Water
17 Conservation. Put me up in front; I'll take the
18 bullets.

19
20 On a serious notes, I think we thought
21 obviously long and hard about pushing for a deferral
22 of that determination and we obviously have not
23 taken that decision lightly. We are aware of the
24 possibility of those sorts of things arising. I
25 think our argument would be that if we have this
26 strategic framework in place and that we can
27 actually work through each of these issues rather
28 than have to respond to a DLWC submission - we
29 actually can be in the room and working through the
30 figures - then those numbers that are put forward in
31 2002 we will at least be aware of. There will be
32 transparency. We will be able to argue logically in
33 terms of how we feel about those numbers.

34
35 I guess we are saying that far outweighs the
36 negative aspects you raised whereby we might see
37 additional costs brought in. I would like to think
38 that there would be a genuine commitment to the
39 process I alluded to before where we would have
40 allocations in terms of cost sharing, identification
41 of the dollars and the numbers, and that that should
42 happen on a valley by valley basis. It is simply
43 not happening now. So to be quite honest with you,
44 we see that as being more important than just
45 accepting what we have got now and moving forward.

46
47 PROF MUSGRAVE: So the reference to a strategic approach
48 actually refers to the process we will go through in
49 the development of the submissions that are put to
50 the Tribunal in 12 months time.

51
52 MR WILLIAMS: Definitely. That's correct.

53
54 PROF MUSGRAVE: It is not a strategic approach in the
55 sense of a set of principles for determining prices.

56
57 MR WILLIAMS: No. We envisage an interactive process
58 with stakeholders and the department through that,

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1 and IPART.

2

3 PROF MUSGRAVE: So it is a suggestion for attacking the
4 deficiencies that are perceived in the consulting
5 process in the past.

6

7 MR WILLIAMS: That's correct

8

9 MR MORGAN: Absolutely. There has not been enough time.
10 I noted Rob Marsh's comments about the consultation
11 process and what is adequate, but I do not think
12 there would be one single customer services
13 committee in this State that would say that they
14 have had adequate consultation. All I can say is
15 that if they think the consultation has been
16 adequate, the irrigators' view is exactly the
17 opposite. It is not only inadequate in terms of
18 information arriving too late. It is inadequate in
19 terms of what turns up in these documents that had
20 no consultative process.

21

22 When they say that you have been informed about
23 it, yes, you have been told, but you have not
24 actually got down to look at the numbers and find
25 out what is embodied in it. I hold a very strong
26 view that the whole efficiency process can be tied
27 back to the lack of consultation that goes back
28 right at the customer service level.

29

30 Those committees are only meeting four times a
31 year, which is inadequate in itself. What hope do
32 you have of trying to, in fact, deliver a service to
33 the customer? So the representation that you have
34 there is inadequate and the whole process is
35 inadequate. Our view is that anything that involves
36 a more consultative process over the next 12 months
37 has to be beneficial to us.

38

39 PROF MUSGRAVE: And who is the ringmaster of this
40 process?

41

42 MR MORGAN: I don't know whether you can crack the whip
43 initially to tell us to do it or whether the
44 department agrees to do it or whether the minister
45 will turn around and say, "No, I am not going to
46 wear it. I am very happy with the way things are."
47 So I don't know the answer to that - we don't.

48

49 PROF MUSGRAVE: We need a ringmaster. I think we need
50 one.

51

52 MR MORGAN: I think we do; I would agree with that.

53

54 PROF MUSGRAVE: Now, we have got in the past and we
55 continue to get conflicting comment on the relative
56 weight of fixed charge versus variable usage charge
57 in the prices that are set and this tends to come
58 from different parts of the State, I think

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1 reflecting the circumstances in the State. Has the

2 Irrigators Council got a position on this? If it is

3 not in the submission, which I cannot recall,

4 perhaps it would help if we got a unified statement

5 on that. Is that possible, Brad?

6

7 MR WILLIAMS: I am happy to take that on notice. Just

8 bear in mind that there are issues at a valley level

9 that need to be taken into account but we'll

10 certainly come back to you on that.

11

12 PROF MUSGRAVE: Indeed.

13

14 MR THOMPSON: One point that should be made is that

15 people see the price of water as a controlling

16 factor and the delivery costs will have very little

17 impact on that and should not be considered as a

18 reason for putting up prices.

19

20 PROF MUSGRAVE: Finally, the question of separation of

21 State Water. You heard the response of the

22 Department of Land and Water Conservation to my

23 question on that. It amounted to saying that they

24 doubted that the benefits of separation would exceed

25 the costs. Have you got a response to that now?

26

27 MR MORGAN: I would maintain that that has not been

28 substantiated. In addition to that, I think the

29 fact that the customers - which are all of us out

30 there - are being required to pay more and more of

31 it means that, in terms of accountability, we very

32 much desire the total separation of State Water. In

33 fact, we would prefer the model to move towards the

34 corporatisation thing which was rejected by

35 Rob Marsh.

36

37 The evidence in my view is very clear in the

38 separation of the areas and districts. As you know,

39 Warren, I am chairman of one of them, and I think

40 that any --

41

42 PROF MUSGRAVE: Privatisation?

43

44 MR MORGAN: Privatisation, yes. But corporatisation is

45 not privatisation. But if you are going to move

46 down that track, there are all sorts of regulations

47 and checks and balances that need to be put in place

48 which have been put in there for the privatised

49 corporations. But I think a great majority of

50 people would argue that we have substantially

51 changed the cost structures. By having control of

52 your own destiny, by having control of it, you have

53 also taken on the responsibility for the charges

54 which has happened in the corporations; so that

55 water charges have not necessarily gone down, but

56 they reflect more truly what is there and they don't

57 have components from outside over which you have no

58 control. So people at least know what they are

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1 paying for.

2

3 So, from the customer's point of view, the more
4 you bring together and amalgamate and centralise the
5 process, the further away from us it is and the less
6 we can see for it and the longer it seems to take to
7 come back to us to tell us what we are actually
8 paying for. So the view of the Irrigators Council,
9 and I think every valley in New South Wales, is very
10 strongly that not only should there be further
11 separation of State Water but this fudging, as we
12 see it, of the submission which has been put
13 together by DLWC demonstrates that State Water is
14 not totally separated from it. Our criticism is not
15 of State Water itself; it is of the process; it is
16 of the inadequacy of the separation process.

17

18 We also have the situation where the ring
19 fencing cost is only taking in some 60 to 70 per
20 cent of the cost and the other 30 per cent, or
21 something like that, is coming from the DLWC
22 component - more evidence that State Water is not
23 separated as it should be from the DLWC.

24

25 So we say that it should be separated in terms
26 of, as far as it possibly can be, if we have to stay
27 under the structure that we have at the moment, and
28 there is no evidence that we will not be. Our
29 desire is to move well away from that as well, but
30 that is the minimum position we would seek.
31 Further, we would far rather see more
32 decentralisation to valley control.

33

34 MS WARD: Could I just add something to that, referring
35 us back to CoAG's intent on separation, which was to
36 remove conflict of interest, and referring also to
37 Chris's comments about how he believes the existing
38 separation is delivering the benefits. I would ask
39 that you focus on Brad's comments about being
40 outcome focused on whether we think that separation
41 is sufficient. So the question is not as
42 Chris Guest would pose to corporatise or not to
43 corporatise but more: is the conflict of interest
44 removed?

45

46 I would hope that we could demonstrate that we
47 have not reached those outcomes that would flow from
48 the removal of conflict of interest in terms of
49 whether DLWC costs are being passed through to State
50 Water and whether these are appropriate.

51

52 MR WILLIAMS: Just very quickly on that, I think the
53 important point is that we focus on a model, if you
54 like, that actually delivers on those outcomes. We
55 are not at the point now saying it has to happen.
56 We are happy to put the work in to actually put an
57 appropriate model on the table to deliver those
58 outcomes; so that is part of that 12-month time

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1 frame

2

3 PROF MUSGRAVE: You seem to be suggesting that the
board

4 of such an independent entity have significant
5 representation from the CSCs; is that right?

6

7 MR WILLIAMS: I think what we are suggesting is, as I a
8 alluded to before, we do not have a preferred model,
9 we don't have a preferred make-up of the board, but
10 whatever that board will look like and the model
11 that that will deliver on those outcomes, I think we
12 should keep it at that level at this stage.

13

14 MS WARD: And talk to State Water about that.

15

16 MR WILLIAMS: Yes, that is right.

17

18 PROF MUSGRAVE: Thanks very much.

19

20 THE CHAIRMAN: Thank you very much indeed. We will
take

21 a break and we will resume at 11.20.

22

23 (Short adjournment)

24

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1 COMBINED ENVIRONMENTAL GROUPS

2
3 OVERHEAD: BULK WATER PRICING 2001-4

4
5 THE CHAIRMAN: I am not sure if a "coalition" is the
6 correct word, but we have a consortium or a cartel
7 of the environment groups. If you could identify
8 yourselves for the record and perhaps indicate for
9 the record which groups you are representing today,
10 and thank you for your submission.

11
12 MR MOSS: I am Warwick Moss from the World Wide Fund
for
13 Nature.

14
15 DR BLANCH: I am Stewart Blanch from the Australian
16 Conservation Foundation.

17
18 MR MOSS: Our submission was put in jointly by the World
19 Wide Fund for Nature, the Australian Conservation
20 Foundation, the Nature Conservation Council of NSW
21 and the Inland Rivers Network. I was proposing that
22 I would prefer to talk to my overheads from over
23 there, if I can speak loud enough for the record.

24
25 OVERHEAD: OVERALL OBJECTIVES

26
27 The purpose of this submission is not to
28 reiterate every point, of course, in our written
29 submission, but to bring out some of the key issues
30 which have been raised today that expand on the
31 submission.

32
33 However, to start it off, I thought it was
34 important to outline why the environment groups are
35 so interested in this process, just to reiterate our
36 main objectives. Then I will try and provide a very
37 concise summary of what our submission actually said
38 so then we can move on to some of the other issues.

39
40 The overall objectives would be no surprise to
41 you. We're looking for long-term ecological social
42 and economic health of river systems. And, in
43 particular, focusing on conservation by diversity.

44
45 We are looking for water reforms as a whole to
46 provide positive benefits to the environment. So we
47 are not just talking even maintaining levels of
48 existing, say, degradation; we're seeking to ensure
49 that expenditures by all agencies on resource
50 management are sufficient to actually meet the task
51 at hand.

52
53 In particular, then coming now to this process,
54 we're looking for water prices to incorporate
55 environmental as well as economic costs to
56 appropriately signal the efficient use and
57 distribution of water.

58
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1 A comment was made earlier or in other
2 submissions that the level of water prices through
3 this charging mechanism is too low to stimulate what
4 is efficiency. That is actually a key part of our
5 submission. We fundamentally disagree with that
6 point and we think that this process really must
7 look at what kinds of signalling and incentives it
8 does provide.

9
10 OVERHEAD: TOTAL COST COMPARISONS

11
12 To summarise our submission as briefly as
13 possible, this graph explains the overall
14 perspective, in our submission. The left part here
15 is looking at DLWC costs. The left bar is the total
16 cost which is 104 million at the end of this price
17 path.

18
19 In the combined environment group submission we
20 are saying there are total costs which are left out
21 of the process which should be included, which would
22 bring it up to this bar of about 136m, on the left
23 of the CEG chart. So part of our submission is
24 concerned about the total size of the cost pie, if
25 you like.

26
27 The middle graph here is the amount that is
28 passed on to water users by the DLWC submission,
29 which are here at roughly 65 million. In the
30 combined environment group submission we're saying
31 that those shares should be increased. I will
32 discuss this in more detail, but again it comes down
33 to this beneficiary and impactor pays principle
34 which we think needs to be re-established.

35
36 OVERHEAD: COST COMPARISONS

37
38 Then you can see what happened to the
39 government share. In our version, the DLWC
40 Government share is slightly higher than would be
41 under the combined environment group shares. To
42 break that down further, our submission went into
43 great detail describing that.

44
45 This graph is, again, just combining. What we
46 have here is a total DLWC on the left and the total
47 combined environment group on the right. For the
48 purposes of our submission we are leaving the
49 operating side alone. We are agreeing with DLWC's
50 figures. We agree that efficiency is required in
51 the use of assets and we are not at all debating
52 whether an efficiency cost application should be
53 applied to the operating costs of the assets.

54
55 So you will see that the DLWC total operating
56 costs and the share is the same as the combined
57 environment groups'. Where we now differ - and this
58 is the whole reason to discuss - is in terms of the
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1 resource management costs. We are still saying in
2 terms of interest costs that there should be some
3 recognition of the value of these assets that have
4 been put in over time.

5
6 So it raises the debate again about the line in
7 the sand from 1997. This comes up more in question
8 time. I don't want to focus too much on that
9 interest component. The crux is really, again, this
10 resource management issues.

11
12 Just to explain this here, again, this left
13 chart here is saying that the resource management
14 costs determined in total by IPART on the left here,
15 and what is passed on to users is that second bar.
16 In our combined environment group submission we are
17 saying the total should be higher and what is passed
18 on should be higher. I will return to that line in
19 a second. It is critical for discussion.

20
21 So that provides a summary, really, of what our
22 entire submission is all about. Just so you know
23 where I'm going in the next few minutes, this is an
24 outline of what I want to cover here. I want to
25 talk about total costs in terms of the size of that
26 pie, if you like, and why we think the costs are not
27 high enough.

28
29 OVERHEAD: OUTLINE
30

31 Of course, then bringing in that we want to
32 make those total costs sufficient, but we're saying
33 what should be in efficiently is not high enough.
34 We then need to discuss allocations to users. I
35 then want to make a couple of points about
36 structural adjustment and the whole price path.
37 There is a significant debate about whether it
38 should be one year, three years or so forth.
39 Stewart will also pick up on a lot of detailed
40 points on what I cover.

41
42 There may be a few too many words on this, but
43 I will talk you through it. That's the wrong title.
44 I mean here "total costs" - total resource
45 management costs and total costs here. Our
46 assertion described in our submission is that the
47 current annuities for provision of asset maintenance
48 and refurbishment are not sufficient to meet the
49 environmental needs. In particular, we're talking
50 about mitigating thermal pollution, which is a
51 subject of the workshop that Dick Thompson referred
52 to before in Albury earlier this week.

53
54 OVERHEAD: RESOURCE MANAGEMENT COSTS
55

56 Provision of fish passages and the delivery of
57 environmental flows. So in that last case, it may
58 be that the valley capacity of certain structures is

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1 not sufficient to be able to allow the appropriate
2 overflow, and some modifications are needed.
3 Stewart will give more details later, but our
4 assertion is that that would raise the total cost
5 amount, if you brought those into account.

6
7 The statement was made before that it was
8 outrageous that resource management costs from other
9 agencies were being included and that the Fisheries,
10 for example, has put a submission in. Our view
11 probably predictably is the complete opposite. We
12 think it outrageous that these costs are not
13 included. The reason is that water management
14 charges need to reflect water management costs in a
15 full cost recovery framework.

16
17 It is almost an accident of history and
18 government that a lot of water management costs are
19 separated into different regulatory agencies. The
20 easiest way to see if all the regulatory agents were
21 in one body, all of those costs would easily be able
22 to be passed on. We are saying the cost of other
23 agencies in water management must be recorded in
24 this process. Our next issue, of course, is whether
25 that should be passed on in terms of user share, but
26 the fact is the cost must be recognised.

27
28 We agree totally with the comments made earlier
29 about the benchmarking process. I think Abel
30 mentioned that and so did Brad Williams. We think
31 there is a complete lack of transparency, certainly
32 in natural resource management activities, in terms
33 of our performance measurements.

34
35 We think that where the approach to applying an
36 efficiency cost of a 20 or 30 per cent reduction in
37 operating costs might be valid for asset management,
38 we contend it's completely inappropriate at the
39 moment for natural resource management costs. The
40 reason for that might simply be that natural
41 resource management objectives are not being met
42 because there may only be one person under-resourced
43 in a back room in some small department office
44 trying to do something that requires five, six,
45 seven people perhaps.

46
47 So cutting that one person's costs down by
48 20 per cent is not going to get you your answer.
49 Multiplying it by five or six might be the answer.
50 So, again, we're not saying that resource should be
51 applied inefficiently, but the fact is we need a
52 performance measure which tells us whether we can
53 actually achieve our natural resource objectives and
54 whether it's being done sufficiently.

55
56 OVERHEAD: RESOURCE MANAGEMENT COSTS
57

58 Further from that, one way that think that this

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1 might be possible, is that I think it should be
2 recognised that the total asset management plan of
3 State Water is a massive improvement on previous
4 years, and the reason we think that that has worked
5 so well is that IPART made it a requirement that
6 they did so before any future costs should be passed
7 on.

8
9 Our hope would be that IPART would consider
10 applying a sufficient level of information
11 transparency, rigor, accountability, however you'd
12 like to call it, for the natural resource management
13 side of the equation. We think that process has
14 narrowly focused in on the assets only and we really
15 need something sufficiently rigorous on the natural
16 resource management side. But we fully support that
17 method.

18
19 Unless you want to ask me about this later I
20 might just gloss over this a little bit. The very
21 important issue now in terms of maintenance and
22 refurbishment of assets is what level of service is
23 it that you are actually maintaining and
24 refurbishing. If you're talking about the quantity
25 of water that's being provided, you may provide for
26 maintaining and refurbishing a certain amount.

27
28 If you're now saying that in the past that
29 asset was actually degrading natural environments,
30 your provision of maintenance and refurbishment must
31 take that into account in saying that you're meeting
32 the same level of service in terms of water amounts.

33
34 My understanding is IPART have been open to
35 this view before, but I don't see within the
36 submission by DLWC that this has been properly
37 addressed. Just to give that an example, let's say
38 if you had to put aside 10 per cent maintenance on a
39 particular asset to provide 10,000 megalitres of
40 water, but that provision was causing damage in the
41 past. It may be that now you have to put aside
42 15 per cent to make sure that you provide the same
43 level of water and not cause the same damage.
44 So I'm saying I haven't seen those provisions in the
45 DLWC's submission.

46
47 So just to close off that little section, I'm
48 saying that if you look at all of those discussion
49 points, you would be able to add additional costs
50 and natural resource management cost to the total
51 cost being charged.

52
53 OVERHEAD: USER SHARES

54
55 I now move to talk about user shares. The crux
56 of the matter here is we feel that the beneficiary
57 pays/impactor pays debate is unfortunately not
58 finished, and I think Chris said today a bit of a
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1 concern that the principles of pricing are still
2 open. We consider that they are and they are not
3 tablets in stone.

4
5 OVERHEAD: COST COMPARISONS

6
7 We would like to put forward our interpretation
8 of the beneficiary pays impactor pays argue. To do
9 that I will just quickly go back to this table and
10 talk about this line. One of the problems that I
11 think we all acknowledge in natural resource
12 management is that the actual performance standards
13 for assets, especially assets that were put in in
14 the past, do not adequately specify who is
15 responsible for mitigating degradation.

16
17 There has definitely been a shift of standards
18 over time, but we feel that this line, which is
19 represented by our interpretation of the cost shares
20 which is applied on an impactor pays basis, reflects
21 that providing water management services entails an
22 implied and explicit duty - so in other words some
23 of that is actually in legislation and some of it is
24 problems that are known about - which should not be
25 incurred by those assets.

26
27 We're saying that existing assets should not be
28 polluting or damaging. We knew they should not be
29 damaging in the past. What started off in some ways
30 has become tighter in recent years, but certainly
31 over a ten year period at least it's been known that
32 these negative impacts of existing water
33 infrastructure should not be occurring.

34
35 Our interpretation of the user shares that
36 we've put in our submission, puts a line at the top
37 here by saying this is what we think water users now
38 in the water management framework should acknowledge
39 are costs of managing the system.

40
41 So costs of managing the system should be
42 managed by the businesses involved in the system.
43 That is an impactor pays argument. Where you start
44 to turn it to a beneficiary pays argument is if you
45 say those standards are not sufficient and we need
46 to change those standards.

47
48 If we want to raise the bar above that, we now
49 need to start talking beneficiary pays. I don't
50 think I'll say anything more about that. I'll rely
51 on questions if I've not said that clearly enough.

52
53 The last point I'd make on that is that we
54 consider the way forward in terms of cost share and
55 the debate between beneficiary pays and user pays is
56 not to look at whether the current user is an
57 irrigator or a recreational boat user on a dam, the
58 issue comes down to if all those water users are
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1 paying on an impactor pays basis, the question if we
2 need to raise standards what is the community
3 getting for its input?

4
5 OVERHEAD: STRUCTURAL ADJUSTMENT

6
7 In terms of structural adjustment, we think
8 that structural adjustment needs to be achieved
9 outside this pricing process. The understanding is
10 that prices are being kept below full cost recovery
11 to avoid undue impact on water users. We think that
12 there are sufficient processes elsewhere in terms of
13 structural adjustment packages, water efficiency
14 schemes, land and water plans for those people
15 involved in that system, and other rural assistance
16 schemes to deal with structural adjustment issues
17 that come out of pricing.

18
19 We think that one of the reasons why there are
20 a number of people who would struggle in dealing
21 with the increase in prices is that those people are
22 probably doing what they are doing because of the
23 low prices. So it's unfortunate that some of those
24 people may need to be recipients to structural
25 adjustment funding in other ways, but we don't see
26 keeping prices down as an appropriate way of dealing
27 with that.

28
29 We think pricing should be a tool for getting
30 structural adjustment right - i.e stimulating it
31 through the proper incentives. We also think that
32 that would focus and attention - it would require
33 focus on the other structural adjustment mechanisms
34 to ensure that they are, in fact, transparent,
35 efficient and achieving the outcomes required of
36 them.

37
38 OVERHEAD: PRICE PATH

39
40 Just very quickly - because the price path has
41 been mentioned several times - one thing we think
42 that's missing in the price path is that we would
43 like to see first of all a price path which took us
44 to full cost recovery. We see nothing special about
45 three years. If it takes five, ten years or one
46 year to get there, we think that should at least be
47 on the table if we're talking about people where
48 we're heading in the future. Ideally we think a
49 price path should be used to allow a transition from
50 a more inefficient situation to a more efficient
51 one.

52
53 So we don't think that the full range of
54 efficient outcomes for water management are on the
55 table. We think that CoAG as a whole is probably
56 getting there, but the pricing process needs to
57 become one where externalities are properly factored
58 in.

1
2 Ultimately, you probably need some auction
3 mechanism or other mechanism where demand and supply
4 are brought to bear and we think that a price path
5 should be seen as signalling that those mechanisms
6 are coming in place to assist people adjust.

7
8 So for quite different reasons to the previous
9 irrigators council submission, we are very cautious
10 about a three-year price path at this stage, mainly
11 because we think that there are significant changes
12 due to the implementation of the Water Management
13 Act and other events in terms of thermal pollution,
14 environmental flows, which are going to lead to
15 asset changes.

16
17 We are very worried that those costs will be
18 missed out through the three-year price path process
19 and therefore they won't be able to be
20 retrospectively included at a later stage. I think
21 at that point I might stop and let Stewart --

22
23 THE CHAIRMAN: Just be mindful of the time.

24
25 DR BLANCH: We think whilst that State Water's input
26 into the submission has been a great improvement
27 over previous years, we think the natural resource
28 management side of the department has been quite
29 lazy in that it's adopted the same user cost shares
30 handed down in '98 without really questioning them.
31 I will get to that in a moment.

32
33 I would just like to read from the New South
34 Wales Environment Report from this year. The
35 conclusions are that fresh water rivers in New South
36 Wales may be the most degraded ecosystems in large
37 part due to the impact of river regulation by dams
38 and weirs.

39
40 Alongside that, the Fishery Scientific
41 Committee has now, I think six, maybe seven species
42 listed as threatened throughout the State with the
43 Murray and Murrumbidgee rivers in the process of
44 being potentially listed as an endangered community.

45
46 This just goes to point out that the department
47 is not spending enough money and resources and
48 programs in addressing river rehabilitation. The
49 issue of the cost shares arising from that is a
50 separate issue. We do not think the department has
51 put nearly enough effort into the submission and
52 that reflects its under-resourcing of this resource
53 management role, particularly in our rivers.

54
55 Secondly, user cost shares: I would agree with
56 Warren that it is about time we smashed the tablets
57 of stone and previous determinations. If you got a
58 staff and beard and dressed up in camel hair and

1 threw them off the top of the QVB, I think there
2 would be a lot of support for that, though maybe for
3 different reasons.

4
5 It really is very disturbing when you examine
6 what the department has put down as its preferred
7 cost share. It is basically the same as in 1998. I
8 will take two examples where the department offers
9 very strong reasons why there should be a higher
10 cost share for more users and then fails to increase
11 the cost share. For water management planning and
12 implementation, the department has recommended
13 50 per cent cost share; the Combined Conservation
14 Groups recommend 90 per cent. The department says
15 that:

16
17 Environmental flow planning is only
18 required because of the impacts of water
19 extraction and river regulation.

20
21 I would not wholly agree that it is only to do with
22 river regulation but it largely is, and you have to
23 ask the question why has the department still
24 adopted a 50 per cent cost share? You cannot argue
25 that rationally. You can say the same things for
26 surplus water allocation strategies and I also think
27 wetland strategies.

28
29 I believe Able Immaraj brought it out well. He
30 said there was ample evidence for looking at
31 changing the cost shares. I think I have quoted
32 him correctly on that. I think that goes to the
33 point if State Water agrees with that, why haven't
34 they improved their input into cost shares in the
35 submission?

36
37 Public consultation: If the water users feel
38 they were not consulted adequately on that price
39 path submission by the department, we were not
40 consulted once at all. We have quite useful but
41 irregular meetings with State Water on TAMP issues
42 but we certainly were not consulted on price path
43 determination. I think that goes against their
44 submission where, in section 5, they indicate that
45 environment, local government, recreational anglers
46 and so forth are customers. Just because we are not
47 represented on the customer service committee does
48 not mean we should not be consulted on that point.

49
50 Thermal pollution: The state of the
51 environment report says that there are 17 dams which
52 release water colder than 2 degrees Celsius which,
53 is the protection of the environment regulation
54 trigger for looking at a regulatory approach to cold
55 water. I think probably maybe a dozen large dams
56 are a real problem in the State; yet the relevant
57 plan has not included any costs for new structures
58 before about 2004, which is for Keepit, which is

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1 tied up with your upgrade for OH&S.

2
3 As far as I can understand it - it is difficult
4 to gather from the submission - there will be around
5 \$5m to \$7m of expenditure over the next seven years
6 for scoping studies and minor and major
7 modifications of existing structures which do not
8 work or do not work adequately. That is good. It
9 is an improvement on last year.

10
11 We had a DPWS report in 1996 and a report in
12 May last year providing, I think, sufficient detail
13 on what the options are in terms of engineering to
14 address cold water pollution, and they have not been
15 included in the TAMP.

16
17 We understand that Cabinet may soon be looking
18 at a \$3.5m proposal to produce a prototype cold
19 water pollution mitigation device on Burrendong. It
20 is intending to include that within its costings.

21
22 For fishways the State Weir Review Committee
23 has nearly finished its assessment. Around perhaps
24 \$20m worth of State Water owned structures will need
25 fish weirs added or removal for the next five years;
26 yet none of those costs are included within the
27 TAMP. Certainly they have not been signed off yet,
28 but it goes to the point about if we had a 12-month
29 price determination now, hopefully - as well as with
30 cold water pollution - the information would be
31 better known this time next year and it could be
32 included.

33
34 We do welcome the increase in user cost share
35 compliance from zero to 50 per cent. We would argue
36 that 75 per cent better reflects the benefits to
37 irrigators in terms of the use of dams and weirs for
38 delivering water and, in the broader scope, the
39 benefits to society.

40
41 I will not say much about institutional
42 separation other than we have addressed it in our
43 submission, but we would support the potential
44 corporatisation of State Water. Certainly a lot of
45 details need to be worked out and we have met with
46 some people to discuss that. We think we need a
47 process to go through. We are keen to commit to
48 that.

49
50 Finally, we think that other natural resource
51 management agencies such as Fisheries and EPA do
52 have a legitimate role in claiming some of their
53 costs incurred from water users. They in fact have
54 a more legitimate role in river management in some
55 areas than does the DLWC.

56
57 THE CHAIRMAN: Thank you very much for that and
thanks

58 for your submission. Again, the workshops will

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1 spend a bit more time on the very thorny issue of
2 cost sharing, and it is a very thorny issue.

3
4 There are a couple of areas where I hear a
5 degree of consensus between the various groups.
6 There seems to be acceptance or recognition that
7 there are certainly costs of managing the system
8 that need to be incurred and there seems to be
9 agreement that they should be efficient costs
10 without inappropriate duplication by various
11 providers of the services.

12
13 Then we get down to who should pay, which is
14 perhaps the greatest issue between the environment
15 groups and the Irrigators Council. One issue - if
16 only superficially, and perhaps there's more to it
17 than superficially - is the point about mistakes of
18 the past. We heard from the previous group, leaving
19 aside some of the other things where there is
20 disagreement on allocation or the sharing, that this
21 proposition that mistakes of the past really should
22 be recognised, but not necessarily borne by one
23 group such as the irrigators but should be picked up
24 by the community.

25
26 How does the beneficiary/user argument that you
27 put forward deal with this mistakes of the past
28 point?

29
30 MR MOSS: We felt, through our submissions, that there
31 has not been appropriate recognition of the level of
32 assets that have been put in place over time. We do
33 recognise that the environmental problems also
34 associated with those assets were not also
35 recognised at that time. The question is, of
36 course, how you separate a past environmental impact
37 from a current one. In many cases we are asserting
38 there is, of course, a cumulative impact from past
39 assets; however, much degradation is actually
40 current as well in terms of, say, lack of access of
41 water to key wetland sites, or what have you, and
42 many of these sites would benefit enormously from
43 the change in practice now.

44
45 So in saying that we understand why people
46 would want to clear those assets off the slate, if
47 you like, we still feel in doing that there is not
48 adequate public recognition of the level of assets
49 that have actually been put in place, and that if
50 those assets were put in place in other ways, there
51 would have been adequate return to society.

52
53 The way we have dealt with that is if you are
54 going to write your line in the sand and then write
55 those off, we need to do two things: we need some
56 kind of public recognition of that previous mistake
57 which is either a writedown of the assets to reflect
58 what they actually should be, which would be an

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1 abnormal loss for that year for the State.

2
3 Another way of doing that, as we have proposed,
4 is to at least recover interest costs, as we have
5 said, as an imputed interest cost based on what that
6 would have needed to have been if you debt-funded
7 those assets - we are not saying that but just if
8 you did that - which is about a quarter of what the
9 amount would be if you tried to get a rate of return
10 on those assets. So you are recognising again that
11 they are passed or sunk as discussed.

12
13 I think if you do that, then it is true you can
14 start to move forward from there. The point I
15 wanted to say before about moving forward is I still
16 think you need impactor pays to deal with what the
17 degradation is today; then, as Dick Thompson said,
18 we have to say, "Right, what do we need to do from
19 here? Let us look now at the new costs that we need
20 to get enhancement, not just stop degradation."

21
22 But if we really want the community to start
23 paying above and beyond what they see is already
24 proper management, they need to get something for it
25 as well. It is not just irrigators being clear that
26 they are getting benefits. Where is the public
27 benefit from this public share? We don't see it
28 clearly.

29
30 THE CHAIRMAN: That helps me. It is still a thorny
31 issue, but it helps me understand.

32
33 MR COX: I guess in many ways, the operative factor in
34 the department's proposal is the 20 per cent limit
35 on price increases faced by any particular
36 individual group of users. What are your comments
37 on whether you think that is a good idea and how you
38 think we should approach the issue of phasing in
39 whatever level of increases we decide are
40 appropriate?

41
42 MR MOSS: We made a comment in our submission that that
43 20 per cent figure was completely a mystery to us.
44 What I'm saying clearly is I don't know if it should
45 be 20 per cent, 1 per cent or 400 per cent. I
46 don't really understand where that 20 per cent came
47 from.

48
49 I think it was discussed earlier that it was an
50 arbitrary figure. It was one that was felt to be
51 something that people could deal with. Our
52 criticism of it was the 20 per cent doesn't get us
53 to full cost recovery. Under the national
54 competition policy requirements, the idea is you
55 either get to full cost recovery or you put a price
56 path on the table that will get you there. So we
57 were thinking the 20 per cent doesn't get us there
58 so therefore the 20 per cent is not useful.

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1
2 Our other concern was that the 20 per cent
3 didn't seem to be very equitable across the
4 different valleys. In the Murrumbidgee, for
5 example, is one we focused on, where it does get to
6 full cost recovery in the regulated rivers over
7 three years, but to do that they only need to raise
8 the prices by about 7 per cent.
9
10 If you then do a comparison of those prices,
11 we'd say some other valleys are relatively low. So
12 our concern was the idea to get the full cost
13 recovery over the three years or not? In other
14 words, you could have got the full cost recovery in
15 the Murrumbidgee in one year if you'd applied a
16 20 per cent rule.
17
18 So our main concern was we don't understand
19 this figure. We don't know if it should be higher
20 or lower. In effect, it probably agrees then with
21 the Irrigators Council which is the socioeconomic
22 assessments are probably not valid in that they
23 don't clearly explain what the impacts will be and
24 why an appropriate full cost charge cannot be passed
25 on.
26
27 MR COX: I think probably what the department would say
28 is that they'd like to see some phasing in of
29 whatever increase are determined to help people
30 adjust to them. Is that a principle you would
31 support?
32
33 MR MOSS: As I said before, I would like to see it
34 combined with a clear description of actually where
35 we're headed, and I would prefer that description to
36 ensure that we got to a more efficient outcome. So
37 I think a lot of the difficulty in here is we talk
38 about efficiency in terms of we want to make sure we
39 don't waste money when we spend money, but that's
40 different to say we want water management to be
41 efficient. That needs demand and supply
42 considerations, et cetera.
43
44 So I would very much support a price path.
45 This may be on a limb in this combined environment
46 group session in saying this, but I would be happier
47 with a longer price path if I knew that at the end
48 of it we were going to have the improvement. I
49 don't see this in this three-year path. .
50
51 MR COX: Thank you for that. That's helpful. I guess,
52 like Tom, I'm still wrestling with the cost share
53 issue. You seem to be saying, if I understand you
54 correctly, that for the existing impacts, however,
55 should be an impacter pays basis, but for any future
56 change to the standards they should be on a
57 beneficiary pays; is that correct? .
58
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1 MR MOSS: Yes, with qualification. In terms of existing
2 degradation, I agree there is an issue about how
3 much the community standards have changed. So I
4 agree there is a little bit of - we definitely do
5 recognise the argument that some people put forward
6 that standards have changed relatively recently and
7 we've got to bear with this cost, therefore it
8 shouldn't be impacter pays.
9
10 My argument is there is a little bit of room to
11 move but the fact is those signals have been on the
12 table for still a long time, certainly pre-1990.
13 So, yes, impactor pays should predominantly apply on
14 existing degradation.
15
16 Then in future degradation, again, it's a
17 combination of the principles. So I'm saying the
18 qualification is I don't think it should be
19 beneficiaries only. But it should be, like Dick
20 Thompson says, work out what is now needed. That
21 determines then a level of cost. Then you say
22 right, this is not affordable by one sector of the
23 community. If we now invest in that activity, who
24 gets what and let's make sure that when we share it
25 out, that the people who pay get what they've paid
26 for.
27
28 The reason I make this point is I think there
29 is a concern in focussing on irrigators rights - in
30 particular what are user's rights generally - that
31 the communities' rights get a bit lost in that.
32
33 I draw your attention to a paper I put in the
34 submission, which is a little tangential focusing on
35 the New Zealand fisheries case on their tradeable
36 quota system. Once those rights were locked in,
37 community rights, say, from the Maori fishery people
38 and the broader community declined, while fishers'
39 rights rose. It led to all sort of factors like
40 loss of monitoring, cutting in research, cutting in
41 important management activities because it was seen
42 that if the right holders are paying for it and they
43 are not benefitting, it shouldn't get done. So it is
44 in that sense that I think there is a sharing
45 principle on the extra - on the change.
46
47 MR COX: I guess like Tom I still struggle with the
48 legacy of the past. You probably know much more
49 about it than I do, but it seems to me the
50 environmental problems we're dealing with are not
51 ones that have occurred in the past years - the ones
52 related to economic activity ever since there has
53 been European settlement in Australia.
54
55 MR MOSS: I agree with that.
56
57 MR COX: How then do we sum up from the point of view of
58 fairness, to take account of that and move it into
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1 cost shares? I guess that's the thing I really do
2 struggle with in this area.
3
4 MR MOSS: I think there is a different way you can look
5 at it, though, which is that even though those
6 problems may have been in existence, the expectation
7 that those problems wouldn't occur was also in
8 existence. So it may not have been an illegal
9 property right but there was certainly - the thermal
10 pollution example is a good one, I think, where it
11 is not saying in the last year we've discovered
12 thermal pollution is a problem.
13
14 We heard a case study at the recent thermal
15 pollution workshop saying when they designed
16 Dartmouth Dam in 1974, thermal pollution was
17 identified to reduce by causing environmental
18 problems. It was recognised something needed to be
19 done about it. Twenty-seven years later nothing
20 still has been done.
21
22 I am saying that there is an implied
23 recognition that environmental degradation should
24 not have occurred. So I think that leans us still
25 towards an impactor pays principle largely, not
26 entirely, in dealing with past assets.
27
28 The other thing is by not requiring a rate of
29 return on those assets, water users are getting in
30 effect a double benefit. They are not being
31 required to pay for the degradation, but they are
32 also not being required to pay for a rate of return
33 on those assets. It's a very big benefit.
34
35 MR COX: I would accept that mistakes were made back in
36 1974, whenever it was. I think that's clear. But
37 what you seem to be arguing is that existing of
38 future users of water should pay for the very
39 necessary fixing up of those problems, whereas, in
40 fact, if there was any blame to be allocated it
41 should have been allocated to people making
42 decisions back in 1974, and people that use water
43 between 1974 and 2001?
44
45 MR MOSS: Agreed.
46
47 MR COX: It troubles me a lot.
48
49 MR MOSS: Like I said, my fall-back position on that
50 would be public acknowledgment of that mistake and
51 let's get rid of it.
52
53 Current degradation certainly then locking in
54 your property rights and existing impactor pays
55 principle apply, and then if the community says
56 "This is still not good enough", we've managed to
57 stop degradation that way but now we actually have
58 to enhance environmental condition, then let's do a
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1 cost sharing arrange the based on the mix.
2
3 MR COX: Finally from me, just to make sure I understand
4 the additional costs you want to be brought to the
5 table. There are some from other departments, I
6 think we understand those, and there are some also
7 from the DLWC. I am not quite I understand what
8 those are that you wish to put into the pot. Can
9 you just explain what they are?
10
11 DR BLANCH: We include some case studies from the Murray
12 and the Murrumbidgee where we analyse what was
13 required to manage the river as in according to
14 modern legislative policy and public expectations.
15 I can't quite remember the - it was only \$2m extra
16 per valley.
17
18 Number 2 deals with staff in each of the
19 regions, looks at weir manipulation and work with
20 landholders, State Water, work with irrigators, re
21 snagging of rivers. We got costings from Victoria
22 and we looked at New South Wales Fisheries employing
23 fish recovery planning experts.
24
25 THE CHAIRMAN: That's all in the submission.
26
27 DR BLANCH: And the \$2m extra per annum, over a
28 certain period, I don't consider extraordinary, but
29 it only took us a day or two to ring around and talk
30 to the scientists and the managers within those
31 agencies as to what really needs to be done. There
32 really just isn't enough staff on the ground, even
33 here in Bridge Street or Parramatta, for the
34 department to adequately fulfil its business. I
35 think we could find some examples across all the
36 rivers.
37
38 MR MOSS: Can I just add to that, the reason why we
39 included that in our submission is we were trying to
40 highlight that even in some areas where it appears
41 that the charges are at full cost recovery, if you
42 take into account some estimates of the
43 environmental requirements still in those valleys
44 you can see it does fall short.
45
46 We only estimated two valleys, so there were
47 the other valleys, at least seven, depending on the
48 way it was broken down, where we didn't estimate
49 those costs. So that would raise it further.
50
51 PROF MUSGRAVE: You did refer to structural adjustment,
52 and did advance principles, but they were fairly
53 general. Have you got any more substantial detailed
54 suggestions in relation to adjustment policy?
55
56 You are envisaging a cost regime which is
57 higher than that proposed by DLWC and the extent of
58 the social impacts are undesirable and yours were
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1 greater - so the structure problems would be
2 greater. Have you given any detailed thought to
3 structural adjustment policy, perhaps how it might
4 be improved?

5
6 MR MOSS: Yes. I don't know, it might be something we
7 could also take on notice and expand upon, given the
8 time constraints, but my answer now would be that if
9 you look at the broader water reform process, where
10 we're looking at water trading being a very
11 significant part of facilitating a structural
12 adjustment to higher valley users, our argument is
13 probably again similar to the irrigators, that we
14 would like to see that worked through more at a
15 pace, as long as the environmental requirements
16 could be properly managed.

17
18 So one way of dealing with that is perhaps if
19 you saw keeping prices artificially bellow full
20 cost, on the expectation that those other mechanisms
21 would kick in and after that it would be full cost,
22 that could be one way of moving it forward. The
23 danger, of course, is if those things don't actually
24 come into place.

25
26 Actually, I don't think you have to worry too
27 much about those other mechanisms in the sense that
28 I think that the key thing that this process can do
29 is say, as much as possible, what the proper price
30 is. If that, therefore, leads to adjustment and the
31 current adjustment mechanisms that I referred to
32 before aren't right, then there will be pressure to
33 make sure that there is one in place, or there is
34 some assistance.

35
36 Perhaps another way forward would be to look at
37 whether the amount currently allocated to deal with
38 adjustment through the tranche payments is
39 sufficient, and whether IPART could recommend that
40 in getting to full cost recovery, they are expecting
41 we may need some more tranche money to actually
42 facilitate the adjustment.

43
44 THE CHAIRMAN: Thank you very much indeed.

45
46
47
48
49
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52
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55
56
57
58

1 COASTAL VALLEYS CUSTOMER SERVICE COMMITTEE
2
3

4 THE CHAIRMAN: We now have the Coastal Valleys Customer
5 Service Committee. Thank you very much for coming,
6 if you could identify yourselves for the record and
7 briefly talk to the submission that we do have and
8 we will take it from there.

9
10 MR DOYLE: Bob Doyle, Chairman of the Coastal Valleys
11 Customer Service Committee.

12
13 MR BURNS: Arthur Burns, member of the Coastal Valleys
14 Customer Service Committee and Chairman of the
15 Hunter Valley Water Users Association.

16
17 MR DOYLE: This presentation just summarises our
18 submission and the key points we want to make. Our
19 submission represents a collective view of a diverse
20 representation of consumptive users, so it includes
21 irrigators, riparian and groundwater but also a lot
22 of other users, town water and industry.

23
24 Understandably, there are some issues where
25 members of our committee have differing views and
26 those views were not discussed in detail in our
27 submission. Where those differences occur,
28 individual groups made representations on their own.
29 That represents a very positive outcome of the
30 Customer Service Committee process because as a
31 committee this submission makes a number of key
32 recommendations for the full length of the coast
33 where we all agree as consumptive users and, when
34 asked to make this presentation, I was asked to
35 point out some of the different views between the
36 coastal valleys and we won't really want to go down
37 that track because I think it really does devalue
38 the strength of our collective view.

39
40 When we developed our business plan, one of our
41 major objectives encompassed water pricing. The CSC
42 process has required a strong commitment from all
43 stakeholders, State Water, the Department of Land &
44 Water Conservation and the consumptive users. State
45 Water has worked very hard to provide information
46 required by our committee but we felt, as has been
47 said earlier, DLWC has been far less forthcoming,
48 and our problems with DLWC are highlighted in a
49 number of the key recommendations that we have made.

50
51 We consider this determination should be
52 short-term rather than medium-term and we also
53 consider that State Water should operate as an
54 independent business. Listening this morning to the
55 Irrigators' Council, we didn't actually consider
56 delaying the determination as an option. It was
57 more a case that we hadn't actually considered that.
58 I think as our business plan indicates, there are

1 many issues our committee needs to address to be
2 effective, and pricing is only one of those.

3
4 A medium-term determination would allow us to
5 focus on these other areas but, if there is one
6 thing I can convey from our committee, DLWC as
7 distinct from State Water has not been willing or
8 possibly able to provide the background information
9 despite numerous requests, and I think that endorses
10 what was said earlier.

11
12 Our committee does take its role very
13 seriously. We are not there as a rubber stamp for
14 water pricing policy. We need time and usable
15 information if we are to provide effective advice.
16 Our concern has been that DLWC has not responded
17 with usable information and more importantly given
18 us enough time to review that information.

19
20 Many of the issues impacting on the coastal
21 valleys are common to other customer service areas
22 but there are a significant number of issues that
23 are unique to the coastal valleys. The health of
24 our river systems and the factors that impact on it
25 are quite different to other systems. Urbanisation
26 and industry are largely confined to the coast and
27 they have substantial impacts.

28
29 The proportion of total river flows that end up
30 as estuary flows on the coastal valleys is high
31 compared to inland systems. Our CSC challenges
32 DLWC's claims - and listening to the environmental
33 submission - that environmental problems exist in
34 New South Wales rivers and groundwater systems due
35 to regulation and extraction and that full cost
36 recovery is an incentive to reduce water extraction.

37
38 That statement is incorrect and very misleading
39 regarding the impact of irrigation in the coastal
40 valleys, and not just irrigation, all water use. In
41 the coastal area, identified consumptive use is a
42 small percentage of annual flows. Outside the
43 Hawksbury Nepean, the Hunter has the highest
44 extraction of any coastal river and that extraction
45 within the system is less than 5 per cent of total
46 average annual flows.

47
48 Other factors have contributed to environmental
49 problems where they exist. In this area, water
50 extraction is not the cause of our problems. Most
51 water extraction is carried out on an efficient
52 needs basis and so to state that increasing the cost
53 of doing so will reduce extraction shows little
54 understanding of irrigators' needs. It demonstrates
55 that DLWC's purpose is to limit extraction rather
56 than manage extraction.

57
58 As pointed out to the tribunal in earlier
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1 submissions with Hunter water users, the actual cost
2 of bulk water to irrigation users in the coastal
3 area is more likely \$100 a megalitre after allowing
4 for energy and labour costs involved in applying
5 water. This high cost of application surely creates
6 a determinant not to waste a resource.

7
8 The committee is concerned at the approach in
9 the last determination that in an effort to achieve
10 COAG's requirement for full cost recovery,
11 insufficient attention has been given to who are the
12 real beneficiaries of rural bulk water supply.
13 Currently identifiable consumptive users are being
14 asked to bear a disproportionate share of the burden
15 on a statewide basis. The whole community receives
16 benefit, as we have heard many people talk about
17 with differing views.

18
19 We are not against the principle of full cost
20 recovery provided proper consideration is given to
21 those other beneficiaries, including community,
22 riparian users, industry and regional economic
23 growth.

24
25 We are particularly concerned that the user's
26 share ratio in the coastal valleys do not reflect
27 the very highly urbanised and industrialised nature
28 of many of our communities. The coastal valleys
29 have low rates of extractions from the maximum
30 possible yield of the river system. This, of
31 course, places much greater emphasis on resource
32 management issues and cost sharing ratios should be
33 adjusted accordingly.

34
35 Likewise, as far as infrastructure costs are
36 concerned, much of the economic growth today and the
37 potential for future benefit is because of the
38 secure water availability. Yet a major part of
39 maintaining that infrastructure is expected to be
40 paid for by the readily identifiable users. Some of
41 the examples of that that are currently happening in
42 the Hunter. Pokolbin and Broke have new pipelines
43 and the associated infrastructure and development
44 with those.

45
46 Pokolbin, they are talking about \$800m worth of
47 development. That is a new steel mill that has just
48 been approved in the Hunter and the associated
49 development with that has many flow-on effects.

50
51 Our committee believes that the percentage of
52 cost sharing should be set on a valley-by-valley
53 basis. IPART acknowledges that the water charges
54 are different in each valley to reflect local
55 circumstances, yet it has failed to recognise by
56 setting statewide user shares that the individual
57 cost drivers which make up these water charges are
58 different in each valley. The committee would

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1 like to see IPART correct this anomaly by setting
2 user shares of costs based on the same water source
3 as they presently set water charges.

4
5 Our submission details our position on each
6 sub-product and a number of other issues. I
7 reiterate that our submission is a collective view
8 of our committee representing all coastal valley
9 consumptive users and I suppose, in opening it up
10 now for questions, we might discuss some of those
11 other issues, but the key to our submission was that
12 we focused on what we agreed on, and those issues
13 that we didn't agree on we left to separate
14 submissions.

15
16 THE CHAIRMAN: Thanks for that. I really have one
17 question and that is this proposal that the actual
18 cost sharing formula be set on a catchment or
19 valley-by-valley basis. Could you tell me just a
20 little bit more about how that might be done and
21 perhaps, if now is the time to do it, help us
22 understand what your thinking is on the fixed
23 variable cost approach as well on a valley-by-valley
24 basis?

25
26 MR BURNS: I might start to answer that one. Basically
27 we feel that on the coast we are so different to
28 what is happening across the range, we are such a
29 heavily industrialised and urbanised area that
30 particularly the resource management but most of the
31 other costs, the consumptive water users are a small
32 part of the whole thing and for that reason, we use
33 such a small percentage of water, we should not be
34 on the same basic percentages.

35
36 As far as the usage variable cost charge, you
37 would be aware that the most part of the cost is in
38 the dams. Of course, a lot of coastals have no dams
39 at all, but in those areas that have they are fairly
40 small, Glenbawn and Glennies in the Hunter, and
41 Lostock is very small, a political dam, for want of
42 a better word, and Toonumbar, if you put full costs
43 there, you would be looking at something like \$2000
44 a meg. Those costs are there regardless, so we
45 think the base cost should be on that fixed cost
46 part and that should only be on what water is
47 available.

48
49 If it is reduced, you should only be charged on
50 that number of megs. There is no sense saying it is
51 a fixed charge for 1,000 megs when you have only got
52 300 available. We think that the variable cost
53 should actually only be representative of the costs
54 of delivering that water. One of the reasons for
55 that is that there are a number of sleepers in the
56 area, a lot of people that water is stored for,
57 particularly the high security ones, the water is
58 stored there, so it is the cost of keeping that

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1 water stored there maybe and, if they don't use it,
2 they should pay that cost. I think that is the
3 rationale behind it.

4
5 THE CHAIRMAN: The availability of fixed costs.

6
7 MR BURNS: Basically.

8
9 MR COX: It does seem to me that you have very different
10 valleys than the Hunter Valley, which is highly
11 developed, Brogo and Toonumbar, which I imagine are
12 very different sorts of communities and dams. Could
13 you suggest how your proposal might be applied to
14 individual valleys when they have so different
15 characteristics?

16
17 MR BURNS: The same thing applies. Brogo or Toonumbar,
18 if you have an allocation, if you don't use 1 meg of
19 it, you have to you pay your part of it. This is
20 where your 20 per cent limits come in that you have
21 been asking few questions about. COAG, to my
22 understanding, definitely states it should be full
23 cost recovery, and we are happy with that principle.
24 However, it also has out in it that there must be
25 transparent subsidies where they are given and I
26 think in those particular circumstances mistakes
27 have been made in the past, perhaps as has been said
28 in the past, you have a critical mass, if prices go
29 too high, no one will use any water, so who will
30 pay?

31
32 MR COX: I would also like you to expand on the cost
33 variation between valleys, what sort of different
34 costs would be appropriate in the Hunter as opposed
35 to Brogo or Toonumbar?

36
37 MR BURNS: We were more referring to where this large
38 percentage is used for irrigation than what is used
39 for industrial. In the Hunter, for instance, more
40 than half, approximately half of the water that is
41 used is used by one user, and that is an industrial
42 user. They have absolute priority. We believe that
43 when you have all these different users, and even if
44 you take Brogo and Toonumbar, they are not
45 identifiable users, the consumptive user that is
46 targeted, it is a number of people in the towns,
47 tourists, all those bits and pieces, who are not
48 picked up in this. To try to suggest that an
49 irrigator in Toonumbar should be paying virtually
50 half the cost, and in some cases 70 per cent of the
51 costs, for providing water in that area, it is
52 pretty ludicrous, we think.

53
54 MR DOYLE: The other issue on a valley-by-valley basis
55 is not just valleys within the coastal valleys but
56 all of the valleys throughout the state. Because
57 water extraction in the coastal valleys is such a
58 low percentage of total flows, it does change very

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1 much the beneficiaries principle, as we have been
2 discussing for these other rivers.

3
4 With the Hunter extracting 5 per cent of total
5 flows, you need to look at that in perspective with
6 these other river systems where extraction is at a
7 much higher rate, so there are things like salinity
8 that is costed through. Within the Hunter,
9 irrigation has been shown to have no negative impact
10 on increasing salinity. The Hunter salinity trading
11 scheme is self-funded. Dry land salinity is the
12 major impact, so why in the cost sharing ratios
13 should such a high proportion of cost be attributed
14 to consumptive users? It is those sorts of issues
15 where on a statewide basis there are different sets
16 of circumstances on the coast.

17
18 MR COX: Thank you.

19
20 PROF MUSGRAVE: Thanks very much. The coast situation
21 is so different, it does tend to highlight issues
22 that otherwise would not be highlighted when looking
23 at this question you raise about why should
24 extractive users carry such a burden of management
25 costs. Well, one is prompted to ask, with the other
26 causes of resource management problems, where are
27 they brought into the calculation? They are not
28 involved in the coastal service committee in anyway,
29 are they?

30
31 MR DOYLE: The customer service committee represents
32 consumptive users. The role of the river management
33 committees is to take into account those issues. I
34 suppose what our submission is highlighting is the
35 fact that customers, paying customers, because they
36 are readily identified, should not have to bear the
37 full impact of all these resource management issues
38 when on the coast it represents such a small
39 proportion of water use.

40
41 MR BURNS: What we are trying to say, something I
42 pointed out once before, we have rivers where I
43 think about 0.01 per cent is used by irrigators.
44 Why should we expect one or two irrigators to pay
45 the full cost? Take the groundwater Tomago, I don't
46 think there is an irrigator involved. It is Port
47 Stephens - tourism. Why should we, as identifiable
48 - I think that is the key word - consumptive users
49 be forced to pay the major cost of running the
50 Tomago water system?

51
52 PROF MUSGRAVE: Just turning to State Water, which you
53 say should be a completely independent business,
54 well, would the benefits of that corporatisation or
55 whatever exceed the cost of doing it? What do you
56 see as being the benefits that justify the
57 expenditure of effort on corporatising it? You
58 heard the DLWC people say it is not worth it because

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1 of the cost. What is your response to what they are
2 saying?

3
4 MR DOYLE: Our fundamental concern is that if we are to
5 effectively have an input into these processes, we
6 need reliable information and we need information to
7 start off with. The process of ringfencing State
8 Water has been to excise that from the State Water
9 component, but the proportion of cost that we are
10 asked to pay a contribution towards, coming from
11 land and water, is not so clear. We would see the
12 process of making State Water more independent as
13 identifying those costs much more clearly.

14

15 PROF MUSGRAVE: Thank you very much.

16

17 THE CHAIRMAN: Thank you very much indeed for that.

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1 HUNTER WATER

2

3 THE CHAIRMAN: We now move to some of the large users,
4 Hunter Water, if you could please identify
5 yourselves for the record.

6

7 MR YOUNG: Kevin Young, Manager Corporate Planning and
8 Government Regulation, Hunter Water.

9

10 MR AMOS: Economist, Corporate Planning, Hunter Water.

11

12 MR YOUNG: I also have a short presentation which I
13 believe as part of our high risk strategy
14 electronically we have set up. Can I start by
15 saying Hunter Water is very appreciative of the
16 tribunal for the opportunity to talk to you today.
17 We appreciate that we are a smaller player in the
18 market in terms of that this is a very large,
19 difficult and complex issue.

20

21 I thought I would briefly cover Hunter Water,
22 what we are and what we do, some of the issues with
23 respect to the Department of Land & Water
24 Conservation submission, and the Corporation's
25 approach that we put in our submission.

26

27 I should start off by saying that our
28 submission really does not go to the heart of this
29 question of what is a cost reflective price and how
30 that is determined. We have wisely, I think, left
31 that to IPART to determine after it has listened to
32 the various opinions that have come today.

33

34 Quickly, what we are and what we do, we are a
35 State-owned corporation and we provide water and
36 sewer services to 500,000 people in the Lower
37 Hunter, across five local government areas. If you
38 look at the Hunter catchment, there has been a
39 discussion of that, I guess Hunter Water is the
40 lower part of the catchment from Lake Macquarie,
41 Port Stephens and the coalfields area to the bottom
42 of the catchment.

43

44 Quickly, to do this, IPART would be well aware,
45 we have around \$2 billion worth of infrastructure
46 and we run our own major storage dams, borefields
47 and water, 4,000 kilometres of water pipe and 4,000
48 kilometres of sewer main - equivalent to Perth and
49 back.

50

51 With respect to our water storages, it is
52 important to note that most of our water comes from
53 the Williams River and that it is an unregulated
54 stream. It supplies about 75 per cent of the
55 extraction of water that Hunter Water uses to serve
56 500,000 customers and there are two dams that are
57 owned and operated by us. Chichester, and
58 Grahamstown. Most of our water comes from the

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1 Chichester and from Grahamstown at the bottom of the
2 catchment. That is about 75 per cent of our use
3 from that major dam.

4

5 We also have groundwater, and that is an
6 important part of the submission, where they are
7 talking about a split in the costs for groundwater
8 and surface water. Ground water is really important
9 to us. It is about 25 per cent of our extraction,
10 and we have two major aquifer systems. We are also
11 controlled by a water management licence by the
12 Department of Land and Water Conservation for both
13 our surface water and our groundwater storages.

14

15 That is basically what we do and how we do it.
16 Bulk water prices, well, it is true we have had a
17 bulk water price in place since 1995 for unregulated
18 surface water and groundwater and it was set at
19 \$1.80 at that time, higher than other users. The
20 initial charge was in our belief basically a
21 somewhat arbitrary assessment of resource management
22 cost.

23

24 I think it would be fair to say that Hunter
25 Water and the Department of Land & Water
26 Conservation realised that a charge should be put in
27 place but there was great debate on what level that
28 charge should be and \$1.80 was a somewhat arbitrary
29 assessment at that time, moving in the right
30 direction towards a cost charge. We all recognised
31 that would only be an interim measure until more
32 appropriate charges were set by IPART.

33

34 What we read in the Department of Land & Water
35 Conservation's submission is true that the \$1.80
36 charge has not changed since 1995 and that the
37 Department of Land and Water Conservation regards
38 this as a decline in real revenue. It proposes a
39 catch-up adjustment to \$2.15 and a 20 per cent
40 increase each year, which eventually gets to \$3.10,
41 almost a doubling of the charge.

42

43 I think earlier, Chairman, you asked the
44 Department of Land & Water Conservation for some
45 reasons for that and you said that if we were not
46 convinced we could make our way back down the
47 highway. I think Richard and I discussed that and
48 we decided we would stay and put a point of view, so
49 that is a dramatic impact.

50

51 It is probably important to note also that
52 IPART has a role in setting the bulk water prices
53 but also a role for Sydney Catchment Authority,
54 Sydney Water and ourselves in setting our prices and
55 that we are currently one year locked in on a
56 three-year price path that can't change in terms of
57 prices for our customers.

58

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1 Taking that into account, the impact of the
2 Department of Land and Water Conservation charges on
3 Hunter Water, again we note that they are splitting
4 the costs of groundwater versus surface water, so
5 for surface water it would be 26 per cent higher for
6 Hunter Water than other users in the catchment and
7 63 per cent higher for Hunter Water than other
8 groundwater users in the catchment. That
9 differential would apply throughout the price path.
10 I summarise that later on in an overhead.

11
12 Is such a differential justified, I guess is
13 the key question. Interestingly, as you would
14 expect, Hunter Water thinks there is a differential
15 but we believe it is a differential the other way,
16 and we note the economies of scale for Hunter Water,
17 that, if we look at that lower Hunter map, I think
18 all of the other irrigators in the Hunter, probably
19 depending on climate, use somewhere between 40,000
20 megalitres a year and 100,000 while Hunter Water
21 uses 65,000 a year, so we are about equal to all of
22 the other irrigators in the area, but we are a
23 single point of interface for the Department of Land
24 and Water Conservation in resource management and
25 administration. We also capture most of our water
26 at the very end of the catchment just before it goes
27 into the tidal zone.

28
29 All of our monitoring costs we internalise to
30 Hunter Water Corporation and include in our price
31 path to IPART. Our licence requires us to collect
32 and report on a wide range of data, which we do. We
33 put that electronically on our website and we link
34 that to the Department's website, and we bear the
35 costs of that. In addition, the licence provides
36 for a separate annual management fee, which is a
37 variable amount that is adjusted by DLWC in the cost
38 of running our licence each year. That can be up to
39 \$25,000.

40
41 We make other financial contributions to the
42 total catchment management, LandCare, national
43 initiatives, and that maybe in the range of \$70,000
44 or in that area. Basically we believe that the
45 indexation of \$1.80, which was set somewhat
46 arbitrarily, is not sound going forward.

47
48 I guess our position is that there is an
49 opportunity to move away from the arbitrary resource
50 management charge. We would all like to head in the
51 same direction but on a consistent and systematic
52 basis. As for the positives, we recognise different
53 sources, and we think that is very good, to split up
54 groundwater versus surface water. However, we would
55 like to see some consistency with other regional
56 users. I guess the issue we have thrown on the
57 table is the economies of scale for Hunter Water.
58 We are not asking the tribunal to take that into

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1 account now. We are just saying we would like that,
2 as a light on the hill, as something that eventually
3 could be considered in a price path.

4
5 The Hunter approach is that we are putting a
6 proposal forward which is a phased approach to cost
7 recovery. We are not seeking any reductions in
8 charges to match what has been proposed for other
9 people. We propose to stay at \$1.80 until the
10 Hunter unregulated groundwater charges catch up, so
11 that would recognise I guess the economies and
12 contributions by Hunter Water and it would
13 facilitate a pass through, a price pass through at
14 the next price determination. So we would stay at
15 the value we put in our price determination
16 submissions and which is linked to the pass through.

17
18 If I can summarise that graphically on this
19 next overhead, surface water proposal, for surface
20 water we have the current proposal for Hunter
21 shifting from \$1.80 up to \$3.10 in that, but they
22 have determined for other users it should start at a
23 lower value and head up. We believe that as a first
24 path, there are economies of scale for ourselves
25 but, even taking that into account, what we would
26 like to do is stay at \$1.80 and then when other
27 users approach the same price as what we are paying,
28 we will move up the curve with them.

29
30 On the groundwater proposal, our next overhead,
31 very much the same. The proposal at the moment is
32 \$1.80 up to \$3.10 and other uses over \$1 leading up
33 to \$1.80. Again, we would stay at the same level,
34 we would all move on together, and that could be
35 taken into account at our next price path.

36
37 If I was to sum up our position, I would say we
38 see the current proposal as indicating significant
39 price increases, around 72 per cent over three
40 years, which is not currently in our revenue
41 position. The charges for ourselves are much higher
42 than for other users and we will not be able to pass
43 those prices on to our customers. We are aiming for
44 consistency.

45
46 We will stay at our current levels until other
47 users reach this level, unregulated surface would be
48 2001 and groundwater one year later, and that would
49 be a better match for our price determinations, but
50 we are raising an issue which we don't want you to
51 look at now, which is the economies of scale issue
52 for the longer term. That is our submission.

53
54 THE CHAIRMAN: Thank you. I do understand what you
have

55 put and have I only one small question, and maybe I
56 know the answer to that. What do you say about the
57 priority of supply, because you argue that you
58 should pay the same as other users, as I understand?

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1 Should there be some premium for that?
2
3 MR AMOS: In both the surface and groundwater catchment
4 we are the dominant user and when we take 95
5 megalitres a day, for example, out of the Williams
6 catchment, the average for irrigation at the moment
7 is only about 1200 megalitres a year. It does go up
8 significantly in dry years, of course, but basically
9 we have got priority of supply just by the sheer
10 size and the fact that the other uses are fairly
11 small.
12
13 MR YOUNG: It is probably a true comment, if you look at
14 Grahamstown, an inland dam, we capture the water
15 virtually most of the time when there is a flood
16 coming down. We wait until the first pass goes past
17 and then capture the water we need to fill up our
18 dam, which is a slightly different perspective from
19 the dry conditions, so if anything we have less
20 capture of water in the dry, when irrigators are
21 looking for it, and more capture it when there is a
22 flood coming down.
23
24 MR COX: It is probably in your submission but can you
25 just let me know how much you actually pay for bulk
26 water? What is the total dollar amount in a year?
27
28 MR YOUNG: I think it is currently \$113,000.
29
30 MR AMOS: It varies from year to year, but an average is
31 probably about \$120,000 a year. In this coming
32 year, it is about \$135,000, \$136,000.
33
34 MR COX: So it is not a particularly large figure in
35 your overall cost structure?
36
37 MR YOUNG: That is probably a fair comment. I guess,
38 what flows from our previous arrangements, we need
39 to look at our input costs and we are on a 2 per
40 cent less than inflation reduction, and that is
41 right through the general corporation, and this is
42 one of the input costs that we need to look at. We
43 also believe there is a consistency issue. I didn't
44 cover that, but I guess we are all mindful in the
45 Hunter of the socio-economic status of the area. It
46 has a very high unemployment rate, greater than the
47 State average, so anything that we can do as far as
48 input costs we look at.
49
50 PROF MUSGRAVE: Thank you very much. Are you a
member
51 of the Hunter CSC?
52
53 MR AMOS: No.
54
55 PROF MUSGRAVE: Then my other question is, or
perhaps I
56 will ask you for a response, your attitude towards a
57 one-year versus three-year price path, that would
58 depend on what is decided in relation to your
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1 request?
2
3 MR YOUNG: That is probably right.
4
5 PROF MUSGRAVE: I thought so. That is all I have.
6
7 MR YOUNG: Ideally, I know this is a Hunter view, but
we
8 would like to see changes in our bulk water to come
9 in at a time when we can adjust through our
10 submission to IPART and reflect that through to our
11 customers. That is not always possible but that is
12 our ideal situation.
13
14 THE CHAIRMAN: Thank you very much.
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1 SYDNEY CATCHMENT AUTHORITY

2
3 HE CHAIRMAN: Last, but certainly not least in terms of
4 the volume of water taken, we have the Sydney
5 Catchment Authority.

6
7 MR WARNE: Richard Warner, General Manager, Policy,
8 Sydney Catchment Authority.

9
10 We are risk adverse to start with, so we didn't
11 even go for the high tech presentation. We have got
12 a low tech presentation and Ms McElveney is the
13 person who will be changing the slides for me.

14
15 It is nice to be here. We are not colluding
16 with Hunter Water although our messages and themes
17 and very similar. I would like to start by just
18 giving a brief introduction to the Authority, the
19 role of the authority. It was set up after the
20 water quality incidents in Sydney, as some of you
21 will be aware, and its role is to manage and protect
22 catchment areas from which Sydney derives water. We
23 manage works, we are also a supplier of bulk water,
24 we own 16 large water storages, and we supply the
25 bulk water supplies into Sydney Water - that is
26 about 600,000 megalitres per year - we also supply
27 amounts of water from time to time to Shoalhaven
28 Water on the South Coast and also supply to
29 Wingecarribee Council.

30
31 There are 60 or so smaller users who also take
32 water direct from conduits. We also regulate
33 certain activities that take place in and around our
34 catchment areas, so we have also a regulatory role.

35
36 It is really in relation to the second point
37 that I am here to talk about today and that is our
38 bulk water functions. You will, of course, be aware
39 that before we get on to that, prices for our
40 services and the charges we impose on Sydney Water,
41 Shoalhaven and Wingecarribee, are set by the
42 tribunal, very similar to the Hunter. We have been
43 given a five-year medium-term price path which
44 covers the period from 1 October 2000 to 30 June
45 2005.

46
47 That means that our income is relatively fixed.
48 For us, the tribunal determined charges for Sydney
49 Water that resulted in a 2 per cent real reduction
50 in 2000/2001 compared to 1999/2000, and charges for
51 the balance of the period up to 2005 are to be
52 maintained constant in real terms. Basically they
53 are to move in line with inflation net of GST.

54
55 We have recently been licensed by DLWC. We
56 have been given a licence under the Water Act of
57 1912. We have noticed that that Act provides under
58 section 188 for the payment of a licence fee. We

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1 have paid that, \$420,000. We have paid to DLWC for
2 the licence we have been given. We also note that
3 section 194 provides for the payment of water
4 management charges, having regard to costs incurred
5 by the department in relation to conducting review
6 of the licence, the administration of the Act as it
7 affects the authority, monitoring of extraction of
8 water, et cetera, and the exercise of any other
9 water resource management function with respect to
10 the activities of the Authority.

11
12 The reason I put that next slide up there is
13 because that is one of the themes of our submission.
14 Basically DLWC' submission refers to, sorry, the Act
15 refers to the levying of water management charges
16 rather than bulk water charges. The suggestion has
17 been put to us that in fact we may have to pay water
18 management charges as well as bulk water charges.
19 We would like a little bit of clarity about
20 precisely what charges the tribunal is setting and
21 we are particularly concerned to avoid any
22 suggestion of double payment, so if you could
23 actually tell us, confirm that it is a water
24 management charge, that would be useful. If it is
25 not, we would be very interested to know the
26 legislative basis for the imposition of a bulk water
27 charge.

28
29 You are probably aware that the DLWC proposal
30 provides for a 20 per cent increase in real terms
31 over the next three years in what we perceive to be
32 our water management charge. It also provides for
33 the Authority, for the introduction of an aquatic
34 weeds levy, \$1.49m, which is payable for three
35 years. That is a new charge. We have not been
36 currently paying that.

37
38 The concerns of the Authority are basically
39 that we are concerned that the existing \$1.80
40 megalitre charge that we are required to pay as a
41 water management charge isn't is not necessarily
42 properly grounded on a robust cost reflective basis
43 and we would actually like to see that revisited in
44 the same way that Hunter does. We are also not
45 convinced that the movement of 20 per cent per annum
46 is soundly based on cost.

47
48 There seems to be a lack of evidence within the
49 submission put forward by the department to
50 illustrate a nexus between the increased charges and
51 the Authority's use of water. There is no
52 recognition given by the department to the
53 significant contributions to resource management
54 that we currently make within the catchments.

55
56 Basically if we were to look at the impact of
57 DLWC's proposals on us, there is a 20 per cent
58 increase coupled with the \$1.49m, which represents

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1 an increase of 20 per cent on current charges in
2 payments we would have to make to the department.
3 As I said, the medium-term price path determined for
4 the Authority was determined in 2000. These costs
5 weren't contemplated at that time and hence we have
6 got no real provision to recoup those increased
7 costs in the short term.

8
9 Going back to the slide that shows the dollars,
10 basically this sets out what the charges would be.
11 They increase, cost per megalitre, from \$1.80 to
12 somewhere up to 3.10 plus CPI, which I suggest would
13 be beyond 3.50. The bulk water charges that we
14 currently pay would increase from \$1.1m to somewhere
15 approaching \$1.9m, plus CPI. When we add in the
16 aquatic weeds task force fee, the total bill to the
17 department would move from \$1.1m to \$3.4m - a fairly
18 hefty increase.

19
20 I would also mention in that context that we
21 expect our profit after tax and dividend in 2003/04
22 to in fact be \$4.1m before we factor in those
23 additional charges. In fact, we would expect that
24 the cost to DLWC would take about 80 per cent of our
25 profit.

26
27 In relation to the aquatic weeds levy, the
28 Authority is concerned that there is a lack of
29 evidence that the Authority has caused the problem.
30 Where I have referred to the pricing principles,
31 they relate to the pricing principles that IPART in
32 fact determined, and they were efficient cost,
33 financial stability, community outcome focus,
34 beneficiaries pay and promoting ESD in water use.

35
36 So there is a lack of evidence of causation.
37 There is a lack of evidence that the Authority will
38 benefit from the work and there is also lack of
39 recognition of the Authority's ongoing work in
40 resource management. We also question the
41 legitimacy of that levy, and there was some
42 suggestion I thought made by the department earlier
43 that in fact, rather than looking at causation, it
44 might in fact be hunting around on the basis of
45 ability to pay more than causation.

46
47 If that is the case, if in fact this levy is
48 supposed to be it has been suggested this is the
49 only way the department can actually get Sydney
50 Water to pay for algal blooms that may be caused
51 through STP discharges and the nutrient loads put on
52 there, if that is the case, we would suggest that it
53 is probably a fairly poor mechanism to try to do it
54 indirectly via bulk water charges. I would think if
55 that is the case perhaps they have to look at an
56 alternative discharge licensing arrangement that
57 Sydney Water currently pays.

58
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1 Just very briefly, I wanted to mention some of
2 the things we do actually pay: \$420,000 as a
3 licence fee. We currently undertake continuous
4 water quality monitoring and sampling at 12 sites,
5 and that is worth about \$200,000 per annum. We also
6 jointly fund with the department a catchment
7 protection scheme in the top end of the catchment
8 which is intended to assist landholders in
9 undertaking catchment protection remediation works,
10 and that is worth \$620,000 per annum. We also pay
11 currently bulk water charges of \$1.1m and we are
12 negotiating with that part of the department that
13 looks after the town and country water supply scheme
14 to in fact accelerate provision of an upgrading of
15 sewerage facilities within the top end of the
16 catchment and we will be looking at funding that to
17 the tune of \$4m over five years to get that
18 acceleration, as you will recall that the catchment
19 audit found that one of the principal reasons that
20 we were compromising water quality was sewerage
21 discharges.

22
23 In conclusion, I guess the Authority's position
24 is that there is a lack of evidence within the
25 department's submission to illustrate the nexus
26 between the increased charges and the Authority's
27 usage. That does not mean per se we don't want to
28 pay, we just want to make sure that the costs are
29 appropriate and the costs reflective. The
30 Authority's significant financial contribution to
31 resource management in the catchment has also been
32 ignored.

33
34 In the short term, there is an inability for
35 the Authority to pass on the increased costs and
36 there are considerations of equity and efficiency,
37 particularly that relate to the aquatic weeds
38 payment because I understand the Sydney Catchment
39 Authority is the only user in the Hawksbury Nepean
40 valley that has been asked to pay that charge.

41
42 THE CHAIRMAN: Thank you. Just a quick point of
43 clarification. Is that 420,000-odd fee an annual
44 or?

45
46 MR WARNE: A once off fee.

47
48 THE CHAIRMAN: For the pleasure of negotiating the
49 licence?

50
51 MR WARNE: Yes.

52
53 THE CHAIRMAN: Have you looked in detail at the costs
54 incurred by the department in and around your
55 catchment? Your argument is more in terms of these
56 are all the things you are asked to pay for, you
57 don't understand how and why, but have you looked at
58 their costs?

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1
2 MR WARNE: We cannot distil them. That is what we would
3 like the tribunal to help us with, to identify those
4 costs that can reasonably be attributed to us,
5 because it is not clear. We are part of the South
6 Coast region and that embraces a stretch from
7 basically Sydney to southern environments all the
8 way down to Nowra, I think, and even to the
9 Victorian border. So it is a very long stretch.
10
11 MR COX: What do you think actually should be happening
12 to charges? Do you, like Hunter, think they should
13 be frozen or what are you suggesting that we might
14 do?
15
16 MR WARNE: I think they should be frozen until there is
17 that clarity or transparency in what is actually
18 being put in the bucket. We can't see it at this
19 point of time. We can't precisely see what it is we
20 are being asked to pay for, that is our concern. I
21 do think there is a differential in the same way
22 there is a differential in the Hunter between the
23 \$1.80 we are called on to pay and the charge that
24 other users within that same, the Hawksbury Nepean,
25 are called upon to pay, so there are good grounds
26 for pausing and letting the others catch up so that
27 we are all on a similar basis of charging.
28
29 PROF MUSGRAVE: Thank you, Richard. It seems to me in a
30 sense that we should be talking to DLWC or asking
31 them questions and not you.
32
33 MR WARNE: It could very well be.
34
35 PROF MUSGRAVE: To hear you, you sound like an irrigator
36 of four or five years ago.
37
38 MR WARNE: We are only the new guys on the block. We
39 will catch up.
40
41 PROF MUSGRAVE: It is interesting that you are having
42 difficulty in pinning down the costs, the question
43 of just being able to get the information distilled
44 out of DLWC's accounts.
45
46 MR WARNE: We have not done an awful lot of work on
47 that, I have to admit. We could probably be a lot
48 more pro-active ourselves, but it is certainly
49 something we are seeking to do.
50
51 PROF MUSGRAVE: I am not being facetious in saying that
52 we should be asking DLWC the questions because they
53 seem to go through this process of trying to
54 get valid accounts and presumably that would benefit
55 you as much as it would benefit the irrigators over
56 the range.
57
58 MR WARNE: I would think so.
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1
2 THE CHAIRMAN: That is useful. For the benefit of DLWC
3 and State Water, both the Hunter and the Sydney
4 Catchment arguments we looked at before but it was
5 more about, there was perhaps more recognition that
6 here were dollar contributions that both were making
7 and that was continuing for the time being, but I
8 think there is now a greater challenge on the table
9 to actually understand what it is that they are
10 being asked to pay for and on what basis, so we will
11 be looking for more information on that.
12
13 That concludes the formal hearings. We resume,
14 some of us - I will not be there - next Friday in
15 Armidale at the town hall commencing at 10 o'clock
16 for a workshop; and the following Friday - I will be
17 there - in Griffith, commencing at 9.30 in the
18 Griffith Regional Theatre where, dare I say, "The
19 show will continue".
20
21 Both of those will be workshops, so they will
22 be more informal and give the opportunity for
23 stakeholders to interact. Both will be valuably
24 chaired by Jim Cox. We look forward to that process
25 continuing as we work towards some hopeful
26 resolution of some very difficult issues. Thank you
27 all for that.
28
29 (At 1.05pm the Tribunal was adjourned
30 accordingly)
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