

Macquarie Submission to IPART

On

**DLWC Bulk Water Pricing Proposal
2001 – 2004**

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Macquarie Customer Service Committee &
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TABLE OF CONTENTS

1	SUMMARY OF RECOMMENDATIONS TO IPART	3
2	APPLICATION OF PRINCIPLES IN DLWC'S SUBMISSION	5
2.1	BENEFICIARY PAYS	6
2.1.1	<i>Community Service Obligations & Subsidies</i>	8
2.1.2	<i>Community Benefit of Flood Mitigation:</i>	9
2.2	FULL COST RECOVERY.....	10
2.2.1	<i>DLWC Policy to Use Pricing as a Tool to Reduce Irrigation</i>	12
2.2.2	<i>The Relevance of Property Rights to Water Pricing</i>	13
2.3	MINIMISING DISLOCATION	14
3	OTHER REFORM COMMITMENTS	16
3.1	INSTITUTIONAL SEPARATION.....	16
3.1.1	<i>Transparent Accounting</i>	17
3.1.2	<i>Customer Input into Investment Decisions</i>	18
4	COST COMPONENTS IN DLWC'S SUBMISSION	18
4.1	A RETURN ON NEW CAPITAL INVESTMENT	19
4.2	RENEWALS ANNUITY REPRESENTING CONSUMPTION OF ASSETS	20
4.3	DLWC BULK WATER SERVICE RESOURCE MANAGEMENT COSTS	20
4.4	ANNUITY FOR ENVIRONMENTAL AND SAFETY COMPLIANCE COSTS	21
4.5	WATER USE COMPLIANCE COSTS	21
4.6	A SHARE OF WATER MANAGEMENT PLANNING AND ANNUAL IMPLEMENTATION PROGRAMS & REPORTING	21
4.7	METERING AND MONITORING COSTS FOR UNREGULATED RIVERS	22
4.8	CAPITAL COSTS ASSOCIATED WITH UNREGULATED AND GROUNDWATER SERVICES.....	22
5	COST SHARING RATIOS:	23
6	OTHER CONCERNS:	25

1 SUMMARY OF RECOMMENDATIONS TO IPART

- There must be a timeframe imposed by IPART that delivers the necessary chronological sequence of reform commitments. This timeframe needs to be enforceable to the extent that IPART does not consider price increases until ‘framework’ reform commitments are delivered: including State Water being truly separate and able to operate independently of DLWC, with established performance indicators, a transparent accounting system and clearly defined service contracts, CSO’s, roles and responsibilities.
- We request that IPART involves irrigator customers in all ‘between submission processes’, in which DLWC makes informal responses to IPART.
- We recommend that IPART commissions the following independent studies. For each study, a process of consultation must take place with CSCs for their input on methodology as well as relevant information and there must be realistic timeframes allocated for the studies (even if this means delaying IPART’s determination timetable):
 1. review of the application of the beneficiary pays principle and identification and prioritising of all beneficiaries, including a review of existing cost sharing ratios for product and service codes
 2. identification of appropriate CSO’s and recommendations regarding CSC contracts.
 3. comprehensive impact assessment to determine whether pursuing full cost recovery is in the public interest, as well as identifying impacts on irrigators and their ability to adjust and to pay increased prices and consider any structural adjustment measures necessary.
 4. comprehensive assessment of the current price increase proposal so IPART is aware of the social and economic trade-offs in considering these price increases. Included in this assessment should be consideration of the impacts on State Water’s business of a shrinking billing base scenario and consideration of the irrigators’ lack of adjustment flexibility in the non-genuine water market that currently exists due to the Water Act’s approach to property rights;
- We request IPART acts accordingly in its role of removing monopolistic behaviour, by instructing DLWC that it is inappropriate to pursue a pricing policy aimed at reducing irrigation prior to the appropriate consultation process between State Water and CSC’s.
- IPART views the 2 impacts studies provided by DLWC as not independent, or comprehensive and therefore does not rely on the findings of these studies; and
- IPART enables sufficient time for currently tendered consultancies to incorporate CSC input and undertake genuine studies, which we anticipate will mean that IPART delays its determination in order to provide a realistic timeframe.
- We suggest IPART notes the significance of institutional separation to pricing reform and acts accordingly to halt further price increases till this outcome is delivered. State Water being permitted to have its own voice and make its own submissions separate to DLWC should be viewed as a first step towards demonstrable separation.
- We request that IPART accepts the failure in process of DLWC reporting financial information improvements and halts consideration of further price increases till transparency improves to an adequate level. We note that this process of improving transparency should include consultation between State Water and CSCs about customer requirements for information.

- We request that the issues of CSC's continued lack of access to information and the provision of service contracts between State Water and DLWC be resolved by IPART, via a process of consultation between State Water, DLWC and the CSCs prior to consideration of further price increases.
- With respect to the rate of return proposed: clearly the process of identifying the public goods and CSOs must occur (as per the recommendations in this report) before IPART considers any proposed rate of return cost component by DLWC.
- We request that IPART directs DLWC to develop a protocol for investment decisions, via a consultation process between State Water and the CSC's. If irrigators are expected to contribute funds, there needs to be an established decision making process that is: open to scrutiny, open to tendering, follows beneficiary pays protocols in terms of apportioning of costs, delivers the most efficient solution and formalises roles via contracts.
- We request that all the cost components appearing in DLWC's submission are viewed in terms of their application of the beneficiary pays principle, following the completion of the independent consultancy to review the application of the beneficiary pays principle.
- We request that IPART reminds DLWC of its intent to minimise dislocation through the information provided in the Bulk Water pricing submission and the customer's right to be informed of all proposed price increases within the Bulk water pricing submission and hence rejects DLWC's proposal to provide a separate submission regarding proposed water licensing increases.
- We propose that IPART rejects DLWC's request that it should consider ongoing increases beyond 2004, prior to the completion of the consultancies recommended above and the framework oriented reforms, including full separation of State Water.

2 APPLICATION OF PRINCIPLES IN DLWC'S SUBMISSION

MRFF acknowledges DLWC's attempts to adopt several important principles, as recommended by COAG, in its approach to pricing reform. However we note that as a monopoly, it is impossible for DLWC alone to ensure its independence and impartiality of approach to pricing and other water reforms.

Our frustrations with the available process for IPART to oversee DLWC's approach to pricing reform, are the annual statements by DLWC and consequent acceptance by IPART that DLWC is 'progressing towards' reform commitments, with notice given by IPART of ongoing areas that require further progress to be checked in the next determination. There must be a timeframe imposed by IPART that delivers the necessary chronological sequence of reform commitments. Otherwise, the integrity of the price increase process is jeopardised (as we believe is currently the case). COAG emphasises the point that:

"Institutional separation is necessary to ensure that conflicts of interest are minimised..."

Hence it is logical that 'framework' related reforms must be complete prior to the ensuing 'process' of price increases towards full cost recovery. An added concern for irrigators is the current 'framework' reform failure with respect to property rights. Although this is not the domain of IPART, the way the Water Act inadequately specifies property rights is impacting on the effectiveness of market price mechanisms for water (see Section 2.2.2 for a more detailed discussion of this point).

In its July 2000 IPART assessed DLWC on its progress in:

- *Separating State Water from DLWC*
- *Improving Customer Service*
- *Improving the level and quality of DLWC's financial information;*
- *Achieving efficiency gains*
- *Establishing and monitoring performance indicators.*

Surely it is not appropriate for IPART to review price increases, till the fundamental institutional separation framework is set in place; State Water is truly separate, with established performance indicators, a transparent accounting system and clearly defined service contracts, CSO's, roles and responsibilities. It is reasonable to expect that there will be ongoing progress to be monitored by IPART in the areas of timely delivery of financial information, customer service, efficiency gains and so on, but the very first step is to free State Water fully, from intervention and control by DLWC.

We add that in previous submissions, irrigator customers have presented arguments and concerns, which IPART has acknowledged as serious. However the IPART process fails if DLWC is then given an opportunity (without customer involvement) to have ongoing progress checks between formal submissions. As irrigator customers we experience the same concerns annually, acknowledged by IPART, but not remedied in DLWC's approach. We add to the above request that IPART involves irrigator customers in all 'between submission processes' in order to avoid the continuation of previously acknowledged concerns.

The following sections outline our concerns with DLWC's application of pricing reform principles as noted above.

2.1 Beneficiary Pays

DLWC has stated its intention to apply the beneficiary pays principle in approaching water pricing. This principle allows for an equitable and inclusive cost-sharing ratio provided all beneficiaries, including those that don't directly 'use' the resource are factored into the ratio.

Fundamental tenets to the application of the principle are:

- all beneficiaries are identified and included in their own right or classified as part of a broader, public benefit and identified as community service obligations or public good components in cost sharing ratios. (if it is difficult to quantify the portion of benefit flowing to different beneficiaries, an alternative is to consider the opportunity cost scenario of not having the investment to different stakeholders, or factor in an insurance value or a willingness to pay value that beneficiaries would be prepared to pay to ensure the investment is maintained).
- consideration of beneficiary/ users' ability to pay. The principle is flawed without factoring in capacity of beneficiaries to pay as it may lead to flow-on individual and community impacts that reduce the identified net benefit sought in applying the principle.

From the 'Report of the Expert Group on Asset Valuation Methods & Cost Recovery Definitions for the Australian Water Industry, Feb 1995' (p15), examples of the application of full cost recovery principle are as follows:

- 1) *"the cost of services to deliver water supplies and services to beneficiaries should be met by all those who benefit from them – the user pays principle. Users might include metropolitan, non-metropolitan and rural water corporations/ authorities, irrigation companies, local government water supply authorities, individual domestic consumers, landholders and industry and commerce; and*
- 2) *the cost of services to manage declining identifiable water quality, such as salinity works, should be borne by all those contributing to its decline – the polluter pays principle.*
- 3) *The costs of public benefits/ impact management which are unable to be attributed and charged to specific beneficiaries/ impactors, should be treated as community service obligations."*

DLWC is failing to incorporate the above tenets in the application of beneficiary pays principle to water pricing reform as evidenced in its current pricing submission.

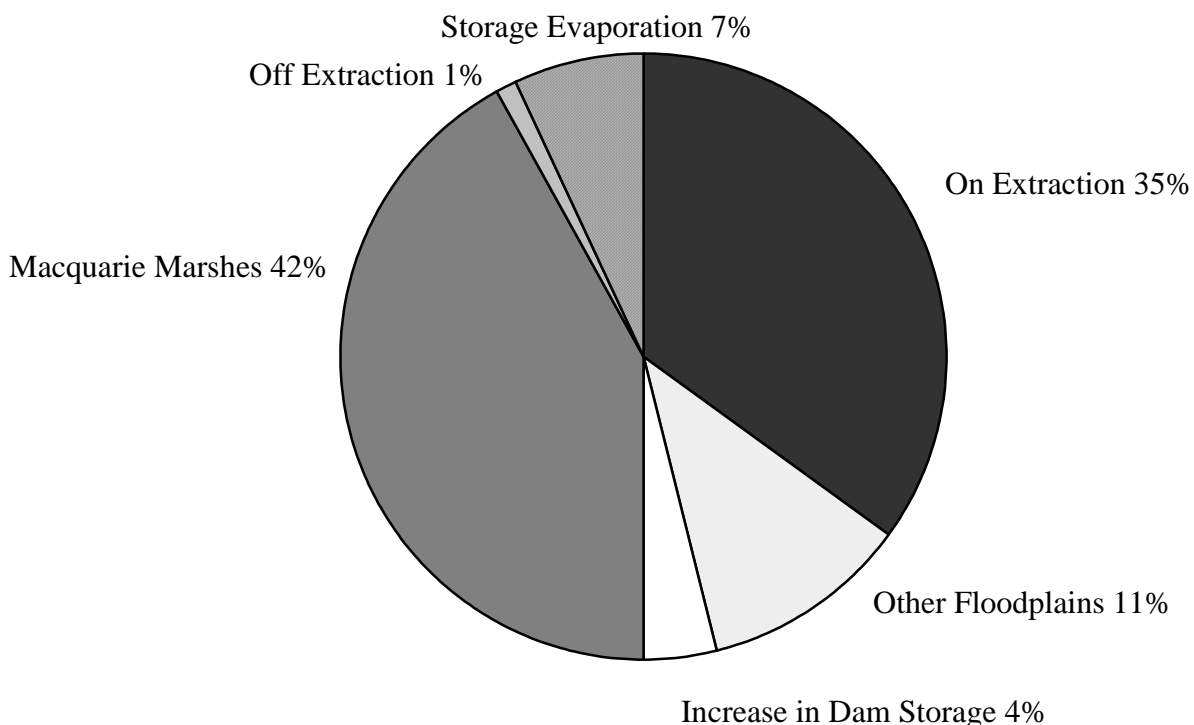
Problems with current application of this principle by DLWC is that:

- DLWC has not identified all beneficiaries or community service obligations (CSOs) by considering environmental requirements and other non-user beneficiaries (eg: flood mitigation) prior to moving towards consumption based pricing. That is to say other consumers and beneficiaries besides irrigators have not been fully accounted for and apportioned appropriate cost sharing ratios;
- Therefore there is incorrect and inequitable application of the principle in the cost sharing arrangements, in which irrigators are being asked to pay 90 and 100% of different cost components when their consumption/ benefit gained is only a portion of the whole.
- A public interest test has not been undertaken to assess the impacts of setting out to achieve full cost recovery, nor has any meaningful study been undertaken to assess irrigators' capacity to pay. (see section below on Minimising Dislocation).

Irrigators in the Macquarie have access to about 28% of the storage capacity of Burrendong Dam (not including flood mitigation). Those irrigators in the Cudgegong have access to less than this, with many of the licences in this section of the river yet to be developed. The Dam incorporates a flood mitigation area, which increases beyond the storage capacity to closer to 150%. This means irrigators' share of the entire storage including flood mitigation capacity is closer to 19%.

Figure 1 outlines the actual distribution in 1999/ 2000, which demonstrates that total extractive users (town water supply, irrigators, industrial users etc) received 36% of the total water distributed for the period. User share may seem simplistic method of apportioning costs, given that it doesn't account for environmental costs. However as the alternative approach of quantification of benefits derived by all stakeholders has been too complicated for DLWC to apply to date, user share provides a logical, easy to determine, 'ball-park' indication of appropriate ratios. We would strongly dispute that irrigators should be paying between 50 and 90% of different cost components of State Water's business, based on our 'benefit'/ consumption as a share of the total water available – refer to Section 5 on cost sharing ratios for further discussion.

Figure 1: Distribution of Water – July 1999 to March 2000



Source: State Water Macquarie Newsletter: April 2000

We recommend that IPART commissions an independent consultant to consult with State Water and CSC's to review the application of the beneficiary pays principle and identify and prioritise all beneficiaries.

2.1.1 Community Service Obligations & Subsidies

As was discussed above, identification of CSOs is a crucial component of the beneficiary pays principle. From the “Corporatisation Charter for State Water Projects, June 2000, The Basis for Establishment of Sunwater Under the Government Owned Corporations Act, 1993” there is some detail on the QLD Water Delivery Business, Sunwater’s approach to community service obligations.

(p21) “The principle of ‘clarity of objectives’ requires that the corporatised State Water Projects (SWP) have an unambiguous commercial focus. The requirement to continue the delivery of the Government’s social and economic objectives after corporatisation would limit SWP’s ability to meet its commercial objectives. CSOs are the means by which the Government will continue to meet its social and economic objectives and allow SWP to operate commercially”

The document then goes on to identify CSOs...

Rural Water Subsidy: The Rural Water Subsidy is defined as the difference between the water price set by the Queensland Government and the ARMCANZ Lower Bound for irrigation schemes, based on efficient costs.

Refer to Figure 2 on page 11 for a graphical illustration of the Rural Water Subsidy concept.

There is also discussion in the Sunwater document of funding of CSO’s, the approach to new CSO’s and CSO contracts. We believe it is necessary to address all these CSO related issues via consultation between DLWC, State Water and CSCs, prior to consideration of price increases. Refer to the Section 2.2 on full Cost Recovery for more detail on the appropriateness of a Rural Water Subsidy.

We believe other appropriate CSO’s yet to be identified in pricing include:

- **Community benefit from flood mitigation:** there are massive opportunity costs associated with not having water supply infrastructure in place, in terms of the impact of flooding - refer to the section below for a detailed discussion of the justification for this category of CSO.
- **Provision of stock and domestic and town water supply:** it is a requirement of the Water Act that there is preservation of these basic rights. Considering the ability to pay and other equity issues related to the costing of supply of these basic rights, in applying the beneficiary pays principle it is appropriate that a CSO be established to meet the costs of basic rights provision. It is certainly not appropriate that the cost be borne by irrigators.
- **Provision of environmental outcomes:** this is a major equity issue, yet to be addressed by NSW Government in its approach to property rights, water pricing and structural adjustment. We understand the intent of COAG to create an efficient market for water, yet there are still some glaring, fundamental market failures present. For environmental benefits to be realised in the market, they must be valued and funded via beneficiaries (the whole community). We refer to Figure 1, which indicates 53% of water distributed in the period was specifically for environmental purposes. There are contradictions to the principle of beneficiary pays if irrigators are to pay the costs of provision of water to the environment, as well as their own entitlements (This issue is exacerbated due to our poorly defined property rights system). Therefore it is crucial in order to deliver the desired environmental reforms and the consistent application of the beneficiary pays principle that an Environmental CSO be established to apportion costs of environmental outcomes to the broader community, which benefits from these investments.

- **Provision of recreational services, tourism opportunities etc:** although provision of recreation services may have initially only been a flow-on benefit of infrastructure established for flood mitigation or bulk water provision, there is now an expectation that these recreation facilities and tourism opportunities will remain available to surrounding communities. Therefore recreational ‘users’ are extracting a benefit from the provision of bulk water. In applying the principle of beneficiary pays, the social and logistical implications of attempting to charge users a portion of bulk asset costs indicate that it is more appropriate that a Recreation / Tourism CSO be established to contribute to the costs of maintenance of dams and other assets which deliver recreational and tourism benefits.
- **Provision to cover system losses** (river, transmission and evaporative losses). This CSO is justified as these costs are not the responsibility of any one beneficiary, under the consumer or impactor pays principles, even though they are a cost associated with supply of the resource.

As DLWC is a monopoly, which cannot be impartial on matters of community service obligations, we request that IPART enforces the available process of the Customer Service Committees (CSCs) to enable consultation between State Water and irrigator customers on appropriate CSO recommendations and contracts for DLWC to take to NSW Treasury.

2.1.2 Community Benefit of Flood Mitigation:

As noted above, another category of beneficiary is the downstream urban communities, which receive flood protection from the dam: Wellington, Geurie, Dubbo, Narromine, Trangie and Warren. Some work has been undertaken by DLWC, investigating the consequences of Burrendong Dam failure, under an extreme flood event. The following table outlines indicative economic impacts.

Table 1: Estimated Impacts of Burrendong Dam failure

Impacted Category	Impact in \$Millions
Residential	933
Commercial	2,911
Industrial	1,827
Public Assets	2,212
Replace Dam	308
Total Indirect Impacts	53
Agricultural	257
Total	8,501

Source: Pers comm. (Glenn Tully, DLWC, Sydney)

In applying the principle of beneficiary pays it is apparent from the figures in Table 1, that there is an extreme opportunity cost of not maintaining Burrendong Dam in a state to avoid flooding. In Table 2, an estimate of the value of insurance against an extreme flood event has been calculated, assuming an insurance rate of 0.5% of the cost of damage, as provided in Table 1.

Table 2 also illustrates the relative impacts on different categories, by expressing the cost of insurance as a percentage of the total. For instance the impact on agriculture is only around 3% of the total. In fact, irrigators would argue that flood mitigation works at the dam are not sufficient for them (most irrigators invest in their own flood protection) and sometimes disadvantage them (those irrigators further downstream now experience lower flood flows for much longer duration, due to the dam’s regulation).

Table 2: Estimated Insurance Costs of Protection Against Burrendong Dam Failure

Impacted Category	Cost of Insurance @ 0.5% (\$ Millions)*	Percentage of total cost of insurance
Residential	4.7	11%
Commercial	14.6	34.3%
Industrial	9.1	21.4%
Public Assets	11.1	26.1%
Replace Dam	1.5	3.5%
Total Indirect Impacts	0.3	0.7%
Agricultural	1.3	3%
Total	42.6	100%

* Insurance rate of 0.5% has been selected based on advice from Colonial Insurance on fire protection. Flood is considered in a similar risk profile in terms of being less likely to happen than say burglary. This insurance rate has then been applied to the impact figures in Table 1, as these are the best available estimate of replacement cost.

From Table 2, a rough estimate of the hypothetical annual cost of insuring the community against flood by maintaining dam infrastructure is \$43 million. It is noted that the flood impact estimates are based on an extreme flood event; hence we have chosen a low insurance rate (0.5%) as an indicator of the hypothetical ‘Community Willingness to Pay’ figure for insurance to maintain the dam for flood mitigation purposes.

We would argue that based on the Community Willingness to Pay principle, and the difficulty in charging specific sectors of the community based on the benefit they derive from flood mitigation, there is justification for a Community Flood Mitigation Service Obligation. This CSO would serve to reflect the opportunity costs of not having water supply infrastructure in place, as well as specific flood mitigation components of State Water’s costs in order to keep it in the condition required to protect the community from floods.

We recommend that IPART extends the consultancy reviewing the application of the beneficiary pays principle by via consultation with State Water and CSCs, to identify and make recommendations regarding appropriate CSO’s.

2.2 Full Cost Recovery

From (Government Pricing Tribunal (1995) Pricing of Bulk Water Services in NSW: An Issues Paper), p2, it is stated that:

“To base prices on costs, we must be able to measure the cost of supplying each of the water services... in other words we must determine which customers are responsible for which costs...”

Currently we believe the NSW DLWC approach is to achieve full cost recovery of the majority of operation and maintenance of infrastructure costs and generic resource management and environmental costs through irrigator customers, even though we believe irrigators are:

- minor stakeholders in terms of proportional user share of the dam (around 20% of the total storage including flood mitigation capacity)
- minor stakeholders in terms of benefits flowing from having the dam (when the opportunity cost of no flood mitigation and other benefits are factored in);
- minor impactors in terms of being responsible for the environment costs being charged to them; and
- incapable of bearing cost increases of 100's of % over a 5 or even 10 year period.

This recent shift in policy direction is drastically different to Government's historical approach to water related investments.

“Much of the past public investment in irrigation would not have proceeded had irrigators been required to meet full costs, including capital costs” (Industry Commission 1992b, p85, cf Davidson 1969).

We note that the COAG document, which DLWC bases its approach on, places the option of deciding against pursuing full cost recovery on an equal level with full cost recovery, provided alternatives are transparent and justified through public benefit tests.

(Godden, D (1997) Agricultural and Resource policy: Principles and Practices) states:

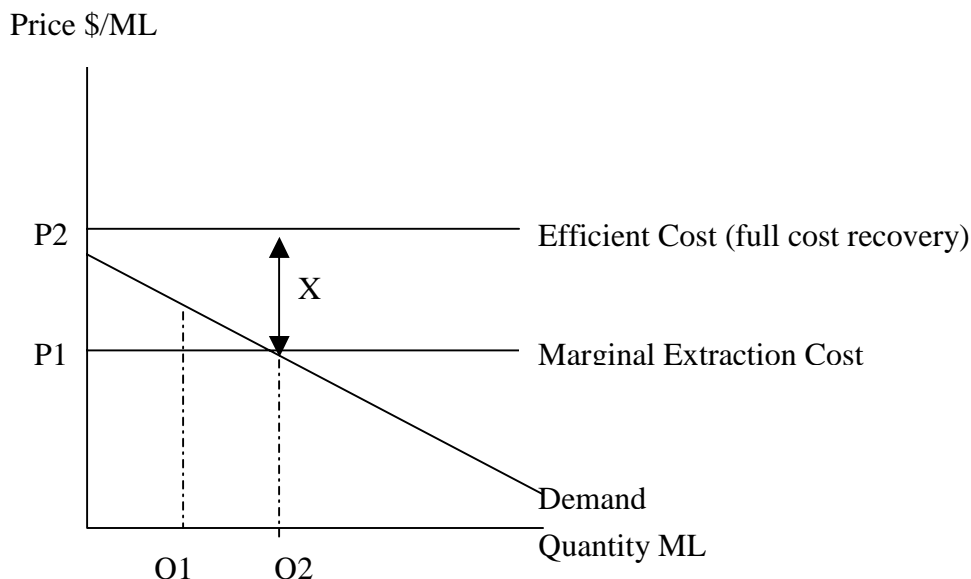
“Up until recently cheap water has been provided to both urban and agricultural users, implicitly justified on market failure grounds. Public health issues have underlined the cheap supply of high quality water to urban households. The flow-on effects to regional development have been used to justify increased irrigation.... Where water has been made available for irrigation, there are substantial ‘upstream’ economic effects on industries supplying inputs complementary to water. There are even more substantial ‘downstream’ economic effects.”

Figure 1 below, adapted from (Tietenberg, T (1992), Environmental and Natural Resource Economics) demonstrates a scenario where pursuing full cost recovery through irrigator customers is inappropriate due to the substantial trade-offs that will occur in this process.

Figure 1 provides information about a demand and pricing scenario of a scarce resource, such as water. For most scarce resources, there is a ‘rent’ component, above the marginal cost of supply, which can either be charged to the consumer, or subsidised, depending on the specific market. The full cost recovery ‘efficient’ cost incorporates the scarcity component and environmental costs of supplying a scarce resource.

In Figure 1, if P2 is charged (the full cost recovery price), there will be no water purchased, as the price is above what irrigators perceive as affordable. This is an extreme scenario, but serves to identify the trend. Figure 1 provides an example of where a rural water subsidy (X) would be applicable in order to meet full cost recovery without sacrificing social and economic benefits of irrigation.

Figure 2: The Notion of Economic Rent & the Justification for a Rural Water Subsidy



The theory supporting Figure 1 needs to be carefully applied by DLWC, prior to pursuit of full cost recovery, so that a balance can be reached via a Rural Water Subsidy between irrigation demand (and the flow on social and economic benefits of this industry) and full cost recovery. It is crucial to identify any need for a rural water subsidy before the flow-on social and economic benefits of irrigation are diminished as irrigators are priced out of the market. A complication to the issue of pursuing full cost recovery is if DLWC is using pricing as a tool to reduce irrigation – refer to the discussion below.

We recommend that IPART commissions an independent consultant to consult with CSC’s prior to developing a methodology to undertake a comprehensive impact assessment to determine whether pursuing full cost recovery is in the public interest, as well as identifying impacts on irrigators and their ability to adjust and to pay increased prices and consider any structural adjustment measures necessary.

2.2.1 DLWC Policy to Use Pricing as a Tool to Reduce Irrigation

We have read in government agency documents that pricing may be used as a tool in natural resource management. We are concerned DLWC is misinterpreting the intent of using pricing as a resource management tool, by aiming to reduce irrigation through pricing. (Refer to DLWC’s submission, p11):

“Full cost recovery is an incentive to reduce water extraction”

This objective is designed achieve environmental outcomes, by reducing irrigation from say Q2 to Q1 in Figure 1. The objective is essentially presuming irrigation is ‘bad’, which is easily refuted, and the consequences of pursuing this objective will include trade offs in individual, local and regional social and economic benefits of irrigation. Some would argue that this is pricing water at its true environmental cost.

MRFF argues that this is not accurate for several reasons: irrigators cannot be isolated as impactors on the environment and secondly irrigators cannot be isolated as the only beneficiaries of positive environmental outcomes. Therefore the beneficiary pays principle would dictate that it is not appropriate to use pricing in this way. In addition to the above reasoning, this pricing policy would be a clear case of ‘double dipping’ by DLWC, as the Water Act already provides a process whereby environmental allocations can be increased. We note that irrigators, as customers, have not been consulted or informed about this potential initiative and strongly oppose pricing being used as a tool for the purpose of reducing irrigation, especially given the lack of proper property rights irrigators have to resources.

We would also argue that the market driven approach to reducing irrigation is not environmentally sustainable. As farmers experience increasingly tight margins there may be negative environmental outcomes in the process of reducing irrigation. There would also need to be public interest standards measured before intentionally pricing some irrigators out of business – the impacts on the social and physical landscape, as well as the consequences of moving towards monoculture cropping within valleys are significant trade offs to consider. Added to the above concerns is the lack of relationship this policy initiative has to State Water’s role in efficient pricing and delivery of water; there are severe transparency of financial information issues in using pricing as a tool to reduce irrigation.

In DWLC’s application of pricing principles to replicate the competitive market, we note that because there is only one service provider, DLWC is able to push its policies uncontested. We request IPART acts accordingly in its role of removing monopolistic behaviour, by instructing DLWC that it is inappropriate to pursue such a pricing policy prior to the appropriate consultation process between State Water and CSC’s.

2.2.2 The Relevance of Property Rights to Water Pricing

We acknowledge that determining the strength of property rights is not the domain of IPART, and has been addressed in the current Water Act 2000. However the issue of property rights is relevant to IPART’s role in two regards:

- 1) IPART’s role in determining the appropriateness of DLWC pricing objectives such as that outlined in Section 2.2.1
- 2) The distortion of pricing signals due to ill-defined property rights, which limits customer’s flexibility to invest in efficiencies, or higher value enterprises.

In addressing 1) we note that the Water Act specifies a process whereby irrigators are eligible for compensation within 10 year periods, if it is decided irrigation entitlements need to be reduced for some environmental purpose. We believe that for DLWC to pursue the objective of obtaining more water for the environment via pricing, without paying compensation, conflicts with the intent of the Act. In terms of IPART’s role it needs to acknowledge that any pricing objective to reduce irrigation introduces an externality, which raises market failure as well as equity issues and provide direction accordingly.

With respect to 2) the way in which property rights to the water are defined impacts on irrigator’s demand for water at increasing prices. Tietenberg (1992) states:

“When property right systems are universal, exclusive, transferable and enforceable, the owner of a resource has a powerful incentive to use that resource efficiently, since the failure to do so results in a personal loss...The economic system will not always sustain efficient allocations, however. Specific circumstances which could lead to inefficient allocations include externalities, improperly defined property rights systems or imperfect markets for trading the property rights to the resources (monopoly).”

MRFF requests that IPART views any impact assessment with the above point in mind, as we believe irrigators' opportunity to adjust to changes is limited through the form of property right delivered in the Water Act.

2.3 Minimising Dislocation

From the executive summary of DLWC's submission:

"It is recognised that increases in prices to increase cost recovery will impact on irrigator customers. The dislocation of these impacts should be minimised. The most appropriate way of doing this is to provide as much certainty as possible about future prices and to spread their implementation over time".

How does notification of future prices and their phasing in reduce their impact? We suppose DLWC is assuming irrigators have sufficient confidence in their property rights to invest in increased water efficiency technology, or shift to higher value crops as they became aware of planned price increases. This assumption by DLWC is incorrect with regard to irrigator's confidence in their property rights, as market failures in water pricing mechanisms can be observed due to the non-genuine market for water (refer to Table 3). DLWC's assumption also needs further impact assessment of the ramifications of shifts towards a reduced variety of higher value crops. Added to the above comments, DLWC's response to minimising dislocation does not comply with the notion in COAG that Governments need to identify and mitigate the impacts of change brought by reforms.

DLWC's assumptions about irrigators' adjustment mechanisms in response to higher prices can be tested in checking if there is a correlation between increasing prices charged to deliver water and the selling price irrigators receive when trading water, (as would be the case in a competitive market for a product that had strongly specified property rights). We dispute that this correlation exists, bearing in mind the many commodity and other market factors that influence the trading price of water. Irrigators have actually experienced an inverse relationship between the price of water and its value in \$/ ML. Refer to Table 3, below, which demonstrates a negative rather than positive correlation between water prices and the value of water, with water prices increasing by 95% over the time period, yet water's sale value has decreased by around 20% in the same time. We note that there are other factors which influence water value, such as the \$AUD, cotton prices, water allocations and so on.

Table 3: Water Prices and Permanent Water Sale Correlations

Year	Water Price (General Security \$/ ML)	Permanent Sales* (General Security \$.ML)
1995/96	\$4.05	Unavailable
1996/97	\$4.70	700 - 800
1998/99	\$5.64	650 – 700
1999/2000	\$6.77	550 – 650
2000/01	\$7.90	550 - 600
% Change	95% increase	21% decrease

*Permanent Sale prices were obtained through personal communication with 2 water traders in the valley.

As the price of water increases, if there are poorly specified property rights, its market value will decrease due to the lack of flexibility or incentive to change to higher value enterprises. This decrease represents an erosion of the equity held in water entitlements coupled with a reduction in the product gross margins due to the increased price of water as an input.

We anticipate that there will be some point on the path towards full cost recovery where many irrigators, whether they are in a position to grow higher value crops or not, decide it is no longer viable to irrigate – we refer to the earlier discussion on DLWC policy to use pricing as a tool to reduce irrigation. How can DLWC deny substantial impacts of pricing at the same time as the above policy is being implemented, with the very objective causing pricing impacts substantial enough to reduce irrigation?

There is a lack of acknowledgement by DLWC of the trade offs between irrigation and its flow on ‘upstream’ and ‘downstream’ positive economic effects on one side and environmental outcomes and full cost recovery on the other. In relation to DLWC’s claims to be minimising dislocation, we note the flow on impacts on local and regional communities of full cost recovery and reducing irrigation have not been investigated.

Another factor to consider as we progress towards a trend of less irrigation is the shrinking customer base for State Water to bill in order to recoup costs of delivery and maintenance. A reduced billing base has further implications for State Water’s viability, which should be considered before progressing down this path.

At a recent State Water Customer Service Committee meeting in Dubbo, where DLWC representatives presented the basis of their upcoming submission to IPART requesting price increases, irrigators asked what impact analyses had taken place. We were referred to 2 studies, (which we understand were not commissioned specifically for the 2001 DLWC submission) and the DLWC representatives added that DLWC was leaving the impact analysis largely to IPART. We are convinced by DLWC’s lack of focus on impact assessment that it has not determined whether it is acting in the public interest and has not taken steps to mitigate change, or to assist industry through the reform process (as was another COAG requirement, which NSW Government places less emphasis on).

In relation to the studies DLWC has provided as evidence of the lack of impacts of price increases on irrigators, we note several methodology and reporting flaws, listed following and add that we have not had sufficient time to go into a detailed critique of these studies. We firmly believe DLWC is not ‘looking’ to identify adverse impacts, based on the contradictions in their policy objectives and observed impacts as discussed above. We understand that the flaws in the Peel report have been sufficient enough for it to be revised and have its assumptions revisited by NSW Agriculture.

Some problems we have observed in the 2 studies: Economic Assessment of Water Charges in the Lachlan Valley and Economic Assessment of Water Charges in the Peel Valley are listed below:

- Gross Margin analysis is insufficient to identify impacts of price increases, when such substantial infrastructure costs are associated with irrigation and shifts between enterprises etc
- There are flaws in the gross margin analysis, as product price and yield estimates are unrealistic, as are irrigated areas and water used in production. Also water prices have been underestimated in the gross margins as only the usage charge has been included;
- Water users were not provided with an opportunity to provide feedback prior to the report’s finalisation;
- The ‘representative’ farms used in the Peel study are unrepresentative of the valley, representing only the largest 20% of licence holders as well as there being problems with assumptions for these farms;

- Usage and reliability data is incorrect, at least in the Peel study;
- Despite the above flaws, the study still demonstrates a reduction in net farm income of between 11% and 27% and a reduction in operating returns of 16% to 109% across the four representative farms. However this substantial impact is not reported in the study's conclusion and has led to selective quoting of the report for the purposes of demonstrating minimal impacts.

We recommend that:

- IPART builds on recommendations in Section 2.2 stating the need for a review of the appropriateness of full cost recovery, by requesting an independent, comprehensive assessment of the current price increase proposal so IPART is aware of the social and economic trade-offs in considering these price increases. Included in this assessment should be consideration on the impacts on State Water's business of a shrinking billing base scenario; and
- IPART views the 2 impacts studies provided by DLWC as not independent, or comprehensive and therefore does not rely on the findings of these studies.

3 OTHER REFORM COMMITMENTS

3.1 Institutional Separation

There is a continuing conflict of interest with DLWC's multiple roles of service provider, standard setter, reformer, regulator and resource manager.

From the DLWC submission page 3:

"The COAG Framework indicates such institutional separation is necessary to ensure that conflicts of interest are minimised, as well as allowing increased efficiency and greater accountability in the service delivery functions of water agencies. The establishment of State Water, a separate commercial business unit of DLWC achieves this".

However State Water will not be entitled to its own submission to IPART on pricing, according to DLWC, until pricing reform is complete, despite the fact that State Water as the service provider has differing views to DLWC on some aspects of the existing pricing proposal. MRFF is confident in the genuine attempts of State Water staff to operate as a separate delivery business, however the business stands no chance when it has differing views to DLWC, which can't be expressed. Shouldn't separation occur prior to pricing reform, so that the regulator doesn't have complete power over pricing, which is a delivery issue? Refer to Section 2 for earlier reference to this issue.

As irrigator customers of the delivery body, it is very clear to MRFF that DLWC retains the clear power of authority over most aspects of State Water's business. We suggest IPART notes the significance of institutional separation to pricing reform and acts accordingly to halt further price increases till this outcome is delivered. State Water being permitted to have its own voice and make its own submissions separate to DLWC should be viewed as a first step towards demonstrable separation.

3.1.1 *Transparent Accounting*

An underlying flaw in DLWC's justification for further increases to pricing is its level of performance in information provision and transparent accounting. State Water accounting staff have stated that they currently find it difficult to access valley by valley statements. In the preparation of this submission, there have been requests made with several weeks notice, for more detailed information about specific line item costs under product codes, and valley split information, which have not been able to be met.

Our concern about not being able to access information about costs has been emphasised in every submission made by MRFF to IPART since 1996 and we believe it is inappropriate that further price increases be considered by IPART until it is satisfied that State Water's accounting and information provision are sufficiently accessible to the irrigator customers.

We refer to our submission to IPART on Water Pricing for 2000: "*DLWC must:*

- *In consultation with irrigator customers establish an accounting and financial reporting system which gives all stakeholders (water users, environmental interests, Treasury) confidence that appropriate and accurate allocation of operating, overhead and capital costs to different parts of DLWC business can occur. DLWC is still unable to respond to reasonable requests for scrutiny of their accounts with respect to water operations.*
- *Having established modern accounting and financial reporting systems, demonstrate to those same stakeholders that cost efficiency goals (based on international benchmarks for utility provision by public and private service providers) have been set, and progress made towards achieving these goals.*

Only after these two steps are achieved, can we have a sensible debate about, and calculation of, appropriate cost sharing arrangements between extractive users and others in the community who benefit from or value recreation, flood mitigation, other amenity functions, biodiversity and other values created by bulk water and associated infrastructure."

Again for earlier reference to this issue, see Section 2 and the discussion of the chronological sequence in which reforms must occur.

In its 2000 determination, IPART states the need for ongoing reviews in future determinations of financial information by:

- *"independently auditing the statements*
- *benchmarking bulk water costs and establishing a link between costs and service levels*
- *allowing CSCs and other stakeholders sufficient time to review costs and service levels"*.

We acknowledge the relevance of IPART's recommendations, listed above, but are concerned that IPART accepted DLWC's 2000 submission statements about financial information improvements as fact. We would dispute several of their claims and justify our disputes through the continuing lack of access we have to information. The IPART process has not served to remedy these flaws in DLWC financial information through previous determinations. We request that IPART accepts the failure in process and halts consideration of further price increases till transparency improves to an adequate level. We note that this process of improving transparency should include consultation between State Water and CSCs about customer requirements for information.

3.1.2 Customer Input into Investment Decisions

We note in IPART's 2000 determination that in 2001 it wanted CSC feedback regarding progress in influencing service levels and costs. Refer to the discussion in the next section on Unregulated Rivers and Renewals Annuity, for examples of the CSC's current lack of influence over investment decisions. We believe this lack of genuine influence indicates a bigger problem; inappropriate application of the beneficiary pays principle. Irrigator customers are being asked to fund investments that they don't see as necessary from a user perspective, yet DLWC persists with the investments. This logically indicates other resource management purposes for the investments, besides delivering benefit to extractive users. Therefore the cost sharing ratios should reflect the purpose of the investments.

In relation to the discussion on Institutional Separation, earlier in this report, we have unsuccessfully requested (via the Macquarie CSC) to view DLWC's contract with State Water, which specifies separation of roles and permits State Water to invoice its clients for regulatory cost components. As irrigator customers can't access any contracts of this nature it is impossible for irrigator customers or IPART to benchmark State Water's performance to determine its efficiency, or for State Water to progress towards efficiency improvements.

From (Government Pricing Tribunal (1995) Pricing of Bulk Water Services in NSW: An Issues Paper), p2, it is stated:

“Consumers should be able to choose the level of service they want. They should not have to pay for services that are neither necessary nor wanted. In the absence of market forces, the Tribunal must scrutinise levels of service and investment decisions to ensure water agencies work to make productivity gains and to pass these on to irrigator customers”.

We request that the issues of CSC's continued lack of access to information, lack of influence on investment decisions and the provision of service contracts between State Water and DLWC be resolved by IPART, via a process of consultation between State Water, DLWC and the CSCs prior to consideration of further price increases.

4 COST COMPONENTS IN DLWC'S SUBMISSION

We note that IPART has tendered for consultants to undertake reviews of capital expenditure and operating expenditure as well as water resource management expenditure by DLWC and State Water. We understand the studies will include reviewing the appropriateness of charging these costs to customers. Without having read the tender documents, we note that it will be crucial to the validity of the studies, that irrigator customers have an opportunity for input into both the methodology and the ensuing studies.

We also recommend that IPART enables sufficient time for currently tendered consultancies to incorporate CSC input and undertake genuine studies, (which we anticipate will mean that IPART delays its determination in order to provide a realistic timeframe).

4.1 A Return on new Capital Investment

DLWC is currently proposing that irrigators pay 100% of an annual rate of return designed to enable upgrades when necessary. The rate of return proposed is 7%. Our concerns with DLWC's interpretation of COAG on rate of return are:

- The rate of 7% is equivalent to that of 90-day Commonwealth bank bonds in the money market. We understand the Government's need to consider the opportunity cost of investments, but to set a rate equal to that of the money market disregards the severe opportunity costs of not investing in rural water supply infrastructure (refer to Section 2.1.2 on the Community benefits of Flood Mitigation for a demonstration of the cost of flooding if water infrastructure did not exist).
- Also COAG indicated that there be a rate of return earned on new capital investment, which means the appropriate range for setting the rate of return starts at 0.1%.
- There is an issue of inconsistent application of beneficiary pays principle in the return on new capital investment cost component. Irrigator responsibility to pay 100% of the 7% rate of return means it is likely that irrigator customers will be paying rates of return on investments, and components of investments, many of which will deliver benefits to those other than irrigators.

Another issue of concern related to DLWC's application of the requirement for a 7% rate of return on investments is the capital write off arrangement. It is our understanding that this arrangement should include the write off from capital value, of all known maintenance and upgrade needs prior to 1997 (refer to the 1997/98 Farm Dam Safety Report). We suspect that some known maintenance and upgrade requirements have been carried over to become irrigators' responsibility, which is inappropriate. In support of our position we note the following:

- The privatisation of the southern irrigation districts established a precedent in the government's approach to capital write off. There was agreement that infrastructure be provided at a specified standard (ie: the government as part of the privatisation deal, addressed known maintenance and upgrade requirements).
- It was a government obligation to maintain assets so it is inappropriate to transfer ownership of the assets without allowing for the funding of maintenance requirements (refer to the operation and maintenance requirements for the Fish River storage in the Water Act).

In its December 1995 Issues Paper on the Pricing of Bulk Water Services in NSW, the Government Pricing Tribunal (now IPART) recommended on p19, that:

“the target rate of return will depend on whether/ how public goods and CSOs are valued and paid for by Government”, and stated that “Where investments in the water industry have been made for other than economic reasons, and a positive rate of return is unlikely to be achieved, the Expert Group says that if those currently benefiting from services provided by the investment are prepared to meet the costs of supplying these services in the future, but without a rate of return on assets, the minimum financial viability test adopted by COAG would be satisfied”.

Clearly the process of identifying the public goods and CSOs must occur (as has been discussed earlier) before IPART considers any proposed rate of return cost component by DLWC.

One further point with reference to DLWC's submission, p20, a rate of return for MDBC and DBBRC investments is mentioned by DLWC and they insinuate an advantage to irrigators by not charging irrigators a rate of return on these other organisations' investments. We respond by stating that if these organizations required a rate of return, that to avoid double dipping, it should be payable as a portion of the return DLWC collects, not as an additional charge to irrigators.

4.2 Renewals Annuity representing Consumption of Assets

The Macquarie Customer Service Committee went through a process in 2000, of identifying those components of TAMP, which it didn't believe were appropriate. It is noted that DLWC's submission has not incorporated the updated TAMP. This also relates to the issue raised in Section 2.1.2 on Irrigator customers Input into Investment Decisions.

If irrigators are expected to contribute funds, there needs to be an established decision making process that is: open to scrutiny, open to tendering, follows beneficiary pays protocols in terms of apportioning of costs, delivers the most efficient solution and formalises roles via contracts. We request that IPART directs DLWC to develop such a protocol for investment decisions, via a consultation process between State Water and the CSC's.

An example of inappropriate application of beneficiary pays principle on new investment in the Macquarie system is the Warren weir, which is listed as needing upgrading. If the solution pursued by the agency involves delivering outcomes with benefits to others besides irrigator customers, it becomes a resource management decision and should be funded according to beneficiary pays principle, not entirely by irrigators. Refer to Section 3.7 for an example of extreme cost associated with an investment, which further demonstrates the need for the above noted protocols.

We also note the discussion on capital write off arrangements in Section 4.1 on rate of return. It applies equally to the calculation of a renewals annuity, as if known maintenance and upgrades at July 1997, haven't been designated as a government responsibility, these charges will be unfairly borne by irrigators.

With regard to DLWC's proposed categories for annuities (p17 of DLWC's submission), we believe it is appropriate that State Water consults with the CSCs to determine whether some of the major periodic maintenance should be categorised under Category 1, as routine maintenance. This may be more appropriate, depending on the maintenance required, and will impact on the level of input customers have, although it will increase the routine maintenance costs.

4.3 DLWC bulk water service resource management costs

The cost sharing ratio currently proposed by DLWC ranges between 50 and 70% irrigator share for most of the resource management costs (see Table 4: Cost Sharing Ratios). We refer to the current IPART tenders, noted at the start of Section 4 and state our concern regarding the current ratios. We presume the ratio is based on the premise that irrigators cause 50% to 70% of some of the current environmental problems with river systems. We would strongly dispute this (considering irrigators are downstream of the major sources of environmental degradation) and reiterate our request to have input into the study being undertaken on this issue.

We add that irrigators have no input into DLWC's Resource Management priorities, budget or expenditure. There is no avenue open to irrigators for identifying the need for increased efficiencies / outsourcing of work. Resource management aims to deliver environmental outcomes and sustainable planning. For these reasons it is inappropriate to apportion such significant portions of the costs to irrigators.

4.4 Annuity for Environmental and Safety Compliance Costs

We believe it is inappropriate to charge irrigator customers an annuity for this purpose, given the enormous portion of opportunity cost to communities of dam failure (refer to Section 2.1.2: Community Benefit of Flood Mitigation, which signals the need for a CSO to cover this category of costs).

The standards adopted are those for avoidance of the extreme scenario, which would impact on the whole state, so given the beneficiary pays principle, the State should pay to uphold these standards.

We note that in setting the environmental and safety compliance standards there has been no consideration of what the community perceives to be appropriate risk profile – ie what risk community and infrastructure owner are willing to live with. If irrigators are being asked to contribute to environmental and safety compliance costs, there should be an identified process where by we can contribute to the level of risk we believe is acceptable. We understand that the risk averse approach of State Water in setting environmental and safety standards is extreme, even when compared with other Government infrastructure managers such as the Urban Transit Authority.

However, regardless of the standard State Water sets to achieve on environmental and safety compliance, NSW Government is the legal owner of water supply infrastructure, the legal liability rests with it, as the owner of the dam and therefore so should the responsibility of meeting the standards necessary to cover its liability.

4.5 Water Use compliance costs

Water use compliance costs are part of DLWC's package of resource management costs, so we refer to the information in Section 4.4, which also applies to this discussion. Water use compliance cost objectives listed in DLWC's submission, p12, include protection of environmental values, and ensuring the specifications of the Act with regard to water sharing are adhered to.

These objectives demonstrate that water use compliance costs certainly deliver significant benefits to those other than irrigators and should be classified as largely for the public benefit. Again this is not reflected in the cost sharing ratios and needs to be rectified based on the findings of the current IPART expenditure studies.

4.6 A Share of Water Management Planning and Annual Implementation Programs & reporting

The Report of the Expert Group on Asset Valuation Methods & Cost Recovery Definitions for the Australian water industry, Feb, 1995 (p46) recommended:

- *That the one-off costs associated with the implementation of resource management initiatives be borne by the beneficiaries/ impactors ... Where however the wider public benefit is considered to be the beneficiary, government bear any one-off costs...*
- *Any ongoing costs associated with water resource management be borne by water beneficiaries/impactors, except where the broad community is identified as the beneficiary, or where the activity is clearly a government responsibility, in which situations government might pay...*

We believe that Water Management Planning and Annual Implementation Programs and Reporting are clearly benefiting the wider public, with relatively minor benefits flowing to irrigator customers (if the value of preserving environmental values are fully recognised). In this case the Expert Group's recommendations above should apply and the Government should bear the costs on behalf of the wider community, as has been our response to the other resource management costs, listed in Sections 4.3, 4.5 and 4.6.

4.7 Metering and Monitoring Costs for Unregulated Rivers

We have concerns with DLWC's application of beneficiary pays principle to this cost component, as with all the other listed cost components. For instance in the Cudegong there are some extreme costs proposed by DLWC relative to the number of users, largely related to gauging stations. In questioning who should pay for these increased metering and monitoring costs, we consider that existing equipment is satisfactory to meet existing customer requirements and that new metering and monitoring investments are largely for environmental purposes – hence environmental or public benefits which should be largely funded by government. The investments could not be justified based on existing use requirements.

The Macquarie Customer Service Committee has stated the above concerns, but has not been able to influence this investment decision. This indicates to us that the investment is a natural resource management decision and not the responsibility of water users to fund.

4.8 Capital Costs Associated with Unregulated and Groundwater Services

We believe the costs direct associated with actual delivery of this resource to irrigator customers are significantly less than the cost proposals provided by DLWC. However we have been unable to access the information we requested with respect to break-downs of groundwater costs to further examine this issue. (One of the information requests made in preparing this submission was to access the break-down between management and capital costs associated with shallow aquifers (an environmental concern) as opposed to irrigation aquifers).

It is certain that much of the costs are associated with environmental monitoring and information requirements. Therefore consideration of beneficiary pays principle indicates the investments are not only for customer benefit, but largely for the environmental purposes.

We request that all the cost components appearing in DLWC's submission are viewed in terms of their application of the beneficiary pays principle, following the completion of the independent consultancy to review the application of the beneficiary pays principle, as recommended in Section 2.1.

5 COST SHARING RATIOS:

Table 4: Cost Sharing Ratios

Product Code	Product Name	DLWC proposed user share	Our response
PA 1	Surface Water Database	50%	<p>Surface water is just as critically required for environmental and other allocations as it is for surface water. The major use is NOT related to surface water (see Figure 1) as is claimed by DLWC (appendix 6, of their submission).</p> <p>We suggest a 28% or less irrigator share, based on actual usage share of around 20% (see Section 2.1) with an additional 8% accounting for irrigators' portion of associated environmental costs.</p>
PA 2	Groundwater Database	70%	<p>This is a resource management cost, with substantial public benefits ensuing from environmental outcomes.</p> <p>Groundwater users in the valley have developed substantially less than their entitlements and are about to have these entitlements reduced.</p> <p>A significant part of this cost is related to monitoring of the shallow aquifers, which are monitored for environmental purposes and are not a source of irrigation.</p> <p>Therefore a majority share is inappropriate. We propose a 28% or less irrigator share, in the absence of specific user share figures.</p>
PB 1	Surface Water Allocation Strategies	50%	<p>This is a resource management cost, hence the logic outlined in Section 4 applies.</p> <p>Despite DLWC's claim in Appendix 6 of its submission that costs associated with water sharing plans are directly related to chargeable water users, the hierarchy of priorities for these plans, places environmental needs first, followed by basic rights and then irrigation.</p> <p>Therefore we suggest the same 28% or less irrigator share based on usage plus incorporation of associated environmental costs.</p>

PB 3	Groundwater Allocation Strategies	70%	<p>This is a resource management cost so the same logic regarding substantial public benefits flowing from environmental outcomes applies.</p> <p>Again we refute DLWC's claims that costs of water sharing plans relate directly to chargeable users.</p> <p>We propose a 28% or less irrigator share, based on above logic.</p>
PC 3	Flood Operations	50%	<p>This product should be funded via a CSO (refer to discussion on community benefits of flood mitigation) as should the costs of asset compliance works and those works essential in ensuring infrastructure meets minimal operational requirements through satisfying environmental and safety standards.</p> <p>Therefore we propose a 0 irrigator share for this product.</p>
PC 4	Rural Water Infrastructure	90%	<p>Based on the discussion in Section 2, regarding community flood mitigation, environmental and other benefits of maintaining rural water infrastructure we believe irrigators are minor beneficiaries.</p> <p>Therefore we suggest 28% or less based on our usage and size of other beneficiaries</p>
PD 1	Water Management Planning & Annual Implementation of Programs & Reporting	50% (IPART recommend 0)	<p>Refer to the discussion in Section 4 on this cost component. It is a resource management cost and the irrigators share should be zero as the beneficiary is the environment.</p>
PD 2	Blue Green Algae Strategies	50%	<p>This is a resource management cost, with irrigators accruing no benefit from blue green algae strategies, nor being responsible for causing any blue green algae outbreaks.</p> <p>Therefore the irrigator share should be zero as the beneficiary is largely urban communities, in terms of drinking water quality.</p>
PD 3	River Salinity Strategies	50%	<p>Irrigators do not cause river salinity and are minor beneficiaries (if the environment is valued).</p> <p>Therefore irrigators share should be between 0 and 10%.</p>

PD 5	Groundwater Management Strategies	70%	<p>Following the rationale of PA2 and PB3, this resource management related cost, delivers major environmental benefits and irrigators use only a minor share of the resource.</p> <p>Therefore we propose an irrigator share of 28%.</p>
PE 1	Provision of doubtful debts	100%	<p>It is the responsibility of State Water to collect bills.</p> <p>As Customer Service Committees are not given access to specific sources of bad debt, they are not in a position to influence the collection of bad debts so cannot carry responsibility for bad debts.</p> <p>Also State Water will always have the option of recouping bad debts from water sales/ transfers and legally cannot write off bad debts prior to pursuing all options, so it is potentially illegal to pass bad debt costs on to irrigator customers.</p> <p>Therefore we propose that irrigators share if this cost be zero.</p>

We recommend that IPART commissions an independent consultancy to building on the findings of the review of beneficiaries and the application of the beneficiary pays principle and consult with State Water and CSCs to review existing cost sharing ratios for product and service codes.

6 OTHER CONCERNS:

DLWC indicates in its submission that it will be making a separate submission regarding seeking a price increase in the issuing of licences. As irrigator customers who will bear any increases, we do not think it is appropriate to attempt additional price increases outside the bulk water pricing submission process. We request that IPART reminds DLWC of its intent to minimise dislocation through the information provided in the Bulk Water pricing submission and the customer’s right to be informed of all proposed price increases within the Bulk water pricing submission.

DLWC indicates in its submission that IPART should consider ongoing increases beyond 2004, based on an assumption that we will have reached about 80% of full cost recovery by this point. There should be no acceptance by IPART or the general community of foreshadowed further increases in bulk water prices by DLWC, on the grounds that major questions remain unanswered about appropriate accounting practices, efficiency of service delivery, identification of CSOs and dispute about cost sharing principles.

We thank IPART for carefully considering all the arguments raised in this response to DLWC’s submission and provided IPART is able to address these concerns, we look forward to a more equitable process of pricing reform in the future.