

CCNVWUA Incorporated's Response to the **Draft IPaRT Bulk Water Pricing** for 200 1/2 to 2003/4

Introduction

The Coordinating Committee of the Namoi Valley Water Users Associations Incorporated welcomes the opportunity to comment on IPaRT's draft report on bulk water prices effective from 1 October 2001.

We are glad that the hardships on communities and license holders have been acknowledged by limiting the increase in price and staggering it over a 3-year period. While there is a need for full cost recovery we feel there is a need to better identify the impactor before allocating costs. It is also essential that socio-economic studies be conducted before any further price determinations.

IPaRT, ACIL and Pricewaterhouse Coopers's reference to the inadequacy of information while alarming is not surprising. It reiterates what water user and environmental groups have been saying from the inception of the water reforms process.

It is essential that the poor quality and timeliness of information provision be rectified to ensure that this process comes to an equitable outcome.

1. The Tribunal Process

While we acknowledge, and applaud, the mammoth task the Tribunal has undertaken in endeavoring to achieve its requirements we fear they are being thwarted by the bureaucracy that is DLWC.

Economic efficiency cannot be either determined or achieved without reliable socioeconomic studies. A requirement which, though budgeted for since the beginning of the water pricing process, has not occurred. With this in mind the funds attributed for these studies must still be sitting in consolidated revenue and should be called upon immediately to expedite the process. This will also assist DLWC in meeting the requirements of COAG.

Financial sustainability of either stakeholders or DLWC will not be achieved under the current DLWC rationale.

The present scenarios run by DLWC will prevent regional business from operating and thus will result in DLWC's demise as there will be no paying customers to continue funding the programs of DLWC. Even if there were fully transferable water property rights, which could be traded, to other valleys of NSW, there would not be a market. The prices the DLWC wish to charge would ensure this.

Promotion of competition can not be achieved through pricing, as it will always remain, that DLWC is a monopoly. Price can not effect this.

The **community, stakeholders and government** will only achieve **equity through** rational **scientific** investigation of the socioeconomic consequences of price rises, identification of the true **impactor** on cost areas and rationalization of the commit-tee process.

When a water user is required to pay **exhorbant** water charges they will pare down other areas of their enterprise, the **past has proven that this** is generally in the maintenance of the **property and thus results in a decline in environmental sustainability**. Farms and businesses alike must be viable in order to maintain any sustainability be it economic or environmental.

An **equable** solution for environmental sustainability requires the **environmental lobby and government** to share in both the costs and benefits of water use. **They, in particular the environmental lobby**, are presently only reaping **the benefits** and are in **no way** assisting with the costs of resource management.

It is apparent **from all reviews of DLWC finances** that the accounting system is **anything but simple or transparent**. DLWC continues to resist **the need** for this **begging** the question is their something to **hide**?

Until the above items are achieved there can be no control of the cost of regulation. The true cost of regulation may never come to light.

2. Allocating Costs

2.1 Legacy Costs and Forward Costs

We endorse the IPaRT position of legacy versus forward costs.

Where works were needed prior to 1997 the government must fund the associated costs, as they are sunk costs.

While we agree that future costs should be determined on an impactor pays principle we believe it is necessary for the definition of impactor to be better enunciated. It must be applied on a code by code basis as well as this is the only way in which the current system can be given some integrity.

The community must meet any future costs, which are incurred as a result of community management decisions.

The correct decision-making forum for price, asset works and other State Water operational and management issues is the valley based customer service committee not the valley management committee. ACIL's reliance on the latter is an oversight as they are involved only in consulting with the Minister and Director General on a management framework for the water resources of the catchment. This further highlights the DLWC's lack of direction and inability to ring fence State Water as a separate entity.

The proposal, by NSW Irrigators Council, to list State Water as a standing reference in Schedule 1 of the Independent Pricing and Regulatory Tribunal Act (1992) is an appropriate means of achieving integrity, equity, transparency, sustainability and certainty and control of the costs of regulation. It may in fact be the only way to ensure this is achieved.

2.2 Allocating Costs Between Users and the Government

Through determining legacy costs and identifying impactor costs the tribunal has moved close to achieving equitable pricing.

The definition of legacy has provided the basis for determining how the required works on Keepit Dam and Chaffey Dam, in the Namoi Valley, should be met. The financial records and cost share ratios should reflect that the works, as a legacy cost, remain a community obligation.

Rate of return cannot be expected on faulty infrastructure, which was deemed faulty before July 1997, thus Keepit or Chaffey Dam remain an obligation of the government and the community not the licensed water user.

2.3 Allocating MDBC Costs

As any allocation of costs to individual valleys increases the water price for licensed users no amount can be coined as "immaterial".

The Namoi-Peel continues to dispute the sharing of these costs to their accounts. As there are no salt mitigation works or plans in this valley nor are there significant discharges from the valley the costs, under the impactor principle should not be reflected in the Namoi-Peel account. The Namoi discharge of salt into the Murray-Darling system is less than 1.2% per annum. Salinity in the Namoi is not attributable to irrigation – but is dryland salinity. The sharing ratios do not reflect this nor do they reflect the fact that the operating costs relate to areas other than salinity.

3. Determining a Reasonable Transition

3.1 Cost Recovery

Though ACIL, PwC and IPaRT still question the integrity of the asset base and the general accounts presented by DLWC we are still given cost recovery percentages. How reliable are these, . The Namoi-Peel Valley is concerned that it is being charged, as demonstrated in the figures within TAMP, for works which the DLWC does not intend carrying out or intends delaying for a prolonged period. In particular this relates to works on Keepit and Chaffey dams. The community reference panel On Keepit will not be in a position to make a determination for up to two years on how the dam can best be repaired and DLWC and State Water have indicated it will be a further 2 years from that date before works start. DLWC will in effect be overcharging the water user for 4 years. At any rate due to the fact that these works were needed prior to July 1997 they are legacy costs and should not be in the cost.

3.2 How would increasing prices to full cost recovery level effect farm incomes?

3.2.1 Impacts on all water users

As stated in all other submissions we have made the Department of Agriculture's Gross Margin Impact Analysis is inadequate. Entitlement charges represent a variable cost as they are changing every year and should therefore be included in the analysis.

The analysis conducted also neglected to consider the volatility of commodity price, it assumed farm income was static. This is a drastic oversight on their part.

3.2.2 Impacts on Groundwater Users

It is correct that it costs the DLWC less to "deliver" groundwater to licensed water users, however the costs of getting groundwater from bore to paddock exceed those of regulated water. Therefore to assume that the impact of a price rise will be less on the groundwater user is, at best, misguided.

The impacts on groundwater in the Namoi are particularly significant. This is due to the recent decisions by DLWC to limit users to a maximum allocation, according to their zone, between 10% and 65% of their entitlement. Therefore, no user will actually ever be permitted to access 100% of entitlement. This is relevant because the DLWC will continue to charge based on 100% of entitlement. The windfall for the DLWC will be considerable. For example, 2 license holders each have entitlement of 100 megalitres but have been limited to 10 megalitres and 65 megalitres respectively. This equates to \$45 and a \$17.50 windfall for the DLWC. Though this may assist in achieving financial security for the DLWC it will not achieve efficiency or equity.

4. Maximum Prices

4.1 Difference between high and low security entitlement charges

Given the fact that the high security user has a greater impact on the management of the dams it is necessary that the high security charge on entitlement reflect this. IPaRT have acknowledged this and we look forward to further consultation with them on this matter.

In the Peel Valley, where high security water comprises 53% of the full capacity of the dam it is particularly important that the operational and management costs of the dam be reflected in the pricing of the two levels of entitlement. At present this is not the case, the low security irrigator is subsidizing the other users of the valley.

4.2 Identification of all impactors on DLWC WRM

The DLWC still does not adequately **acknowledge** the impacts of the hydroelectric **industry** on its **WRM**. This **must** be improved so that the cost sharing to these "Licenses" can **be determined as efficient and equable.**

4.3 License fees

Though these have not **been** changed **this** round we look forward to **further** discussion of this in the upcoming round. **We are certain with adequate and timely information both the irrigator groups and Namoi Peel CSC can agree upon a position on this matter.**

5. Implications for Customers

5.1 Implications for all users

As stated **before the gross margin analysis misstated** the impacts **on farms, impacts will in fact be much larger than have been stated. Coupled with other economic and environmental constraints we may well see the demise of many farms.**

There **will be major social and economic** impacts within the **regions such as those already being felt in the Namoi/Peel. Flow on effects will include a decline in jobs and funding for charitable organizations and educational institutes.**

5.2 Options for reducing the impact of price increases

5.2.1 Trading water

Not only will the sale of water by **financially** challenged farmers be **to their detriment**, as it decreases **their** yield **viability** and quality, it does not lead to more efficient water use. The industry of the Namoi is noted for is **highly efficient** use of water, **it continues to research methods of improving efficiency.**

The affordability of trading between valleys is **questionable. It is also not necessarily efficient.**

5.2.2 Handing back entitlement volumes on regulated rivers

An equable system would require **all** license holders to hand back an equal **portion** of their license. This is not tenable **for** either **high** security or low security users.

It is established that entitlements, be they **active or inactive**, they are recognized **as assets and** to suggest **they be handed back with** no recompense is preposterous.

Licensed water **users** are very concerned about the thought of **'handing' back entitlement. It has** been demonstrated through the water reforms within the Namoi **groundwater** system that even though entitlement has been **'handed back'** charges continue to be based on the original entitlement, We are **certain** that the **DLWC** would maintain this overcharging mechanism on any entitlements that were **'handed back'** in the **future.**

5.2.3 Using assistance schemes available to farmers

Though a good **suggestion, the ability** to access these funds is negligible. At present many **irrigators** are not eligible for the **funds or training offered.**

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6. Implications for the Environment

6.1 Ensuring adequate funding for water resource management

There is a **need** to ensure that the spending of the DLWC is necessary, it is questionable when meeting **after** meeting is held with no outcome as a direct **result** of the **DLWC's failure** to provide timely, **adequate** and accurate information- It would appear to be a campaign of **misinformation** determined-to ensure there is **not outcome** but that **the** customer will pay for it all.

7. Compliance with Information Requirements from Last Determination

It is noted that DLWC has only finalized 29% of its required compliance this is neither efficient nor effective. How can the water customer rely on the determination of IPaRT when information is not adequate?

All information supplied to IPaRT should be supplied to CSC's such that they can be a part of this process. At present this is not occurring.

It is impossible to verify whether the items, which were supplied, are complete without an independent audit of the books of the DLWC.

Item 11 of the compliance, which is supported by valley accounts is of concern to water users. Each time a valley account has **been** requested at CSC it has **been** delayed **and** when it was finally received it was presented 3 times has many days **and** on each day **had altered**, **and** was again altered in the DLWC submission to IPaRT. Which figures do we rely on? Where are the integrity, equity and transparency in the 'clear accounting of the resource management activities recovered in the bill sent by the resource manger to Sate Water²

¹ MDBMC(1 999) *The Salinity Audit of the Murray-Darling Basin A 100-year perspective*, 1999 Canberra p.8.

² IPaRT(2001) *Department of Land and Water Conservation Bulk Water Prices from October 1 2001 Draft Report* p. 80