

# Gwydir Valley Irrigators Association Inc.

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458 Frome St, PO Box 1451, Moree NSW 2400

10 July 2012

Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB POST OFFICE NSW 1230

SENT VIA ELECTRONIC MAIL

## **Re: Submission on Discussion Paper on Review of Rural Water Charging Systems**

To Whom It May Concern:

The Gwydir Valley Irrigators Association (GVIA) welcomes the opportunity to provide a submission to IPART on the Discussion Paper 'Review of Rural Water Charging Systems' in addition to our presentations at both the Narrabri and Sydney hearings.

Although the GVIA welcomes the review and acknowledges the NSW Government's action on its election commitment, the review timeframe and scope has not allowed for a full and detail review as hoped.

The GVIA have provided answers to specific questions outlined within the discussion paper in addition to a number of general comments. There are a number of recommendations for further work by IPART within this submission.

We look forward to working with IPART on the issues and the recommendations outlined within this submission.

Regards



Zara Lowien  
Executive Officer  
Gwydir Valley Irrigators Association

Enc. Submission to IPART *on Discussion Paper on the Review of Rural Water Charging.*

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# **Gwydir Valley Irrigators Association Inc.**

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458 Frome St, PO Box 1451, Moree NSW 2400

## **Submission to the Independent Pricing and Regulatory Tribunal**

### *Review of Rural Water Charging Systems*

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**Submission by:  
Gwydir Valley Irrigators Association Inc  
July 2012**

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## **1. Purpose of this Submission**

This document has been developed by the Gwydir Valley Irrigators Association (GVIA) on behalf of its members as a formal submission for consideration by the Independent Pricing and Regulatory Tribunal (IPART) when finalising their review of Rural Water Charging Systems in NSW.

This document represents the concerns and views of GVIA's members. However, each member reserves the right to express their own opinion and is entitled to make their own submission.

## **2. About the Association**

### ***2.1. Where we are and what we do***

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 250 water entitlement holders in the Gwydir Valley, centred around the town of Moree in North-West New South Wales. Our mission is to build a secure future for its members, the environment and the Gwydir Valley community through irrigated agriculture.

Our members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources. All of which are managed through water sharing plans although the Water Sharing Plan for the Gwydir Unregulated and Lower Gwydir Alluvial Water Sources remains in draft at the time of preparing this submission.

The main broadacre irrigated crop is cotton with irrigated wheat, barley and Lucerne also occurring depending on commodity prices. Currently there are also pecans, walnuts, oranges and olives being grown within the region covering approximately 1,500 hectares. There is however, significant and potential for expansion into horticulture.

The Gwydir Valley Irrigators Association organisation is voluntary, funded by a cents/megalitre levy on regulated, unregulated and groundwater irrigation entitlement. In 2010/11 the levy was paid on in excess of 87% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

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The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Regional Landcare Co-ordinator.

Much of the activity the association revolves around negotiating with government at a Federal, State and Local level to ensure the rights of irrigators are maintained and respected.

While the core activities of the Association are funded entirely through a voluntary levy, the Association does from time to time, undertakes special projects, which can be funded by government.

The GVIA and its members are members of both the National Irrigators Council and the NSW Irrigators Council.

We support the submissions made by NSW Irrigators Council on behalf of the irrigation industry of NSW.

## **2.2. Association Contacts**

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The NSW Government has requested the Independent Pricing and Regulatory Tribunal to address a review into bulk water charges, in particular:

- Identify options for the bulling of bulk water charges that might be better matched to business cash flows;

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- Identify options for determining the NSW Government's cost share for Australian Competition and Consumer Commission's (ACCC) determined bulk water charges in NSW, which may include a role for IPART; and
- Make recommendation that will assist the NSW Government to maintain viable and economically sustainable provision of services to customers, taking into account the potential impact of future pricing arrangement on customers, State Water and the NSW Office of Water (NOW).

As part of these terms IPART have requested a number of specific questions from stakeholders throughout the consultation and as part of the submission process on the issues discussion paper. The answers to these questions will form a section of this report.

#### **4. General Comments and Concerns**

The Gwydir Valley Irrigators Association (GVIA) welcomes the opportunity to provide a submission to IPART on the Discussion Paper 'Review of Rural Water Charging Systems' in addition to our presentations at both the Narrabri and Sydney hearings.

Although the GVIA welcomes the review and acknowledges the NSW Government's action on its election commitment, the review timeframe and scope has not allowed for a full and detail review as hoped.

The GVIA have overtime provided detailed submissions to pricing determinations coordinated by IPART and that information contained within those submissions should be utilised to inform this review. Of note the recommendations that have requested IPART to consider alternative price paths<sup>1</sup> and bill impacts<sup>2</sup> of the current pricing structure. Not to mention to consistent request to freeze NSW Office of Water costs in real terms<sup>3</sup>.

The GVIA would encourage IPART to reconsider the industry submissions from at least the determination process for both State Water and NSW Office of Water as a means to further explore the review options and issues.

The GVIA is becoming increasingly concerned that state owned corporation functionality can be inherently undermined by government determined policy. The request for consideration of a glide path<sup>1</sup> is a pertinent example, as the cost-recovery

<sup>1</sup> Recommendation 6, GVIA submission to IPART on State Water Charges, April 2010

<sup>2</sup> Recommendation 9, GVIA submission to IPART on State Water Charges, April 2010

<sup>3</sup> GVIA submission to IPART on NOW charges, November 2010

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requirements and return on investment is restricting State Water's ability to modify its business function appropriately in periods of low water availability. In simple terms, the GVIA would expect State Water to have the capacity to manage their business similar to an irrigator, which has the same level of volatility and vulnerability to water availability. This could mean that they could manage their budget surplus and deficits over a longer-term or they are more able to expand and contract their workforce.

Furthermore, the GVIA is becoming increasingly frustrated at the lack of accountability for cost shares received as outlined in de tailed in our June 2010 submission on the Review of Prices for Water Administration Ministerial Corporation<sup>4</sup>. This is of particular concern with NOW who provide little communication with their customers unlike State Water who report quarterly on their performance measures at customer service committee meetings. Greater communication on outcomes from all parties, involved in either paying or receiving costs should be considered as part of this discussion.

Although considered outside the scope of this review<sup>5</sup>, the GVIA consider it increasingly important for IPART to consider expanding the user base for cost recovery. Discretionary environmental water users like those detailed as planned environmental water in the Gwydir, either water provided from the three-tributary inflows<sup>6</sup> or the Environmental Contingency Allowance<sup>7</sup>, should contribute to infrastructure and on-going running costs including resources to attend plenary meetings associated with delivery said water.

This is also true for stock and domestic users and basic landholder rights, or where State Water are required under a water sharing plan to delivery replenishment flows as in the Gwydir<sup>8</sup>. All these activities require input and resources from State Water and currently not contributing to the on-going running and delivery costs.

By broadening the cost burden beyond users of irrigation water there is a greater opportunity to avoid cost recovery issues in times of low water availability.

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<sup>4</sup> GVIA submission to IPART on Review of Prices for Water Administration Ministerial Corporation, June 2010

<sup>5</sup> Transcript from Sydney hearing 3 July 2012, Amanda Chadwick

<sup>6</sup> S:14, Water Sharing Plan for the Gwydir Regulated Water Sharing Plan, 2002

<sup>7</sup> S:15, Water Sharing Plan for the Gwydir Regulated Water Sharing Plan, 2002

<sup>8</sup> S 59, Water Sharing Plan for the Gwydir Regulated Water Sharing Plan, 2002

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## 5. Specific Questions

### 5.1. Assessment Criteria

*1 Are the proposed assessment criteria appropriate?*

Although the assessment criteria appear appropriate, there is no discussion by IPART regarding the relative priority to weighting of these criteria. The criteria are adequate provided that no one criteria is given priority or weighted against another.

The GVIA recommends the removal of criteria 7, the ease of administration and implementation as this would be covered in financial impacts in criteria 2 and 3.

*2 Are there other factors or criteria we should consider when assessing options?*

The GVIA would like IPART to consider the scale of impacts to assessment criteria 1, 2 and 3 as part of their assessment. This would aim to assess the individual valley impacts and how each valley may have differing preferences for user choice.

### 5.2. Water availability ad customers' cash flows

*3 What is the most appropriate method of analysing historical water availability to understand the relationship between water availability and customers' cash flows?*

Direct correlation between water availability and cash flows is inherently difficult. Australia is a price taker on the world market and hence, commodity prices and monetary conversion rates for major exporting commodities should also be considered. This is extremely important in the Gwydir where the majority grown irrigated crop is cotton with up to 99% of the total national cotton crop exported.

Although the GVIA support the use of average allocation outputs from the Integrated Quantity and Quality Model (IQQM) in the interim, this use of outputs from this model must be utilised in recognition of the flawed model assumptions of irrigator behaviour.

In the Gwydir underlying assumptions around irrigator behaviour have been superseded by technology improvements both for irrigation techniques, but also crop genetics and most importantly by changes in watering behaviour in response to the Commonwealth Environmental Water Holder being an active holder of 27% of entitlement. These changes will need to be incorporated into IQQM for future determinations to allow for more appropriate representation of water use, behaviour which could then be matched to cash flows.

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Furthermore, IPART need to consider the timing of allocations for general security users as opposed to the annual average allocation. For the Gwydir, planting decisions for cotton in particular need to be made no later than November cut-off-date for planting. With many irrigators planning in August and September for their annual water requirements, noting the current and projected allocations for the season.

Antecedent conditions should also be considered a significant contributor to water-use behaviour, especially in drier years when planting areas maybe reduced with a worst-case scenario of projected water availability. Without starting moisture irrigators may choose a more conservative approach.

*4 Do the differences between valleys and associated farming systems mean that instituting broad rules across valleys to measure the impact of water availability is not appropriate?*

In consideration of the above response, the GVIA believe that valley by valley assessments on how water availability impacts cash flow should be made or at a minimum, valleys with similar water uses lumped together. A mechanism to determine rules based on these differences should be applied across NSW with rules reflective of the inherent differences of valleys.

*5 Which customers are most affected by variability? It is our preliminary view that those most affected by variability are general security users in regulated systems and users in unregulated water sources.*

In the Gwydir, all water users are affected by the variable nature of our hydrological system and irrigators have adapted their businesses as best they can to reflect this variability. Through flexible planting regimes, diversification of entitlements and water trading.

External factors that will determine how effective irrigators have been to managing their own business risk include:

- Impact of new pricing principles;
- Impact of water policy granting environmental water users greater rights and priority;
- Environmental water usage; and
- Availability of willing sellers (and buyers) on the water market.

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Importantly, many irrigators do not have the capacity (either the resources or economy of scale) to mitigate against water variability and hence, within all licence categories, some irrigators will be at a higher risk than others to managing water availability changes.

*6 Are there circumstances where water variability affects the high security users?*

As with the above response, there will be some irrigators that will be at a higher risk than others to water availability changes. This is heightened by the fact high security water entitlement is predominately used for irrigating permanent planting.

*7 Are the current customer assistance measures offered by State Water and NOW useful to customers in managing their cash flow issues?*

During and following the drought there has been significant consolidation of water entitlement within the Gwydir. Of particular note is the establishment of the Commonwealth Environmental Water Holder, although there was also consolidation between irrigators.

The change in water entitlement owners means that a smaller pool of irrigators are required to wear the cost recovery burden. It is unknown to what extent this may influence the need for Gwydir irrigators to require assistance in managing their cash flow issues in the future.

However, the fact that all water charges must be up-to-date prior to enacting a water trade means that irrigators seeking the market to assist them with cash flow issues will be forced into addressing their account fees anyway. This will skew results of defaults on fees and requests for assistance to a pool of irrigators, not exercising their water right.

Furthermore, the current trigger points for the establishment of customer assistance measures are inadequate in matching the realities of low water availability. This is complicated by the use of long-term average allocations which do not account for the variability. The GVIA recommends that further work on more appropriate trigger points be undertaken.

8 Other options for measuring the impact of rural water bills on users?

The GVIA have not specific comments to this question.

9 How closely is water availability aligned with farm cash flows?

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In consideration to our response to question 3, there are many externalities that need to be considered when assessing farm cash flows. Water availability is only one factor.

Other consideration should include:

- Commodity prices;
- Exchange rate;
- Input costs, especially fertiliser and electricity; and
- Farm debt.

*10 How and when do farmers take water availability into account when making production decisions?*

As in response to Question 3, planting decisions for cotton in the Gwydir must be made prior to November and are general made in August or September.

Smaller proportions of cereals are also irrigated with planting decisions made in April and May.

*11 What is the degree to which water trading has allowed rural water customers to maintain the viability of their businesses and maintain cash flows in times of drought?*

Market depth and interaction remains in its infancy in the Gwydir. Although an assessment of the trading register might show many transactions throughout the drought and since, there would be few that represent irrigator to irrigator transactions.

Environmental water holders are the most active participants in both the permanent and temporary market. During the drought, the Commonwealth Government was the single most active buyer in the market and generally paid a premium for entitlement. NSW Riverbank consistently trades allocation to cover the on-going costs associated with their entitlements. However, it is not known what the Commonwealth Environmental Water Holders trade behaviour might be.

Although there would be a number of individuals that would want to regularly buy allocation, there are very few entitlement holders available to regularly sell. For this reason, trade was a limited option for most irrigators to manage through the drought. With the exemption of those that permanently sold their entitlements.

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Furthermore, there are a number of trade restrictions and zones within the Gwydir Water Sources which further limits trade as a mechanism for managing low water availability. These constraints are highlighted in high water availability years and are just as restrictive.

*12 What are the limitations of water trading and the impact on customers of these limitations?*

As with the response to Question 11, there are a number of trade restrictions within the Gwydir Water Sources including:

- Trade zones within water sources and between water sources;
- Water source zone shares that represent the maximum volume of water that can be delivered in certain areas;
- Physical constraints in terms of weirs and channels; and
- Account limitations.

*13 What is an appropriate basis to determine a trigger level of water availability before there is a significant impact on the cash flows of customers?*

The GVIA submits that the current, three years of zero allocation does not reflect the extreme realities of low water availability. Cash flows would be impacted well before consecutive zero allocations are reached.

Due to the high variability of water availability in the Gwydir, the GVIA recommend a long-term average low available water determination value be calculated on a valley by valley basis. This value would represent the lower limit of water availability that is able to support a base level area of production. It is recommended that either a two consecutive years of that value or below is set as the trigger point or a two-year rolling average that allows for a small spike in available water in one year whilst continuing assistance allowing for recovery from low water availability.

This trigger would result in the wavering of fixed charges, leaving a small proportion of users that are actually access water to cover the variable costs.

### ***5.3. Tariff structure and other policy options to address customer cash flow issues***

*14 What are the key issues in the current suite of price tariffs, pricing policies and payment terms that cause hardship in periods of low water availability?*

The GVIA believes that the limited scope of water users who currently pay for water storage and delivery services exacerbates the cost hardship of irrigators during low

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water availability. If the cost burden was more equitably shared than the overall cost to an individual would be less.

Furthermore, it is the continuous rise in water charges as determined by IPART are heightened during periods of low water availability. In particular the costs for:

- Business volatility (State Waters volatility allowance);<sup>9</sup>
- Indexed costs greater than consumer price index<sup>3</sup>;
- Higher than market rate weighted average cost of capital<sup>10</sup>;
- The Murray Darling Basin Authority who has no operational role in the Gwydir<sup>11</sup>;
- Fish passages required as part of dam safety upgrades<sup>12</sup>;and
- Meter charges for government owned meters – when no meters have been installed<sup>3</sup>.

The GVIA support the maintenance of the status quo for tariff structures at a 40:60 fixed to variable charge structure. However, many members have requested the right to increased user choice which is currently not provided. The GVIA requests that additional tariff structures are explored to provide users the choice to manage their own business risk.

*15 Who should be responsible for establishing the conditions that would trigger rural water charging policy response?*

The GVIA believe that the conditions for the trigger values should be included within the price review framework and subject to the formal consultation mechanisms included in that process.

*16 Should rural water charging policy triggers be established in the price determination process?*

Trigger points should only be required to be reviewed in light of new information to inform their accuracy and therefore, they should not be required to be reviewed every determination period.

*17 What are your views on the tariff structure options presented? Do you agree with our preliminary view for tariff structure or policy options that best meets the assessment criteria?*

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<sup>9</sup> Recommendation 3, GVIA submission to IPART on State Water Charges, April 2010

<sup>10</sup> Recommendation 4, GVIA submission to IPART on State Water Charges, April 2010

<sup>11</sup> Recommendation 8, GVIA submission to IPART on State Water Charges, April 2010

<sup>12</sup> Recommendation 7, GVIA submission to IPART on State Water Charges, April 2010

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The GVIA supports IPART assessment of maintaining the 40:60 fixed to variable tariff structure. However, as outlined earlier in the answer to Question 14, the GVIA support the exploration of alternative tariff structures in response to greater user choice in addition to the 40:60 tariffs. This could include but is not limited to a higher fixed charge with lower variable or options for conditional tariffs in years of low water availability.

*18 Are there any tariff structure or other policies or approaches that we should consider?*

Consideration should be given to the response for Questions 14 and 17.

*19 Are there any other implementation issues that should be considered for the tariff structures or other policy options outlined? Are there any implementation issues for tariff structure or other policy options at a local level (e.g., within irrigation corporations) that we should be aware of?*

The GVIA supports the assessment of alternatives to encourage user choice, provided that that 'choice' did not result in perverse cost outcomes for individuals. As a result, the GVIA request that further work is undertaken in consultation with industry on reviewing these alternative tariff options.

The GVIA would also encourage the further development of hardship payments ion low water availability years with a preference for the wavering of fixed fees. However, the GVIA would encourage IPART to further review the options for proving conditional arrangements for water charges.

#### **5.4. Setting the NSW Government's cost share for ACCC determined bulk water charges**

*20 What are your views on the cost share options presented? Do you agree with our preferred option on determining cost shares?*

The GVIA supports the involvement of an independent and transparent cost share framework and hence, supports the proposal by IPART to provide evaluation of cost shares every second determination period.

However, the GVIA would like this review to be initiated immediately as part of the 2014 determination but accepts the timeframe limitations.

With the expansion of the determination periods for cost shares, it will be increasingly important for performance against these shares to be appropriately

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monitored and managed to ensure that task and activities required are being achieved. As a result the GVIA would recommend a mid-term performance review of the NOW and State Water is undertaken as a means to monitor progress.

21 Are there alternative options for determining the cost sharing ratios that we have not yet considered?

As outlined previously, the GVIA supports the extension of the user base to include other water users that currently utilise State Water and NOW resources. That said, these users could be included in the current cost share framework as individuals or could result in a change in the cost share proportions for some activities with the NSW Government paying a fairer share for the provision of the ecosystem services detailed within water sharing plans. This is particularly important for planned environmental water provisions in the water sharing plans, including the Gwydir.

22 *Are there any other issues on determining cost shares that we need to consider?*

There are no additional issues to those already outlined in earlier sections regarding the determination for cost shares.

### ***5.5. Valleys not at full cost recovery and the government contributions***

The GVIA does not have expertise regarding the water charging issues in valleys not at full cost recovery and does not have specific comments regarding this section. With exception that the GVIA does not support the cross-subsidisation of water charges between valleys.

## **6. Conclusions and Recommendations**

The GVIA welcomes the review into rural water charges in NSW and the opportunity to provide input through this submission and participating in the public hearings in Narrabri and Sydney.

The GVIA encourages IPART to reconsider submissions the Association has made to the tribunal on previous price determinations for State Water and the NSW Office of Water for additional background to many of the issues that the Association has with the current pricing schedule, cost shares and tariff structures.

The GVIA as part of this review recommends further work by IPART to expand the current user base to reflect the variety of water users in NSW that benefit from the storage and delivery of water and who draw on State Water and NSW Office of Water resources. This should include but is not limited to users of planned

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environmental water, stock and domestic users and benefactors of the ecosystem services provided from water regulated in NSW like recreational users and basic landholder rights.

By broadening the cost burden beyond users of irrigation water there is a greater opportunity to avoid cost recovery issues in times of low water availability.

The GVIA as part of this submission has provided further explanation to the limitations of using low average allocations as a measure of low water availability and a surrogate for low cash flow. This assumption is especially problematic in the Gwydir where the valley dynamics, in terms of water use behaviour has significantly altered during and in response to, the recent drought. In response, the GVIA recommends that valley by valley cash flow relationships are established that take into account a broader spectrum of external factors that influence cash flow.

With a consolidation of irrigation entitlement and increase water prices, the GVIA strongly supports the establishment of hardship provisions that waiver fixed costs. The GVIA also believes that there is merit in IPART re-evaluating the current hardship triggers with consideration to a minimal water availability trigger rather than zero allocations. Further to this, the GVIA recommends that further work on providing an optional conditional tariff structures in times of low water availability are also explored.

The GVIA acknowledges that there are issues with the current price determination for State Water and NSW Office of Water. Albeit, the Association does support the maintenance of the current 40:60 fixed to variable tariff structure provided that IPART consider further assessment of the provision of greater user choice for tariff structures that including this tariff.

Furthermore, the GVIA supports the continuing involvement of IPART in determining cost shares as proposed in the discussion paper. The GVIA does however recommend that performance reviews of State Water and NSW Office of Water be incorporated as part of this new process as a means to monitor progress of task and activities. This is increasingly important considering the consistent lack of accountability of tasks within previous determinations.

The GVIA looks forward to working with IPART on the issues and the recommendations outlined within this submission.

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**Submission ends...**

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