NSW IRRIGATORS' COUNCIL

NSW Irrigators' Council
Level 6, 139 Macquarie Street Sydney 2000

Tel: 9251 8466
Fax: 9251 8477

Submission to the

Independent Pricing & Regulatory Tribunal of NSW

Bulk Water Pricing

May 2001

TABLE OF CONTENTS

EXECUTIVE SUMMARY

NSW Irrigators' Council recognises that the effective management and pricing of water resources in rural NSW is vitally important to the economy, the environment and to the community as a whole. The establishment and implementation of appropriate pricing principles is fundamental to providing a more certain and competitive commercial environment. However, the basis for the determination of these principles must be linked to credible and transparent financial data and a reliability and security of supply.

NSW Irrigators' Council have undertaken a critical analysis of the Department of Land and Water's (DLWC) response to the information requirements identified by the Independent Pricing and Regulatory Tribunal of NSW (IPART) as being necessary for a medium term pricing proposal to be accepted. There are a number of areas where DLWC have failed to satisfy these requirements including:

- The inability to identify resource management costs and the 'ringfencing' of these costs,
- The non-contestability of services which is manifested through the clear failure by DLWC to establish State Water as a separate commercial business that satisfies the Council of Australian Governments' (CoAG) framework of accountability, increased efficiency and minimisation of conflicts of interest,
- The superficial approach to information provision to the State Water Customer Service Committees (CSCs), and
- The lack of intent to address internal inefficiencies in State Water.

It is apparent to NSW Irrigators' Council that DLWC have adopted a selective approach to the implementation of the principles of the CoAG Strategic Water Reform Framework. This is clearly evidenced through the minimalist approach to institutional reform, imposition of a Rate of Return on funds provided for maintenance of capital assets and the assumption that irrigators should shoulder the majority of the financial burden associated with compliance and safety standards of infrastructure.

The cost sharing ratios proposed by DLWC are not acceptable to NSW Irrigators' Council on the following basis:

- They do not reflect the equity of the decision-making processes (particularly in relation to water management planning and implementation),
- They do not take into account the impact of environmental flows,
- They fail to adequately identify the broad spectrum of beneficiaries and choose to focus on consumptive water users, and
- They do not take into account the contribution of irrigators to environmental management activities (such as salinity management programs) and the implementation of water use efficiencies 'on-farm.

A significant component of the DLWC submission should be a thorough assessment of the potential impacts of the proposed increases in bulk water prices. NSW Irrigators' Council believes that DLWC have failed to adequately understand and address, the ability of irrigators to pay the proposed prices. Questions have been raised about the gross margin analysis and about the accuracy of economic assessment reports on the Peel and Lachlan Valleys. NSW Irrigators' Council is advocating further work in this area.

As a result of the review of the DLWC Submission to IPART on Bulk Water Pricing for 2001/02 – 2003/04, NSW Irrigators' Council remains to be convinced that the proposed price increases are justifiable and that DLWC have adequately fulfilled their obligations to previous IPART Determinations and the principles of the CoAG Strategic Water Reform Framework.

There is no doubt that the issue of bulk water pricing is contentious and the process confrontational. NSW Irrigators' Council is seeking a more realistic and structured approach to the matter. It is proposed that IPART not proceed with a medium term pricing determination in 2001 and that this be deferred until 2002.

By deferring the decision until 2002, NSW Irrigators' Council believes that this will allow stakeholders to agree on a strategic approach to pricing which reflects the complexities of the pricing process, is consistent with the implementation of the Water Management Act (2000) and recognises the need for a continued demonstration of a commitment to recovery of 'efficiently delivered' (and necessary costs).

RECOMMENDATIONS

That the Independent Pricing and Regulatory Tribunal of NSW not proceed with a medium term pricing determination but that this be deferred until 2002 on the following basis:

(a) The issue of institutional and commercial separation of DLWC and State Water has not been resolved.

(b) DLWC/State Water have failed to adequately address the information requirements outlined in Appendix 5 of IPART 2000 Determination

(c) DLWC have not implemented a benchmarking framework for its bulk water supply business unit that demonstrates standards that can be used as basis for determining future efficiency gains.

(d) DLWC have not completed a comprehensive impact assessment process as per the guidelines established by the Independent Advisory Committee in their 1998 report – Socio-economic Assessment Guidelines for River, Groundwater and Water Management Committees.

That IPART recognise that in not proceeding with a medium term pricing determination in 2001 and deferring this decision until 2002 that this will allow for the following:

(a) Industry stakeholders to agree on a strategic approach to pricing which reflects the complexities of the process, is consistent with the implementation of the Water Management Act (2000) and recognises the need for a continued demonstration of a commitment to recovery of 'efficiently delivered' and necessary costs.

(b) IPART to consider listing State Water as a standing reference in Schedule 1 of the Independent Pricing and Regulatory Tribunal Act (1992) in order to allow for an annual review and critical assessment of DLWC compliance to previously established efficiency standards/outcomes.

In relation to specific principles raised in the 2001 DLWC Submission, NSW Irrigators' Council makes the following recommendations:

(i). That IPART recognise the contribution of irrigators to the water management process and environmental reform that occurs 'over and above' the pricing model and that this contribution be reflected in water prices.

(ii). That the proposed cost-sharing ratios more accurately reflect the equity of the decision-making process and established IPART pricing principles.

(iii). That the 'one-off' costs of water management planning and implementation be recognised as benefiting the broader community and as such those costs be borne by the Government.

(iv). That in order to remove the ambiguity currently associated with the allocation of funds by State Water to resource management projects, the results of IPART's 'Review of Water Resource Management Expenditure' be made publicly available.

(v). That the NSW Government's regulatory responsibility not be over-looked in determining the level of contribution required from irrigators to the management of natural resources.

(vi). That the implications of environmental flows be considered as part of the bulk water pricing process and in any impact assessment process.

(vii). That irrigators not be required to contribute a Rate Of Return on funds they (and other beneficiaries) have provided for maintenance of State Water capital assets.

(viii). That State Water be required to provide an external benchmark for 'non-contestable services' in order to demonstrate reasonable expenditure.

(ix). That a clear and transparent accounting framework be established to ensure that annuity payments and expenditures are appropriately managed between NSW Treasury and State Water.

Introduction

NSW Irrigators Council (NSWIC) is the peak body representing irrigation farmers in NSW. Formed in 1983, the Council represents some 8,000 individual irrigators (through their commodity organisations, valley representative groups and the irrigation corporations) and over $2 billion in agricultural production.

NSWIC recognises that effective management of water resources in rural NSW is vitally important to the economy, the environment and the social well being of the people of NSW. The organisation supports the development and growth of sustainable irrigated agriculture but we acknowledge that the allocation, management and pricing of water is undergoing substantial change. It must also be recognised that many of the issues currently confronting the irrigation industry have come about as a result of past policy decisions by State and Federal Governments.

"During the second half of the 19th Century, a number of factors including an expanding population, closer settlement, and severe droughts, led to a heightened interest in the potential of irrigation and in spectacular projects involving large storage reservoirs and extensive water distribution systems. Governments became heavily involved, and for many years the extension of irrigated land was seen to be of national importance"[1]

Past mistakes by the government(s) in developing and managing our river systems should not be borne by consumptive water users. It could be argued that if the irrigation industry and the community had genuine input into the management of the systems then we might not be faced with some of the problems (and the majority of the costs) that we are being forced to pay for today.

In moving towards a vision of sustainable resource management NSWIC supports three broad long-term outcomes:

- healthy ecosystems and catchments in which the integrity of soils, water, flora and fauna is maintained or enhanced wherever possible;
- innovative and competitive industries that make use of natural resources within their capability, to generate wealth for social and economic well-being; and
- Self-sustaining pro-active regional communities that are committed to the ecologically sustainable management of natural resources in their region.

NSWIC welcomes the opportunity to participate in the current pricing round for bulk water and associated services. This submission is based on the matters raised, and the proposed prices contained, in the Department of Land & Water (DLWC) submission on bulk water pricing dated April 2001. The NSWIC submission also contains additional information that we believe supports the argument for a strategic and more considered approach to a long term pricing path that is consistent with CoAG principles.

NSWIC would like to point out that the submission we are responding to has been prepared by the DLWC – the standard setter and regulator – and not by State Water the actual service provider (and it gives every indication that State Water staff have had

[1] Hallows and Thompson, *The History of Irrigation in Australia*, ANCID, p 7.

minimal input to it). In reviewing the document it is patently clear that no separation exists. State Water is very much still captive to DLWC politically, culturally and in relation to protocols and policies. Critically, State Water is beholden to the DLWC for a substantial part of its cost structure and the lack of independence, choice and 'clout' means it is paying a premium for that close association.

Quite clearly all NSWIC comments should be directed to State Water as it has been charged with the responsibility for the State's bulk water services. It should not be able to abrogate that responsibility and nor should NCC, IPART and its customer base allow it to do so. It should be noted that comments regarding the failure of Customer Service Committees and other regional issues are directed to State Water. However, as a principle it seems pointless referring to State Water as the author of the submission when it is clearly not the case.

1. PROGRESS SINCE 2000 DETERMINATION

NSWIC is concerned that DLWC and State Water have failed to address a number of significant issues that were identified in previous IPART Determinations. In their 2000 submission for example DLWC stated, “A medium term price path – three to five years from 2001/02 – is being developed for discussion with Water Management Committees (WMCs) and Customer Service Committees (CSCs), and other interested organisations and water users. This will be available later in 2000 for an extended consultation period.”[2] The reality is that the Submission was only made available on 3 April 2001 (and then only to the media in the first instance).

Appendix 1 of this submission contains an overview and evaluation of the DLWC’s response to areas identified by IPART as essential for a medium term pricing determination. “However, considerable work is still required to provide all the cost information the Tribunal believes should be made available”.[3]

The full review of the DLWC response is contained in Appendix 1 but NSWIC believes that there are a number of key areas that need to be highlighted in order to illustrate the deficiencies in the DLWC response.

1.1 General Information

In the absence of competitive alternatives, transparency of the DLWC’s services, the costs identifiable with those services and the rationale for that particular cost structure is an imperative for any meaningful discussion of what the beneficiaries might be asked to pay. Transparency provides a first avenue for greater scrutiny by relevant interests.

The DLWC description of the ringfencing of costs and activities is fundamentally flawed. “Resource management costs are extracted manually from the DLWC’s financial system and added to the ring fenced State Water costs to produce the valley financial information.”[4] The lack of transparency and the potentially arbitrary nature of the decision-making process at this point is a cause of concern and a weakness in the accounting process.

Efficient accounting systems are capable of allocating expenditure to appropriate cost centres provided that the initial data is appropriately identified. This should not be too difficult, particularly given the program approach used by DLWC and most government agencies.

1.2 Separation of State Water

This issue will be addressed in further detail in a separate submission but service contestability requires specific comment.

[2] DLWC, *submission*, Foreword.
[3] IPART, *Bulk Water Prices from 1 July 2000*, p 1.
[4] DLWC, *submission*, Appendix 1.

The utilisation of competitive markets to source some services can mean that at least those elements of the water supply activities are achieved at minimum cost. DLWC claims "….none of the services provided under service agreements can be substituted by those of a commercial service provider."[5] The non-contestability of these services (particularly IT and finance) makes a mockery of the concept of efficiencies and service agreements.

It is obvious therefore that it is DLWC and not State Water which determines budgets, programs, and the pace of any commercialisation taking place. The fact that State Water has to comply with "departmental protocols and policies" and is unable to express a separate view about the rigour of the service agreements only highlights the limitations of this separation.

There is no evidence that State Water has been able to "carefully scrutinise the standards which external regulators (including DLWC) seek to impose on the business", as IPART recommended in 1998.[6] Nor does it appear that there is any evidence that State Water can take any action if they considered the standard as excessive, the service as inadequate or the cost as uncompetitive.

In 2000 IPART asked for the following to separate State Water adequately from DLWC [7]:

* State Water's accounts should be separately audited on a valley basis and a full set of financial statements reported.
* Service agreements should cover services currently supplied to State Water by DLWC, where appropriate, and these services should be subject to open tender wherever possible.
* State Water's operating licence should specify its water delivery functions and any resource management obligations and include a customer contract, with performance against key indicators audited and published.

It is clearly incorrect for the DLWC submission to claim that the establishment of State Water as separate commercial business unit of DLWC satisfies the CoAG framework of accountability, increased efficiency and minimisation of conflicts of interest. [8]

1.3 Customer Service

At the State Water level, NSWIC believes that attempts have been made in improving customer service standards. The issue is not so much the creation of the framework for customer input/feedback but rather the quality and timeliness of the feedback provided direct to customers and via the Customer Service Committees (CSCs).

Question marks remain over the budgetary information received by the CSCs. If State Water is operating under a normal budgetary system then it should be safe to assume that each valley submits annual budgets as a basis for determination of this broader annual budget. Why then where the valley budgets for 2000/01 only made available to

---

[5] DLWC, *submission*, Appendix 1.
[6] IPART, *Bulk Water Prices for 1998/99 & 1999/00*, p 33.
[7] IPART, *Bulk Water Prices from 1 July 2000*, p 5.
[8] DLWC, *submission*, p 5.

the CSCs in March this year? This is hardly conducive to an open and transparent process, particularly as the bulk of the expenditure had already occurred.

If State Water is operating under a global budget then this raises a significant concern particularly if there is not transparency of expenditure on a valley-by-valley basis. Is there a cross-subsidisation by irrigators across valleys?

DLWC has not provided any detail on the new water reform program costs to CSC's prior to making this year's submission[9] as IPART reported in its 2000 Determination (page 11). Nor has it provided any detail of the other programs it intends to undertake during the next three years. NSWIC believes that the implementation of the new Water Management Act (2000) should be consistent with the introduction of any proposed pricing changes.

In 2000 IPART asked specifically for feedback from CSC's regarding progress in influencing service levels and costs. It is frustrating to report that there has been no progress at all. The Committees have not "played a major role in examining and questioning DLWC and State Water's expenditures in each valley" or "a mechanism for users to have greater say in how bulk water services are provided" despite their best efforts. While undoubtedly these efforts will continue, the lack of any delegated authority has enabled State Water to deny the Committees access to the information required.

It is notable that during a recent review of the terms of reference of the CSC's (NSWIC response supplied separately to IPART), State Water proposed a significant downgrading of the CSC powers. They would:

* provide <u>feedback</u> rather than <u>influence</u> billing policies
* <u>review and recommend</u> rather than <u>determine</u> asset management priorities
* provide <u>input</u> into rather than <u>develop</u> annual operating plans, and
* <u>assist in development</u> of rather than <u>resolve</u> disputes.

It is also notable that the State Water Financial Planning Process diagram excludes CSC's from the preparation and review stage and their only mention is after the output plan has been completed and on its way to IPART. It could be argued that even this does not currently occur.

IPART should be aware that Goulburn Murray Water (GMW) presently has a corporate productivity improvement target of 3.4% a year. A productivity plan has been developed and all responsibility centre managers are required to explain how they will achieve their targets prior to the budget preparation process for the following financial year. ".....:Goulburn Murray Water is committed to establishing a financial framework with Government that can be communicated to and understood by customers."[10] It should be noted that GMW has a board of directors, some of whom are customers, and customer service committees who are directly involved in all the financial and priority setting processes for their respective systems.

---

[9] IPART, *Bulk Water Prices from 1 July 2000*, p 11.

[10] Proposed Financial Framework with Government. ANCID 43rd Conference 1966. Chris Scriven, GMW.

1.4 Financial

Why have audited valley-by-valley financial statements not been provided to IPART as part of the State Water submission?

NSWIC is of the opinion that State Water has failed to address with any conviction the issue of internal efficiencies. It is unclear from the DLWC response as to what improvements have occurred and what ongoing targets have been established. This process would be clearly enhanced by the completion of internal and external benchmarking processes, which would allow a determination of the comparative performance of State Water over time.

An industry workshop in Melbourne in August 2000 defined benchmarking as it applies to the irrigation industry as:

"A process whereby organisations pursue enhanced performance by learning about their own organisation through comparison with their own historical performance and comparison with the practices and outcomes of others."[11]

The assessment process undertaken by DLWC in determining the economic impact of the proposed increases is in NSWIC's opinion not only fundamentally flawed but in some instances factually incorrect. This will be addressed in further detail in a separate submission.

NSWIC welcomes IPART commissioning two consultancies to investigate expenditure within State Water and the DLWC but would like to know why such a cost was necessary when DLWC and State Water have been repeatedly asked for the same information by IPART (and customers for that matter).

RECOMMENDATIONS

That IPART not proceed with a medium term pricing determination on the basis that state Water have failed to adequately address the issues raised in Appendix 5 of the IPART 2000 Determination.

[11] ANCID, *Australian Irrigation Water Provider – Benchmarking Report for 1999/2000*, p 9.

2. PRICING FRAMEWORK

2.1 Compliance With CoAG's Strategic Water Reform Framework

NSWIC has repeatedly made the point that DLWC have adopted a selective interpretation of the CoAG principles. This approach has not changed in the 2001 submission.

Institutional reform is a major issue that NSWIC believes remains unaddressed. When you examine the intent of CoAG reform framework it is quite clear that the process is about accountability, transparency and efficiency. "Under these circumstances organisations become more clearly accountable for their financial and operational performance and less likely to be able to sustain the inefficiencies often found in less accountable organisations".[12] Fundamental issues such as non-contestability of services indicate a lack of serious intent by DLWC to satisfy this requirement.

There appears to be a belief that water is used in an inefficient manner in NSW (probably nationally) and that "the underpricing of bulk water services will perpetuate ecological degradation because water services are not allocated to those users who value them most."[13] In a sense this is true, particularly when you examine historical use, however it can be argued that there is now a greater awareness amongst irrigators and a greater willingness to address environmental issues (which in most cases have been manifested through past government policies and incentives).

2.2 Industry Initiatives

Considerable amounts of industry funding have been committed in the area of improved water management through R&D, land and water management planning, implementation of on-farm efficiencies and so on. Communities in the Murray and Murrumbidgee, for example, will be spending over $616 million (combined) over the next thirty years on improving natural resource management through various projects.

Salinity is a major environmental problem and one that is often associated with irrigation practices. However, it needs to be stated that salinity can and is being addressed in irrigation areas through a number of means. Whilst irrigators are not abrogating their responsibilities, it is a well-known fact that dryland salinity is now one of the major causes of salinity problems in our irrigation industry. Irrigators are working with dryland farmers in preventing the movement of salt into our river systems. Over clearing and modified landscapes have resulted in the loss of habitat and a change in flora and fauna communities.

Measures can, and are, being implemented in an attempt to stabilise water tables in irrigation areas but it is preventing the salt from being imported into the areas that seems to be the major problem. The Murray Land and Water Management Plans that were

[12] *Report of the Working Group on Water Resource Policy to the Council of Australian Governments*, p 10.
[13] DLWC, *submission*, p 2.

referred to earlier (30 yr timeframe -2800 farms and 950,00 ha) provide some excellent examples:

- launched in 1996 with expenditure to date of $153 million of community/industry money and $28 million of NHT funding
- 1.1 million native trees planted
- water recycling systems built
- better management of remnant vegetation
- more efficient use of water – farm water/storm water/drainage
- financial incentives to encourage farmers to help with farm planning, drainage storage and re-use, vegetation enhancement and shallow groundwater pumping
- have managed to stabilise rising water tables in a number of areas and in a couple of specific cases reverse the problem

In terms of expenditure on Research & Development in the area of water use efficiencies, the rice industry is currently spending over $3 million per annum through its (RIRDC) rice R&D program (undertaken through RIRDC) directly on water use efficiency projects. The Cotton Industry (through the Cotton Research & Development Corporation) currently have over $1.6 million committed to water related research projects.

These figures do not include expenditure through CSIRO Land and Water, individual Irrigation Corporations or the Land and Water Resources Research and Development Corporation (LWRRDC).

NSWIC believes that it is important to recognise the financial (and 'in-kind') contribution that irrigators are making as part of improved land and water management practices and as part of a commitment to the long-term health of the watercourses in NSW. This should be acknowledged and realistically reflected in the cost sharing ratios proposed by DLWC.

2.3 Resource Allocation

The belief that higher water prices will allocate resources to more efficient industries may sound attractive on the surface but it does not necessarily take into account the commodity-based nature of the market place and the potential flow-on effects to the surrounding communities. There are significant economic risks associated with reliance on a single (or small number) of industries within a region or valley and these would have been borne out had DLWC undertaken a comprehensive impact assessment process.

Crase, O'Reilly and Dollery (2000) suggest that the development of a market for tradeable water entitlements will assist in allocating scarce water resources to their highest value use. "….a thin permanent water market seems likely to manifest itself in underinvestment in high-value irrigation enterprises." This view is supported by Brennan and Scoccimarro (1999) who state that more than ever before, there is a need to address water market reform as a means of reallocating water between existing uses.

Recent legislative reform should hopefully expedite the development of a robust market for tradeable water entitlements. However, one of the issues that will prevent the development of such a market is the need for a well-defined property right. ARMCANZ

(1995) have debated this issue and concluded that a necessary condition for an effective water market is the careful definition of formal property rights to water that are clearly specified in terms of volume, reliability, transferability and quality.

2.4 Beneficiary Pays Principle

If the benefits are tangible and equitable then the beneficiary pays approach is workable. If this is not the case then it is merely semantics and this needs to be recognised by IPART. Consumptive water users appear to be an easy target when allocating costs.

- Safety and environmental costs – NSWIC acknowledges that the established ratios have been determined by IPART over a period of time. The problem lies in the determination of expenditure for risk management purposes. If irrigators are being asked to provide 50% of the costs then logic would suggest that they have an equal say in determining the acceptable risk for infrastructure. Until such time that a framework is put in place, as part of the risk assessment process, then NSWIC does not support the concept of a 50% user share component. Purely from a functionality/economic point of view it is not in the irrigator's interest to have a dam that is capable of resisting a "one-in-a-million" year flood or a significant seismic event.

  The applicable ratios should more accurately reflect the impact on all beneficiaries in a particular valley. For example, NSWIC notes that Macquarie River Food and Fibre argue that irrigators only have access to approximately 28% of the storage capacity of Burrendong Dam (and even less when flood mitigation capacity is taken into account)

- Water management planning and implementation program costs – NSWIC believes that a similar principal should apply in this case. If irrigators are being asked to fund 50-70% of the costs for strategic management of the rivers and groundwater systems then their involvement in the decision-making process should reflect this contribution. Otherwise, these costs should be shared amongst all those decision 'influencers' on an equitable basis.

  It is worth examining the structure of water management committees as proposed under the new Water Management Act (2000). The legislation proposes the following committee structure:

  "A management committee consists of at least 11, but no more than 20, members appointed by the Minister, of whom:

  a) at least two are to be persons appointed to represent the interests of environmental protection groups, and
  b) at least two are to be persons appointed to represent the interests of water user groups, and
  c) at least two are to be persons appointed to represent the interests of local councils, and
  d) at least one is to be a person appointed to represent the interests of catchment management boards and trusts, and

e) at least two are to be Aboriginal persons appointed to represent the interests of aboriginal persons, and
f) at least one is to be a member of staff of the Department, and
g) at least one is to be a person nominated by the Minister for the Environment, and
h) such other persons as are appointed to represent such interests as the Minister considers require representation, and
i) one is to be a person (not being a member of staff of the Department) who is appointed as an independent chairperson for the committee. "[14]

In terms of representation, irrigators have at best two (2) representatives out of eleven (11) yet they are being asked to contribute 50-70% of the costs. Surely, this raises a significant equity issue.

NSWIC draws IPART's attention to the fact that this product area replaces River Quality/Flow Reforms where the water user contribution had been previously determined at zero. "The main beneficiary of water reform is the general community (represented by DLWC and other natural resource management agencies), since the community wishes to advance policies to promote ecologically sustainable development in NSW catchments".[15]

The Water Management Act (2000) quite clearly states that a water management plan has effect for 10 years from the date on which it is made.[16] NSWIC would argue that the water management planning and implementation process, identified by DLWC, is in effect a "one off" cost and that this cost is consistent with IPART's stated view on River Quality/Flow Reforms outlined in the previous paragraph.

RECOMMENDATIONS

That IPART recognise the contribution of irrigators to the water management process and environmental reform that occurs 'over and above' the pricing model and that this contribution be reflected in water prices.

That the proposed cost-sharing ratios more accurately reflect the equity of the decision-making process and established IPART pricing principles.

That the 'one-off' costs of water management planning and implementation be recognised as benefiting the broader community and as such those costs be borne by the Government.

[14] Water Management Act 2000, Sect.2 Chapter 2 Part 2 Clause 13, p 10
[15] IPART, *Bulk Water Prices for 1998/99 & 1999/00*, p. 29
[16] Water Management Act 2000, Sect 35 Chapter 2, Part 3 Clause 37, p 22

3. BULK WATER OPERATIONS

3.1 Total Asset Management Plan (TAMP)

It is apparent that at the Customer Service Committee level there are some significant issues that need to be addressed with regards to the TAMP. The lack of understanding and the emphasis an engineering expertise has resulted in concerns about escalating costs and the apportioning of those costs.

NSWIC considers the TAMP process are very important one (and in line with IPART and CoAG principles), however by its very nature the complexities associated with determining compliance annuities, renewal annuities, capital costs and so on, mean that water users and State Water need time to adequately understand and address these costs. On this basis NSWIC is proposing a more strategic approach to managing these assets (and this will be addressed in detail in a separate submission).

3.2 DLWC Submission – Appendix 4

In terms of specific detail in the DLWC submission (Appendix 4) it is confusing, to say the least, when the asset costs are not clearly accounted for each year. Table 28 shows PC 4 Rural Water Infrastructure costs of $34.840 Million in 2003/04 when Table 25 shows Bulk Water Asset costs of $28.415 Million for the same year. Obviously the first figure includes maintenance but why should it be so difficult to identify the ongoing asset maintenance costs from the capital costs? Customers should also be able to easily identify how much is raised in asset funding each year, how much is spent and on what and how much is set-aside in the annuity reserve. At present it is virtually impossible to do this.

Table 26 - Bulk Water Total Costs - shows they were $88,821,000 in 1996/97 and will rise to 104,421,000 in 2000/2001 where they will remain, adjusted for CPI, until 2003/04. The increase is reportedly due to the $15,800,000 extra costs DLWC proposes on page 23 of its submission. However Table 24 shows that Net Operating Costs will rise only by $3,581,000 and it is the extra $11,035,000 in Bulk Water Asset Costs that will provide the bulk of the increase (Table 25). $10,477,000 of that is due to safety and environmental compliance costs (Tables 12 & 14) – costs which have not been requested by customers and require objective evaluation of cost sharing as they benefit the environment and greater community more than they do water users. This is a major concern.

Over the next 30 years $203,787,000 is scheduled to be spent on compliance compared to only $164,637,000 on renewals. Compliance costs are clearly a government responsibility as it demonstrated when it funded the $160 million safety upgrade of Warragamba Dam, and NSWIC seeks IPART's position on this matter.

Table 19 indicates that NSW Treasury is looking to take $3,806,000 a year from the Annual Asset Account as its rate of return on the money water users provide. This is a major concern.

There are two notable features hidden in these figures that are of major concern to NSWIC. The first is the pitifully small portion of the total actually being spent on the renewals annuity to protect the service capacity of the assets for the customers paying 90% of the costs.

The second feature is that the 20% efficiency gains sought by IPART in 1998 do not seem to have been achieved. It is difficult to make such an assessment without excluding asset costs and evaluating them separately because they include the unspent annuity. However IPART determined in July 1998 (Determination 98-5 Page 2) that full cost recovery after the 20% efficiency gains was $43,640,321 which, based on the 55.2:44.8 cost sharing ratio, gives a total Bulk Water Costs figure for 1996/97 of $79,000,000 compared to the DLWC cost of $88,821,000 in Table 26.

Rather than use this as a benchmark of temperance, DLWC has increased expenditure in each of the three ensuing years so that by June 2000 it had spent $37,980,000 more than IPART deemed necessary, even allowing for 3% CPI increase in each of those years. This indicates that this year water users are paying $37,980,000 more than they should, or alternatively they are much closer to full cost recovery than DLWC will admit.

Fig 1. Cost Recovery Analysis

Year	**IPART**	**DLWC Table 26**	**Cost above efficient level**
	$ Million	$ Million	$ Million
1996/97	79.00	88.821	9.821
1997/98	81.37	95.199	13.829
1998/99	83.81	94.665	10.855
1999/00	86.33	89.805	3.475
TOTAL			37.98

NB: IPART Determination 98-5 (Page 2) set full cost recovery, after the 20% efficiency gains, at $44 Million which, at the cost sharing ratio of 60% user and 40% government, gives an equivalent bulk water total costs of $73M. That figure has then been increased each year by 3% CPI.

3.3 Business Development And Service Standards

As previously mentioned, State Water has made an attempt to address customer service standards through the development of a Customer Service Charter (draft), introduction of formal consultative mechanisms (CSCs) and customer surveys. Whilst this is certainly a step in the right direction (and in fact essential for any service provider) there is a considerable focus on cultural change and very little on institutional change.

NSWIC is of the firm belief that if we are going to see a commitment to change which will drive internal efficiencies then yes cultural change is important (very difficult when the delineation between service provider and regulator is blurred) but there needs to be milestones and tangible outcomes which are benchmarked against like businesses. This will be the only real indicator of change and/or improvement.

The recent ANCID benchmarking report (1999/2000) on Australian irrigation water providers highlighted a number of key components of the physical processes of water delivery within the context of the providers' broader service delivery, business and environmental objectives:

- Volume of water delivered
- Basis of delivery in terms of total entitlements and resources available
- Delivery efficiency
- Extent of volumetric metering of customer supplies
- Extent of water trading between different users[17]

There is at least a framework that could be adapted as an interim measure.

RECOMMENDATIONS

That before a medium term pricing path is agreed to, DLWC be required to implement a benchmarking framework for its bulk water supply business unit, that demonstrates an internal and external standard and that this standard be used as a basis for determining future efficiency gains.

[17] ANCID, *Australian Irrigation Water Provider – Benchmarking Report for 1999/2000*, p 22.

4. RESOURCE MANAGEMENT

4.1 Cost Sharing

The issue of cost recovery for resource management functions is a contentious one. It could be argued that water users are subsidising the State Government's regulatory responsibility. NSWIC considers the without direct input into the resource management programs either at a planning or implementation level then it is unfair to propose that 50-70% of water management planning and implementation costs should be borne by irrigators on regulated streams and 90% on unregulated streams.

NSWIC questions the validity of the application of these costs without a clear understanding of how DLWC deals with other natural resource management issues such as native vegetation and how these matters may be addressed in other government agencies and without a clear set of financial numbers indicating program spending.

The 1999/2000 Department of Land and Water Annual Report provides an interesting overview of expenses and revenues by programs for the year ended 30 June 2000:

Fig 2: DLWC Program Spending Overview

PROGRAM	REVENUE	EXPENSES
Rivers & Groundwater	$9,315,000	$42,566,000
Land & Vegetation	$11,930,000	$156,895,000
Catchment Coastal & Floodplain Communities	$14,408,000	$91,546,000
State Land Assets	$77,409,000	$227,533,000

Source: DLWC Annual Report 1999/2000

Whilst a detailed analysis is naturally not available in the Annual Report several specific items are worth noting: (i) $5 million to "continue the Government's native vegetation reforms; (ii) $1 million towards native vegetation mapping; and (iii) $3 million enhancement towards the maintenance of fishing ports, river entrances and buildings administered by the department. The report also highlights capital expenditure of $24.4 million to maintain dams and water storages of which a significant proportion is to provided by water users and yet in the other examples these costs are borne by the Government!

RECOMMENDATIONS

That in order to remove the ambiguity currently associated with the allocation of funds by State Water to resource management projects, the results of IPART's 'Review of Water Resource Management Expenditure' be made publicly available.

That the NSW Government's regulatory responsibility not be over-looked in determining the level of contribution required from irrigators to the management of natural resources.

5. COSTS AND REVENUE

5.1 Environmental Flows

The DLWC submission makes no mention of the impact of environmental flows on its customer's costs or its own revenue. This oversight was pointed out verbally last year and it bears repeating in written form.

Environmental flows reduce the average volume of water, which will be allocated to irrigators. Access to 100% allocation will be rare and so allocation based charges such as the bulk water fixed charge have undergone a de-facto price increase for general security customers. This needs to be recognised in price setting and in any impact assessments.

DLWC has based its usage income projections on average water sales that must be downgraded due to environment flows reducing the volume of water annually accessible. Unless it does this, the income projections will not be met and shortfalls will develop in valley accounts, leading to requests for steeper price increases in future determinations.

5.2 Cost Savings

State Water claim "bulk water service provision cannot be expected to be maintained at an acceptable standard if further cost reductions were to be imposed."[1] Yet it appears the only areas where genuine attempts have been made is in the area of reduction of staff numbers and rationalisation of offices. There is also a distinct lack of data to support even these claims.

NSWIC does not accept that State Water is committed to the process of generating efficiencies and creating cost savings. This attitude will only be perpetuated by the non-contestability of service provision and the lack of transparency in the provision of financial data for resource management activities.

As already mentioned, there is no evidence in the DLWC submission of where efficiency savings have been achieved. In fact it is virtually impossible to find costs for the immediate, past and future years to verify whether there is even a reduction in the real costs of bulk water.

The submission projects total Bulk Water Costs of $104.4 Million in 2003/04 in 2001/02 dollars. In the July 1998 Determination IPART set the Bulk Water Costs for 1996/97 at $43.6 Million. For it to more than double in seven years is preposterous. The only item to explain such growth is the $16 Million in new costs[2].

[1] DLWC, *Submission*, p 22.
[2] DLWC, *Submission*, p 23

5.3 Rate Of Return

NSWIC maintains its opposition to the principal of a ROR on funds they have provided for the maintenance of capital assets. This is in effect, purely a taxation issue.

Somehow both the DLWC and IPART have the mistaken view about who is funding the capital or renewals annuity. In its 1998 Determination, IPART stated "DLWC cannot be expected to refurbish and replace assets without consideration being given to the opportunity cost of additional capital expenditure."[3]

NSWIC would strongly argue that the DLWC is not providing the capital. Ninety per cent (90%) of the funds are contributed by users and ten per cent (10%) is provided by government on behalf of other beneficiaries. As IPART would be aware, funding is via a rolling 30 year annuity that averages out the peaks and troughs of the expenditure profile.

The fact that there might be unusually high expenditure in the early years is symptomatic of lack of maintenance funding by the asset owners in the past. NSWIC believes that such short sightedness should not now result in current generations of users being penalised particularly as these water users have undertaken to fund future needs via the annuity. Current governments have recognised such deferred maintenance in the hand over of infrastructure to the areas and districts companies and a similar policy should exist for bulk water assets.

NSW Treasury claims it will not allow the establishment of a separate sinking fund because it considers it more efficient to manage cash reserves centrally. That is a hard to accept given that the current 'rundown' condition of government infrastructure is due solely to its inability over many years to provide the capital when it was required. Past 'hollow logging' is obviously another major concern. NSWIC considers it unacceptable to allow a build up of privately contributed capital in a government reserve when there is no clear accountability to the contributors, nor water tight guarantees the funds will be made available when requested.

Charging an annuity and a rate of return is in NSWIC's opinion 'double dipping' and not acceptable to water users. It is not a definite requisite of CoAG or NCC.

CoAG specifically says in relation to a rate of return that it be achieved "wherever practicable." The Expert Group on Asset Valuation Methods and Cost Recovery Definitions recommendations, which were endorsed by CoAG in February 1995, indicate quite clearly that the return is in relation to the cost of capital. In other words, if there is no cost, there should be no return. The Expert Group also said "while recognising that the level of the return on their investment in the water industry is ultimately a matter for governments, in charging arrangements regards be had to the opportunity cost of capital, and note be taken of the potential resource allocation consequences of not including a positive real rate of return component in charges for water services, where this is possible."

[3] DLWC, *Submission*, p 20

NSWIC reiterates, that there is no opportunity cost of capital and resource allocation has been more than adequately catered for by the huge increase in bulk water charges already underway.

IPART might also like to consider this from a practical perspective as it has been appointed to protect the consumer from monopolistic or predatory behaviour.

The TAMP predicts a substantially higher financial contribution from the State's rural water users over the next 30 years (and forever thereafter) at the same time as State Water is striving for full cost recovery and users are accepting the considerable cost of ensuring their farms and regions are sustainable environmentally. The total demand is over $823,000,000 or $27,000,000 a year for 30 years over and above current bulk and regional water prices. That could already be an insurmountable financial burden for less than 12,000 customers in the southern region alone ($800M is $175M annuity, $35M MDBC annuity, $383M Murray LWMP and $230M Bidgee LWMP).

The $3.8 Million Rate of Return charge is in NSWIC's opinion an unrealistic charge. This revenue decision could see the environment short changed.

RECOMMENDATIONS

That the implications of environmental flows be considered as part of the bulk water pricing process and in any impact assessment process.

That irrigators not be required to contribute a ROR on funds they (and other beneficiaries) have provided for maintenance of State Water capital assets.

That State Water be required to provide an external benchmark for 'non-contestable services' in order to demonstrate reasonable expenditure.

That a clear and transparent accounting framework be established to ensure that annuity payments and expenditures are appropriately managed between NSW Treasury and State Water.

6. PROPOSED BULK WATER PRICES

One of the key principles that has not been dealt with in the DLWC submission is the matter of reliability and security of supply. The fact that the water sharing arrangements for each valley will not be signed off by the Minister until December 2001 has created a climate of uncertainty for all stakeholders in the water management process.

As IPART would be aware, once these arrangements have been established they will remain in place for ten (10) years and will provide some surety to water users as to their actual entitlement (and will provide for compensation if this entitlement is eroded). Logic would suggest that it would be more appropriate to deal with a medium to long term pricing arrangement once these water sharing ratios have been enshrined in legislation.

In light of these issues NSWIC proposes an alternative scenario for consideration by IPART.

RECOMMENDATIONS

That IPART not proceed with a medium term pricing determination in 2001 and that this be deferred to 2002 which would allow for industry stakeholders to agree on a strategic approach to pricing which reflects the complexities of the process, is consistent with the implementation of the Water Management Act (2000) and recognises the need for a continued demonstration of a commitment to recovery of 'efficiently delivered' and necessary costs.

That as part of an interim pricing determination IPART consider listing State Water as a standing reference in Schedule 1 of the Independent Pricing and Regulatory Tribunal Act (1992) in order to allow for an annual review and critical assessment of DLWC compliance to previously established efficiency standards/outcomes.

7. IMPACT ASSESSMENT

NSWIC totally rejects the assertion by DLWC that "…results indicate that total water costs would continue to account for only a small proportion of variable costs and the irrigated enterprises in most regions and the viability of farming systems would not be jeopardised by the proposed price increases."[4]

More detailed information on this area will be provided to IPART separately (both written and thorough the public hearing process) and in particular an analysis of the DLWC gross margin models.

In 1998 IPART make reference to a discussion paper on the socio-economic impact of water reform prepared by the Independent Advisory Committee (Socio-economic Assessment Guidelines for River, Groundwater and Water Management Committees). "The discussion paper provides guidelines for assessing the socio-economic impact of water policies. DLWC should apply these guidelines when assessing the impact of its proposals for 2000/01."[5] An extract from this paper is contained in **Appendix 2**. In NSWIC's opinion these guidelines were not applied in the DLWC pricing submission in 2000 and nor have they been applied in their submission for 2001/02 – 2003/04. These guidelines obviously provide a more comprehensive framework within which to undertake a comprehensive impact assessment process.

7.1 Market Outlook

NSWIC considers that it is relevant to provide an overview of commodity market expectations so as to set a clear contextual framework for the impact of the proposed price increases. The use of the Gross Margin approach (particularly without including a sensitivity analysis) does not paint an accurate picture of the overall impact. Several examples are provided below.

The short to medium term outlook for rice reflects a world increase in production and a subsequent fall in price. ABARE (2001) state that the world indicator price for Japonica rice which dominates Australian production and accounts for around 10% of world production and trade, is forecast to average 8% lower at US$438/tonne (A$218/tonne) in 2001 (Growers in NSW will receive payment for this crop in 2002).[6] This is significantly less than the A$245/tonne expected this year.

Australian cotton prices are extremely susceptible to changes in world production and currency fluctuations. ABARE (2001) indicate that over the medium term, solid world economic growth and subsequent higher consumer incomes are projected to result in further increases in world cotton consumption. However, analysists consider that increases in prices are expected to be constrained by rising world production.[7]

The dairy industry is another that has been undergoing significant change in recent times through the deregulation process. "While most dairying regions are experiencing

[4] DLWC, *Submission*, p 34
[5] IPART, *Bulk Water Prices for 1998/99 & 1999/00*, p 31.
[6] ABARE, *Australian Commodities*, vol.8 no.1, March quarter 2001
[7] ABARE, *Australian Commodities*, vol.8 no.1, March quarter 2001, p 51

good seasonal conditions, falling prices are expected to wipe $13,320 from average cash incomes, a fall of nearly 20% (ABARE reports that in NSW alone the figure is a reduction in income of $43,000 which represents a fall of 52%)."[8] It is significant that the Gross Margin models proposed in the DLWC submission for the Hunter Valley do not address the dairy industry at all which anecdotal evidence suggests comprises close to 80% of irrigation in that valley. The Far South Coast dairy industry does not reflect an industry standard and does not appear to reflect predicted income variations as reported by ABARE.

Appendix 3 contains a copy of the NSW Farmers' Association 'Primary Report' (February 2001) which explores the changing face of Australian politics but also the distribution of income between rural and urban households. NSWIC provides this as background information for IPART.

7.2 Reports on Peel and Lachlan Valleys

NSWIC has not had the opportunity to undertake a thorough analysis of either of the reports referred to in the DLWC submission that have been prepared by NSW Agriculture. However, feedback from constituent groups in the Peel Valley has highlighted some serious concerns with the validity of the data used and the subsequent conclusions that have been drawn from the report.

Comments such as "The four representative farms are unrepresentative of the valley and represent only the largest 20% of licence holders" and "the representative farms are hypothetical and not actual farms" raises concerns with NSWIC. It is quite clear that representative models were used for the economic assessment process (NSWIC does not have an opinion on the validity of this approach) and in order to clarify some of the matters raised in the reports it would be appropriate for the IPART to review these reports in some detail as part of the pricing process.

<u>RECOMMENDATIONS</u>

That before a medium term pricing path is agreed to, DLWC be required to complete a comprehensive impact assessment process as per the framework/guidelines established by the Independent Advisory Committee in their 1998 report entitled Socio-economic Assessment Guidelines for River, Groundwater and Water Management Committees.

[8] Sydney Morning Herald Wednesday May 9 2001, *High prices bring relief to farmers*, p 9.

Conclusion

In NSWIC's opinion, there is insufficient evidence to suggest that DLWC can justify a medium term pricing determination. Many of the requirements/principles established by IPART in 1998 and again in 2000 have not been addressed with any vigour in the DLWC submission and these inadequacies have been identified in the body of this paper.

NSWIC maintains its position that the only way forward on the pricing of bulk water services is for the service provider, the regulator and the customers to adopt a strategic and logical framework that provides for transparency and accountability but does not ignore the principles established through the CoAG process. An open and constructive dialogue with an achievable and measurable implementation timetable will hopefully remove the protagonist mentality that currently exists.

NSWIC believes that establishing and implementing appropriate pricing principles is fundamental to providing a more certain and competitive commercial environment but the basis for determination of these principles must be linked to credible and transparent financial data and to a reliability and security of supply.

APPENDIX 1

INFORMATION REQUIREMENTS FOR A MEDIUM TERM PRICE PATH FROM DLWC

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
General Information		
Description of the scope of activities for State Water and each DLWC water related program.	Section 2 – DLWC submission	State Water – yes DLWC related - no
Description of how ringfencing of costs and activities works within the DLWC.	Description provided	The major flaw in the DLWC approach occurs at the very beginning of the process where resource management costs are extracted manually from DLWC's financial system – the lack of transparency at this point is the cause of concern.
Current organisation chart.	Provided separately to IPaRT	Why not to CSCs?
Description of how services are charged between related business units, i.e. transfer prices to and from State Water, where relevant.	Description provided	• Direct charge of consolidated external purchases – if DLWC are charged on a whole of agency basis for workers compensation how can adjustments be made for the claims history of State Water – who makes this assessment? • Fixed fee charges – the non-contestability of these services makes the 'process' irrelevant. • The response was written by DLWC – State Water is not able to express an independent view on the suitability of the processes or charges while captive to the agency.
DLWC's Corporate Plan and any documentation explaining its resource management role.	Provided separately to IPaRT	This information has not been made available to the CSCs who should have a thorough understanding of this major cost source.
Description of asset valuation methodology used for financial reporting and regulatory purposes, where different.	Description provided	Done.
Description of cost allocation methodology.	Section 4 – DLWC submission	Done.

1.1 INFORMATION REQUIREMENT	DLWC STATED RESPONSE	NSWIC REVIEW
Review of progress in implementing the NSW Governments' water reform agenda and its implications for operating and capital costs of water related activities.	Section 1 – DLWC submission	No review completed and consequently no specific outline of implications for operating and capital costs of water related activities.
Review of implications of NCC review of NSW compliance with COAG water reforms.	Section 1 – DLWC submission	Cursory review provided – no reference to recent NCC publications.
Separation Of State Water		
Copies of State Water's Operating Licence, Water Access Authority and Statement of Corporate Intent.	Provided separately to IPaRT	The CSCs should have seen these documents before they were signed off in order to provide a critical examination.
Clear accounting of the resource management activities recovered in the bill sent by the resource manager to State Water.	Appendix 2 – DLWC submission	• Correct information for 2000 financial year not provided to CSCs until late March 2001. • Information not sufficient to allow trace back to delivery of resource management activities on a valley-by-valley basis.
Clear separation in the operating licence of State Water's functions from the resource management functions.	Provided separately to IPaRT (refer point 1 above)	Difficult to comment without having seen operating licence however 'statement of intent' and practical implementation can be poles apart.
Description of service agreements between DLWC and State Water.	Description provided	As previously mentioned the 'non-contestability' of services makes these service agreements irrelevant.
Review of degree to which any service agreements are contestable.	Not contestable due to DLWC operating protocols	• State Water should not have to comply with "departmental protocols and policies" – this is precisely why CoAG recommended separation. • Utilising competitive markets to source some services can mean that at least those elements of the water supply activities are achieved at minimum cost.

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
Customer Service		
Description of recent improvements in customer service.	Description provided	
Copy of a Customer Service Charter negotiated with a customer service committee.	Still being developed	Draft charter highlights key areas but appears to use the legal standard as a benchmark – *have these been negotiated with CSCs?* Timeframes/milestones appear not to have been included.
Review of the billing system and any steps taken to improve it.	Audited November 2000 and debt management and billing protocol established	More detailed feedback to CSCs required.
Copy of State Water's complaints protocol (and any similar documentation for DLWC).	Provided separately to IPaRT	Difficult to comment without access to information.
Copy of current customer satisfaction surveys.	Provided separately to IPaRT	State Water claimed that the CSCs would be involved in reviewing these surveys but this appear not to have been the case.
Description of processes for consultation with user groups and other stakeholders on regional/valley accounting, and negotiation of service levels, where appropriate.	Addressed through Customer Service Committees	There are still concerns with the CSC process. In its response to a recent review of the Terms of Reference for the CSCs NSWIC made the following comment – "Customer Service Committees are an essential mechanism for determining how water services are provided in each river valley and they should be driven by the needs of the customer and the service provider to ensure that services to irrigators are well defined & delivered and competitively priced".
Financial – General		
Financial statements for State Water including:		
Profit and loss account-audited previous year, current and 5 year forecast	Section 4 – DLWC submission (3 yr forecast only)	Inadequate response.

1.1 INFORMATION REQUIREMENT	DLWC STATED RESPONSE	NSWIC REVIEW
Balance sheet-audited previous year, current and 5 year forecast	Provided separately to IPaRT	Difficult to comment without access to the information (this information should be available) – why doesn't State Water produce an Annual Operating Report (the fact that it is not a statutory requirement does not alleviate the need for the 'ringfencing' of costs to be transparent).
Cash flow – audited previous year, current and 5 year forecast	Provided separately to IPaRT	As above.
Capital expenditure forecasts – 30 years	Section 4 – DLWC submission	Have not been provided to CSCs for risk assessment and prioritisation.
Debt and interest profiles – plus 10 year forecasts.	Provided separately to IPaRT	
Explanation of any material differences between revised costs and the cost provided to the Tribunal for the 1998/99 determination.	Section 4 – DLWC submission	• Inadequate response – which makes analysis extremely difficult. • This section must be provided clearly and succinctly to allow customer analysis. It should include information backdated to 1996/97 in state and valley reports and show budgets and actuals for costs and income.
Financial - Capital costs		
Copy of current Total Asset Management Plan.	Section 4 – DLWC submission	*Has the TAMP been developed sufficiently enough to allow for a robust assessment of compliance costs?*
Description of how future capital works are affected by dam risk assessments and current or potential environmental flow rules.	Section 4 – DLWC submission	Specific detail to justify expenditure not available (i.e. dam risk assessments – rationale and formulae)
Description of asset value for the current review, tracing additions to initial capital base since the last review.	Section 4 – DLWC submission	?
The requested rate of return and calculation which support this request.	Section 4 – DLWC submission	Done but unfortunately fails to address the fundamental issue of why a ROR is required on funds provided by irrigators.

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
Depreciation expense by major asset class for those capital items excluded from the asset annuity, indicating the method of depreciation, average asset life, and a comparison of depreciation expense for tax or tax equivalent purposes.	Section 4 – DLWC submission	
Evidence that MDBC asset annuity is based on engineering assessments of asset conditions and financial calculations from asset plans.	Not addressed	Why is this information not presented in the DLWC submission?
Financial - Operating costs		
Audited special purpose valley financial statements for year's 1999/00 and 2000/01.	Appendix 2 – DLWC submission	• Unaudited reports for 1999/00 only received in March/April 2001. • Insufficient detail on capital expenditure.
Staff numbers by valley/region by year.	Provided separately to IPaRT	Difficult to assess without access to the information (why is this information not available to CSCs?).
Wages and salaries by valley/region by year.	Provided separately to IPaRT	As above – even in the DLWC Annual Report they provide an overview of staff statistics (pages 74-75).
Total overhead costs prepared on an accruals basis.	Provided separately to IPaRT	Difficult to assess without access to the information (why is this information not available to CSCs?).
Assigned corporate overheads, indicating the total amount of the corporate overhead, the amount assigned to each valley/region, and the basis and calculation of that allocation.	Provided separately to IPaRT	This information should have been supplied to CSCs.
Separate identification of costs charged by the Murray-Darling Basin Commission (MDBC) and any associated MDBC water business, and description of associated works.	Appendix 5 – DLWC submission	Done superficially – Murray Valley users can still not justify the costs (it is essential that there is full disclosure of financial data to the Murray CSC and appropriate explanation).

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
Description and measurement of efficiency improvements since the last review, and targets for the proposed price path period.	Section 2 – DLWC submission	• Inadequate response • DLWC argue efficiencies in terms of reducing staff numbers which does not give an overall view of business improvements • No clear indication of proposed efficiency measures for next three years.
Results of any internal benchmarking between regions/valleys and externally with other utilities.	Section 2 – DLWC submission	• No evidence of internal benchmarking studies nor identification of an 'ideal' operating model on a valley basis • No evidence of benchmarking studies with external utilities which would allow determination of comparative performance of State Water over time
Financial - Performance measures and operating statistics		
Description of performance management system and efficiency measures.	Sections 2 & 3 – DLWC submission or will be provided separately to IPaRT	Not adequately addressed in terms of efficiency measures in submission.
Number of customer complaints by year (where available), by water source and major category (eg service quality, problems, prices too high, tariff structures).	As above	This appears to be addressed in the submission.
Map of river network showing dams, weirs, and any other regulatory structure.	As above	Not addressed in the submission.
Profile of water use of regulated rivers for the past five years and projections for the coming year, showing water use in each regulated river broken into allocation water, off-allocation water and high flow usage.	As above	No historical data in DLWC submission.

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
Description of the method used to determine water allocations on regulated rivers and any relevant changes to this method in the preceding five years or over the proposed price path.	As above	No data provided.
Description of water use on unregulated rivers and projections over proposed price path by region/valley, and description of methods used to permit or restrict water usage.	As above	No data provided.
Profile of water use from ground water sources by valley/region over the preceding five years (differentiating management and non-management areas) and projections over the proposed price path, and description of the system for determining allocations.	As above	No historical data in DLWC submission.
Financial - Proposed prices and tariff reform		
Requested revenue as developed from these inputs.	Section 4 – DLWC submission	Done.
Proposed prices, describing the current prices, and proposed changes over the requested price path.	Section 4 – DLWC submission	Done.
Revenue analysis, indicating the amounts of revenue derived from each valley/region by year, by water source.	Section 4 – DLWC submission	Done.
Description of the method used to derive proposed prices and major drivers in the application of that method.	Section 5 – DLWC submission	This is so confusing it is virtually useless.
Pricing models, updated for changes to licence system and water usage data.	Section 5 – DLWC submission	Done (but not including new license system).

1.1 INFORMATION REQUIREMENT	DLWC STATED RESPONSE	NSWIC REVIEW
Description of actions taken to rationalise existing tariffs and licensing system to overcome charging anomalies (eg Macquarie Generation, industrial water use, town water supply, recreational, high flow).	April 2000 submission Section 5 – DLWC submission	?
Description and review of the method used to determine premiums for high security water use.	Section 5 – DLWC submission	Addressed.
Review of the existing proportions of fixed and usage charges.	Section 5 – DLWC submission	Addressed.
Review of the cost-reflectivity of high security premiums.	Section 5 – DLWC submission	?
Review of the existing discounts on wholesale access fees and the commercial viability of charging arrangements with these wholesale customers, including any legislative obstacles to charging for system losses.	Section 5 - DLWC submission	Limited response.
Comparison of existing and proposed prices with bulk water prices in Queensland, Victoria and any other relevant jurisdictions.	Provided separately to IPaRT	• Difficult to comment without access to the data but at the very least an overview would be useful. • Refer IPaRT to following report: Australian Irrigation Water Provider – Benchmarking report for 1999/2000
Financial - Impact Analysis		
Description of the impact of proposed prices on typical bills for water users by water source.	Section 6 – DLWC submission	• Inadequate response. • A separate response will be provided by NSWIC.

1.1 INFORMATION REQUIREMENT	**DLWC STATED RESPONSE**	**NSWIC REVIEW**
Assessment of the financial impact of proposed prices on typical water users by region/valley.	Section 6 – DLWC submission	As above.
Assessment of the socio-economic impact of proposed prices by region/valley.	Section 6 – DLWC submission	Cursory response.
A schedule of licence fees and identification of any changes over the past three years.	Provided separately to IPaRT	Appropriate that license issues be addressed separately given water reform program.
Review of licensing administration processes and efficiency levels.	To be provided at a later date	Difficult to comment without access to the data.
Description of any changes proposed to licensing administration and fees and the time frame for this.	No changes proposed	Addressed.
A schedule listing other miscellaneous charges levied by the DLWC or State Water.	Provided separately	Addressed.
Revenues raised from each of those miscellaneous charges, by year.	Provided separately	Addressed.
Description of any actions to develop fee-for-service charging for access to DLWC's information database.	Not addressed	n/a
Separate identification of resource management actions and costs attributed to metropolitan water authorities and any other "large: customers.	Section 5 - DLWC submission	Not addressed in any detail.

APPENDIX *2*

Table 2: Questions for consideration to assist in identification and analysis of socio-economic effects of changes in water management regimes

Primary matters	Specific considerations
Financial effects on direct users	Will the proposed changes affect: • resource allocation and productivity? • expenses? • gross income? • profit levels? • [illegible] • industry confidence? • investment opportunities? If yes, describe how.
Financial and employment effects in the catchment	Will the proposed changes affect: • the number of jobs in locality and catchment? • the types of jobs (casual, full-rime, part-rime, skilled, unskilled)? • [illegible] stability? • income levels? • expenditure patterns of affected industries and households3 • existing and future businesses! • industry/commercial diversity? • access to opportunities? If yes, describe how.
Financial and employment effects outside the catchment	Will the proposed changes affect communities or economies outside the catchment? Are these effects likely to be positive or negative, and are they likely to be significant? Will the proposed changes lead to greater efficiency of water use and higher economic return? If yes, describe how.
Effects on so&-demographic structure	Will the proposed changes affect: • population levels in locality and catchment? • age structure of the population? • distribution of income within population? • education levels in popularion? • rate of unemployment? *crime rare? If yes, describe how.
Effects on community and institutional structures	will the proposed changes affect: • in- or out- migration of businesses? • government services (eg. health, education, transport)? • voluntary community services and associations? • leisure opportunities • (ie. will change provide new recreational/leisure opportunities)? • character of community? If yes, describe how.

APPENDIX *3*

THE PRIMARY REPORT

AN ANALYSIS OF ISSUES AFFECTING THE RURAL ECON[illegible] FARMERS' ASSOC[illegible]

Print Post Approved PP 255003/03549

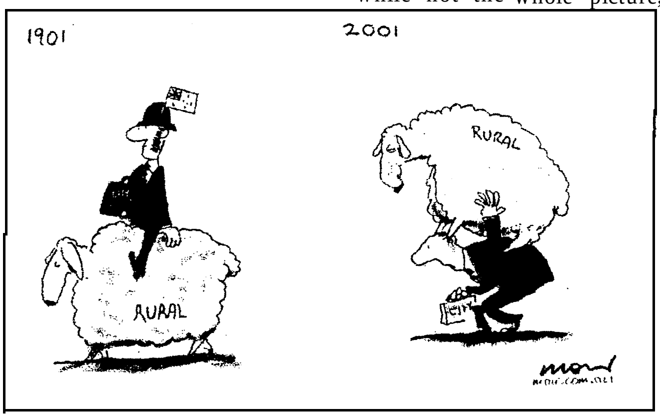
02/01

, The Great Divide

For professional political pundits, the apparent re-emergence of the One Nation party in recent State elections struck like a bolt of lightning from a clear blue sky. Endless reams of newspaper copy were subsequently devoted to a detailed analysis of why such support had reemerged, and what it actually meant.

Little of the subsequent commentary went beyond the pure political implications of these voting trends. Few commentaries bothered to take a more careful look at the perceived or actual gaps that are emerging between urban and regional Australia, and some were almost resentful that voters in regional Australia should be so ungrateful after a decade of record economic growth.

The cartoon said it all. After several weeks of shocked reaction to voting trends in Western Australia and Queensland, it appeared in the Sydney Morning Herald [1] and summarised reactions to the desertion of mainstream conservative political parties by voters in regional Australia.



"After almost a decade of strung economic growth they've never had it so good, yet the bush is still whingeing and wants the city to subsidise it" seems to be an accurate surnmation of the prevailing attitude amongst commentators.

Unfortunately, few went beyond a strictly political analysis of the situation and the issues involved. The comment reportedly made by one strategist that the voters in the bush are "feral" seemed to encapsulate the 'them and us' gulf that has emerged between the opinions of urban based political commentators and the views of many voters in regional electorates.

Two simple questions emerge as a result of this situation The first is, for all the impressive economic performance of the last decade, is the nation really any better off as a result of all the changes that have occurred?

The second, related question is, if the nation on average is better off, has this additional wealth been fairly distributed through different sections of the economy? Answers to these questions will perhaps help in explaining why certain sectors of the economy do not seem to feel any better off, despite what the statistics say.

Is the nation as a whole better off?

A research *paper recently* released by the Productivity Commission [2] has provided some analysis of the extent of economic gains that have been achieved in Australia, and their distribution across broad economic sectors.

The first challenge faced in analysis of this type is to come up with some means of measuring the "wellbeing" of participants in an economy. At a crude level, statistics recording changes in average household income and wealth are a simple and readily available measure, and, while not the whole picture, these presumably provide some assessment of the average wellbeing of people in an economy.

Based on this simple measure, there is no doubt that Australians are, on average, wealthier in 2000 than they have ever been in the past.

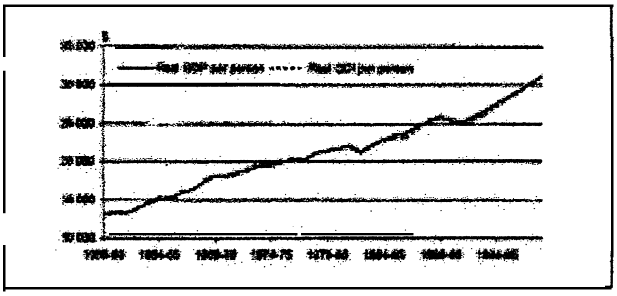
The Productivity Commission research found that, on average, the real average income per person has increased from $13,000 (1997-98 dollars) in 1959-60 to around $31,000 in 1998-99, a 24 fold increase over a thirty year period.

[1] *Sydney Morning Herald, 26/02/01*

[2] *Parham et. al. (2000) "Distribution of the Economic Gains of the 1990s". Productivity Commission, AGPS.*

The rate of increase in average wealth, either in GDP or Gross Domestic Income (GDI) terms (GDI is GDP adjusted for changes in Australia's international terms of trade) was in fact faster during the 1990s than the 1980s, with Australia being one of only a few countries to experience such growth during that decade.

Fig. 1. Real GDP and real GDI per person, 1959-60 to 1998-99
(1997/98 dollars) Source: Parham (2000) op. cit.



The rate of personal income growth in Australia over these three decades has been greater than the rate of growth in most OECD countries, although in absolute terms, Australians rank behind countries such as Japan, the USA and Sweden in GDP per capita.

Table 1. Real GDP per person, 1960 to 1998.
(1995 US **dollars) Source: Parham (2000)** op. **cit.**

Country	1960 $	1998 $	% Increase	Growth rates p.a 1980-90	Growth rates p.a 1990-98
Australia	9,559	21,881	229%	1.4%	2.5%
Canada	9,063	20,458	226%	1.6%	0.8%
France	10,595	27,975	264%	1.8%	1.1%
Italy	6,628	19,574	295 %	2.2%	1.0%
Japan	8,213	42,081	512%	3.4%	1.0%
Netherlands	11,525	28,154	244%	1.6%	20%
Sweden	12,960	27,705	214%	1.7%	0.6%
UK	9,499	20,237	213%	2.4%	1.5%
USA	14,078	29,683	211%	1.7%	20%
OECD Ave.	10,379	28,688	276%	23%	1.5%

On the basis of these statistics, there is no doubt that participants in the Australian economy are, on average, significantly better off than they were thirty years ago.

It is commonly argued, however, that simple income measures such as GDP are not adequate to measure the overall 'well-being' of members of a community. There are a range of other social and economic indicators that are also examined in answering this question. The Productivity Commission noted a number of studies that had examined some of these other indicators.

One of these is household wealth, as distinct from household income. Studies of this measure have found that a major part of the increase in household wealth over the last twenty years is due to rises in the value of dwellings, increased ownership of shares (over 40% of Australian adults directly own shares), and increases in the value of compulsory superannuation funds held by individuals.

Depending on the stage of life of an individual, some of these wealth increases may or may not be realisable, and therefore may not contribute to a greater sense of 'wellbeing' for a person.

The affordability of housing is another indicator that is often used. An increase in income or wealth may mean little if basic housing costs, for example, simply absorb the extra income. The Productivity Commission found that over the period from the mid 1970s to the mid 1990s, annual housing costs (rent, mortgage interest payments, **rates, insurance, etc.) increased slightly from 11% to** 12.2% of average household income, an increase that does not appear to be significant.

If increased income or wealth arises solely from longer working hours, it may not necessarily translate into a greater feeling of wellbeing in the community. However, **statistics show that average weekly hours worked over the past two decades have only increased marginally for full-time workers (from 39 hours in** 1980 to 41.1 **hours in** 1999), and have probably decreased for part-time workers. The latter may be somewhat misleading, due to the significant growth in part-time employment in service industries.

When compared internationally, employed persons in Australia work **on average about 100 hours per year more** than employees in Canada or the UK, but about 100 hours per year less than employees in the USA.

For **a range of other wellbeing indicators, such as per capita access to health facilities, per** capita public expenditure **on education and health, access to tertiary education and average life expectancy, the aggregate national statistics have all moved in a positive way over** the past two to three decades in Australia.

Together, they point to an economy in which people are wealthier in real terms, have better access to health and education facilities, and have a longer life expectancy. In short, the aggregate statistics point to a population that should have a greater degree of wellbeing than at any time in the past.

Has the increased wealth been fairly shared?

The distribution of wealth, both within and between the various different sectors and elements that go to make up an economy, provides a more comprehensive picture of the well-being of members of a community than aggregate figures do. Several recent research projects have examined wealth and income distribution in great detail, **with a focus on differences between urban and** regional Australia.

Australia's eight State or Territory capitals account for some **63% of the total population, with the remaining 6.7 million** people classified as 'non-metropolitan'. The non-metropolitan sector includes regional centres, as well as smaller towns, rural and remote areas. Although non-metropolitan regions are often termed 'rural', the reality is that there are only about 150,000 rural producers amongst the regional population of 6.7 million.

The productivity Commission report [3] examining the impact of National Competition Policy reforms on rural and regional Australia provided statistics on average household income, segregated according to location. It is possible using those figures to examine changes in income distribution over time between metropolitan and non-metropolitan areas.

Table 2. Changes in Average Household Income, 1981-96.
Source:. Productivity Commission (1999)

Region.	1981 Average household income	1981 Ratio of national average %	1996 Average household income	1996 Ratio of national average %
Metropolitan				
Sydney	$17,400	109	$45,700	120.1
coastal				
Hunter	$15,500	97.2	$34,400	90.4
Illawarra	$15,300	95.6	$32,700	86.1
Richmond- Twd	$13,700	85.9	$28,600	75.1
Mid N Coast	$13,000	81.2	$27,000	71.0
Inland				
Northern	$14,600	91.1	$30,000	78.9
North West	$14,200	88.9	$29,600	77.9
cent west	$14,400	90.4	$31,900	83.9
s. Eastern	$13,500	84.8	$32,400	85.1
Murrumbidgee	$15,700	98.0	$33,500	88.1
Murray	$15,200	95.0	$31,400	825
Far West	$15,400	96.4	$28,000	73.7
Australia	$16,000	100.0	$38,000	100.0

The Table reveals that metropolitan NSW has clearly surged ahead in terms of average household income over the fifteen-year period, and **that** most other areas of the State have fallen further behind. Coastal areas further away from Sydney, and northern and western inland areas have also fallen behind more than central and southern inland areas. This is a pattern that is not unique to NSW, with similar trends evident in other States, albeit qualified by the fact that some metropolitan **areas have** not experienced the same degree of growth in household income as Sydney households have.

The only exceptions to the pattern of metropolitan income growing faster than regional areas are remote **areas** such as the Pilbara, where mining is the principal source of household income, and Canberra, **where** household income has consistently been more than **30%** above the national average. As the Productivity Commission concluded *"... comparisons made over time show that household incomes in almost ail county regions declined, relative to the national average, between 1981 and 1996."*

These statistics reveal that areas of the nation have missed out on the growth of wealth in the economy over the past fifteen years. Average household income is, however, a crude measure of wellbeing, and doesn't take into account that housing is more expensive in major metropolitan areas, or that fuel and transport costs are often considerably higher in inland areas, as are many basic staples of life that have additional distribution costs.

[3] *Productivity Commission (1999) Impact of competition Policy Reforms on Rural and Regional Australia. AGPS.*

While income distribution throughout the economy has become less even, whether or not the change in income distribution is fair is a more difficult question. Rural commodity prices have declined in real terms over these last two decades, and given that in many inland areas agriculture is the main provider of employment, it is perhaps not surprising that household income levels have fallen relative to the national average. Leaving this aside, comparisons between metropolitan and non-metropolitan Australia for a range of other socio-economic indicators confirm that non-metropolitan areas have been left further behind in terms of wellbeing.

Access to medical services is something that most would consider a basic right for everyone in the nation. While aggregate national per capita expenditure on health has increased as a proportion of GDP, the Productivity Commission [4] found that there is a large disparity in access to medical services between metropolitan and non-metropolitan Australia. For example, in 1995 there were 109 General Practicioners, and a total of 130 medical practicioners per 100,000 people in capital cities, but the figures in rural areas were only 70 and 79 respectively, only approximately 60% of capital city levels. Some initiatives have been taken since then by both State and Commonwealth State Governments to correct this.

Mortality rates (age corrected deaths per 100,000 people) are also significantly higher in non-metropolitan areas. In rural areas, death rates for males and females over the 1992-96 period **were 1037 and 651** respectively per 100,000 people, in comparison with metropolitan rates of 828 for males and 509 for females. While higher death rates for indigenous Australians (who make up a larger proportion of rural and remote populations) is part of the reason for this, the Productivity Commission concluded that *"lower levels of health service provision (and perhaps utilisation) are having a discernible adverse effect on the welfare of county people."*

Access to aged care is, like access to health services, generally significantly lower in non-metropolitan areas. While cities and large towns were found to have more than 400 nursing home beds per 100,000 persons aged 70 and over, rural areas have less than two thirds that number, and remote **areas** have fewer than 200 beds per 100,000 older citizens.

Suicide rates can perhaps be interpreted as indicative of the sense of wellbeing that exists in a community, and these have changed dramatically over recent decades, when comparing urban and non-urban rates.

Table 3. Increases in suicide rates for males aged 15-24, between 1964 and 1993.
Source: Productivity Commission (1999)

State	Capital city	Towns > 4000	Towns < 4000
NSW	1.6 times	3.8 times	9.9 times
Victoria	4.2 "	5.5 "	34.5 "
Queensland	3.0 "	1.9 "	31.6 "
South Aust.	2.7 "	1.8 "	5.5 "
West Aust.	2.5 "	3.2 "	7.0 "
Tasmania	2.0 "	.	3.6 "

[4] *Productivity Commission (1999) op. cit.*

The Productivity Commission was not able to examine in detail the cause of such a dramatic increase, however concluded *". . the fact that the increase is on a nationwide scale and appears to be especially serious in county ureas could be a symptom of an overall deterioration in the wellbeing of country Australians."*

Aside from absolute wealth measures, the extent of community wellbeing will also be affected by the degree of employment change that has occurred. Significant changes in the nature of employment opportunities in a region (through mine or factory closures, for example) have a major impact on wider job security in the area.

An indicator commonly used to measure the extent of employment change is the Structural Change Index (SCI). The Productivity Commission [5] calculated SCI's for urban and regional Australia over the period from 3981 to 1996. An SCI of 10 over a defined period would mean that 10% of the region's workforce would have to be reallocated to different industries to re-establish the employment shares existing at the start of a defined period.

Fig. 2 Comparison of structural change (SCI) between urban and non-urban Australia, 1981 to 1996.

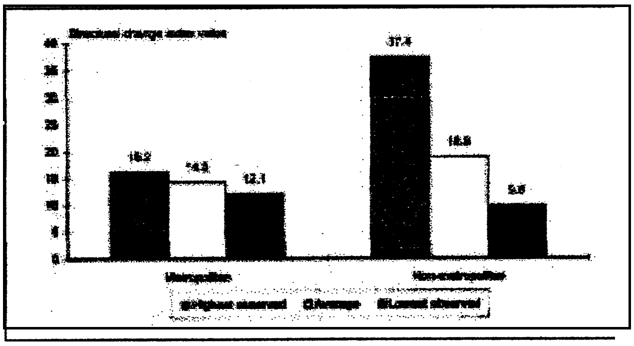


Figure 2 indicates that, based on the SCI measure, metropolitan areas generally experienced significantly less structural change over the above 15 year period than non-metropolitan regions. It also indicates very high levels of structural change in some non-metropolitan regions. This is significant, as it means in some smaller non-metropolitan communities with only limited employment options, people would need to relocate to another community to find employment, something which would not be the case in a larger metropolitan area.

In the non-metropolitan regions, the largest single source of structural change was a decline in agricultural employment. Over the above period, the employment. share for agriculture declined in 88 of the 113 regions. The significance of this decline extends beyond those directly employed in agriculture, as recent ABARE research [6] has shown that for towns of less than 1,000 people, farming expenditure represents around one third of total economic activity in the town.

The broader picture.

The statistics and research reports paint a clear picture of changes in the Australian economy over the last two or three decades. Certainly, on average Australians are more wealthy in real terms than they were thirty years ago. On the other hand, the average wealth of non-metropolitan Australians has been growing at a much slower rate than that of metropolitan Australia. For example, while inland regions of New South Wales had average household incomes that were about 92% of the national average in 1981, by 19% inland household incomes averaged only 81% of the national average.

This is a significant change in income distriition, and one that made all the more apparent because it has occurred during the working life of people currently living in regional Australia. Added to that has been a measurable decline in public and private infrastructure and services, a trend which is continuing especially in smaller towns. By any measure, these outcomes in combination have resulted in a significant decline in the relative wellbeing of those Australians living in non-metropolitan Australia.

Several additional issues arise from this analysis. The first is that in contrast to their previous self-reliance, many non-metropolitan communities have now become supplicants to Governments, needing to mount public campaigns to retain even minimum levels of basic services. In doing so, they frequently experience the *'one size fits all'* approach that is inherent in centralised Government bureaucratic structures, and this becomes a major source of irritation, often being perceived as a deliberate ploy to frustrate or delay, rather than to help.

Adding to the frustration has been the apparent bi-partisan political endorsement of policies leading to these outcomes, even from political representatives whose own regions have borne the brunt of some of these changes. Irrespective of whether the broad policy approach has been beneficial for the nation generally, people in regional Australia have observed their major-party political representatives bound by illogical and intractible party-room solidarity and thus prevented from either voicing concern at the changes, or from campaigning publicly for better adjustment measures where the changes are necessary.

It is not surprising in such a situation to see regional political support swing to any voice prepared to express dissent-. What is perhaps most surprising is that the pundits should be so surprised it has happened! February, 2000

[5] *Productivity Commission (1998) Aspects of Structural Change in Australia. AGPS*

[6] *ABARE (2001) "Country Australia. Influences on employment and Growth." Research report 01.1. AGPS*

COMMENTS CONTAINED IN THIS DOCUMENT ARE BASED ON CURRENTLY AVAILABLE INFORMATION.

Issued by the Policy Director. Prepared and published by NSW Farmers' Association. A.C.N. 000 004 651
GPO Box 1068, Sydney. NSW. 1041. Phone (02) 9251 1700 Fax (02) 9233 8780 email wardenk@nswfarmers.com.au
ISSN 1038-9830