LACHLAN VALLEY CUSTOMER SERVICE COMMITTEE

SUBMISSION TO IPART

PROPOSED DEPARTMENT OF LAND & WATER CONSERVATION BULK WATER PRICING SUBMISSION

APRIL 2001

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Overview

The DLWC submission seeks maximum price increases of 20 per cent per annum for the three years from July 1 2001 to 30 June 2004 on the basis of three principles,

- Full cost recovery,
- Costs of service provision should be borne by those benefiting from the services,
- Changes should be spread over time to minimise dislocation.

The Lachlan Valley CSC does not support the DLWC proposal for substantial price increases.

The Lachlan Valley CSC further believes that it has not impacted in any material way the level of service or costs within the valley.

The DLWC has not provided adequate information to the CSC in the areas of financial reporting or impact assessment, nor has DLWC demonstrated any commercial benefits of the separation of State Water activities from the Resource Management activities.

The inability of State Water to consult with the Lachlan Valley CSC prior to the DLWC submission to IPART has not allowed adequate stakeholder input into the proposal.

Lachlan Valley CSC recommends that DLWC should be required to clearly demonstrate the commercial benefits of the current structure, the validity of financial statements prepared & a longer term indication of water price changes.

Financial Reporting

The requirement for valley financial data was identified by the Lachlan CSC at its second meeting held in November 1999.

The CSC, at the meeting held on 10 April 2000, requested "quarterly reports including budget & actual expenditure for both State Water & the Resource Manager with clearly identified Head Office Costs".

To date no such information has been provided by State Water.

State Water has, at a number of CSC meetings, tabled draft financial statements. The statements tabled are detailed below.

> **10 April** 2000 - 1999 Report indicated deficit of $1.068,850.
>
> **11 September** 2000 - Draft 2000 report excluding Resource Management indicated deficit of $1,3 13,698.
>
> 20 **November 2000** - Draft 2000 report excluding Resource Management indicated deficit of $1,313,698.
>
> **12 March 2001** – June, 2000 report indicated deficit of $1,53 1,28 1.
>
> **9 April 2001** – June 2000 report provided prior to CSC / IPART workshop, deficit of $465,380
>
> **9 April 2001** – June 2000 Report included as Appendix to DLWC IPART submission, deficit of $46 1,6 14.

At no time have State Water provided the data requested by the CSC nor any explanation as to State Water's view as to the adequacy or otherwise of the valley's past financial performance or future prognosis.

State Water has also failed to provide any reasonable explanation as to the reasons for altered statements.

It is of concern now that DLWC on the issue of the process for consultation with user groups & other stakeholders on regional/valley accounting indicate "... (Customer Service) committees meet quarterly & are regularly presented with aged debtors analysis, as well as annual financial reports. With a review of the financial accounting procedures underway, it is envisaged that financial reports will be presented to CSC's on a more regular basis. In the last quarter of 2000, the Commercial Accountant or Manager Commercial Services has attended each CSC meeting to seek feedback on the type & format of financial information CSCs would like to receive. Those suggestions are being considered as part of the review."

Some 12 months after the Lachlan Valley CSC clearly identified & articulated it's requirements, State Water are now considering these requirements.

The inability of State Water to provide adequate financial information on a timely basis has not enabled the Lachlan Valley CSC to assess or influence the service levels and costs within the valley.

Consultation with CSC prior to PART submission

In the IPART determination No. 7, 2000 DLWC indicated that they intend to explain the substantially higher costs expected in the current submission to the CSC prior to making the submission.

Whilst discussions regarding the TAMP have occurred to various degrees, State Water have not adequately consulted with nor explained to CSCs the submission now before IPART.

Lachlan Valley CSC recommends that DLWC be required to consult with stakeholder representatives prior to consideration of higher prices by PART.

Lack of demonstrated commercial benefit from segregating State Water from the Resource Manager

Lachlan Valley CSC has not seen any commercial benefits in the separation of State Water from the DLWC. This view is recorded in the minutes of the March 2001 meeting.

The DLWC submission to IPART appears to support this view.

The proposed significant price increases over a three-year period is based on the perceived propensity of users to pay.

No reasonable account appears to be taken of the adverse impact on the economical viability of DLWC customers that these price increases will deliver. Most DLWC customers will be unable, unlike DLWC, to pass higher input costs onto customers.

The DLWC submission clearly indicates that State Water is " a commercial business within DLWC.. . " & ".. none of the services provided under service agreements can be substituted by those of commercial service provider."

The Lachlan Valley CSC does not support this view.

No details of service level agreements between State Water & the Resource Manager appear to have been established or if established, discussed with the CSC.

Impact Assessment

Significant increases in entitlement charges, together with usage charges, appear not to consider the impact of Cap restrictions or the impost of Bulk Access Regimes on the effective price of water.

Lachlan Valley CSC recommends that effective water prices be used to assess any gross impact changes.

DLWC indicate that a study was commissioned to assess the impact of the proposed. price increases in the Lachlan Valley & that a copy of the report will be provided separately to IPART.

The study referred to by DLWC has not been presented to or discussed with the Lachlan Valley CSC.

Lachlan Valley CSC recommends that DLWC should be required to present this report to the CSC prior to consideration by IPART.

Collection of annuity funds in advance of expenditure

On page 17 of the DLWC submission, the Department indicates that where funds are collected in advance of expenditure, NSW Treasury considers it more efficient to manage cash reserves centrally & hence a separate sinking fund has not been established.

The Lachlan Valley CSC is of the view that this approach is not in the best interests of water users.

This view is supported by the well-documented & minuted difficulty that the Lachlan Valley CSC has had in seeking responses from State Water with regard to the former Lachlan Valley River Operations Account.

The CSC meeting of 9 September 1999 was the first instance of this matter being raised, with an explanation being sought from State Water.

The CSC reiterated its concerns over the fate of the accumulated funds in the River Operations account at the meeting held on 10 April 2000 & asked for clarification of the current status of the account.

No update was provided in relation to the former River Operations Account at the next CSC meeting held on 26 June 2000.

State Water was again unable at the 11 September 2000 meeting of the CSC to provide an update.

State Water's Manager, Commercial Services attended the 20 November 2000 meeting to provide the CSC with an update as to the status of the account. The CSC was advised that the final figures for these accounts had not been finalised & that differing views existing within DLWC, including a view that irrigators had been subsidised over the years, so funds from this account had been used to cover some of these costs.

The CSC disagreed with this view & expressed in the strongest possible terms that the matter of the former Lachlan River Operations Account be resolved by the next meeting.

Notwithstanding the CSCs complete displeasure with State Waters's lack of urgency or commitment, the matter was not resolved at the 12 March 2001 meeting & remains unresolved to this day.

The Lachlan Valley CSC recommends that an income-earning sinking fund be established for each Valley so as to make transparent the financial status of asset annuity funds.

TAMP

A significant component of the proposed recoverable costs included in the DLWC submission relates to renewal annuities representing asset consumption.

Whilst the TAMP process & outcomes have been discussed with the CSC, little consultation has occurred regarding alternatives or options to the works program provided by the DLWC.

The significant levels of capital renewal & compliance works expenditure proposed by DLWC in the next two 5-year periods amounts, in the Lachlan Valley CSCs view, to an admission that the DLWC has not adopted appropriate maintenance strategies in past periods.

To now adversely impact water users via significantly higher water prices is inappropriate.

Whilst in no way suggesting that safety & compliance works are not important, many options exist regarding risk mitigation strategies that could be adopted. In developing the capital annuities included in the recoverable cost base, DLWC has indicated that the TAMP has developed sufficiently to provide a robust assessment of compliance costs yet state that finalisation of the risk assessment process should not delay recovery of costs.

The submission then goes on to state ".. a community consultation process will be used to determine the minimum level of capital required.." This approach seems to be at odds with the statement that the process has developed sufficiently to provide a robust assessment of compliance costs.

The Lachlan Valley CSC recommends that the minimum levels of capital required, meeting stakeholder requirements, be determined prior to inclusion of capital annuities in the recoverable cost base.

The "catch-up" program proposed by DLWC & the subsequent timing of expenditures in the early years of the 30-year plan has adversely impacted the NPV & the resultant annuity.

The Lachlan Valley CSC recommend that, in accordance with DLWC principle 3, a stakeholder consultation process be commenced to assess possible deferral of proposed expenditures in order to minimise the dislocation associated with higher water prices caused by major early period expenditures.