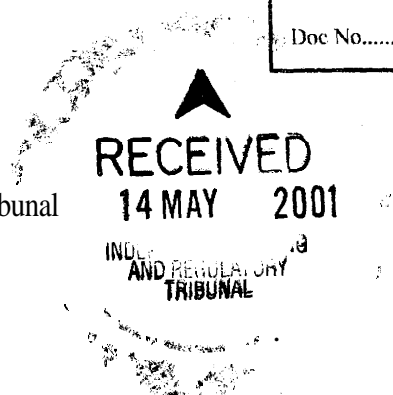


Rosebank
Wallamore Road
TAMWORTH NSW

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| IPART | |
| Doc No..... | File No..... |

8th May 2001

Independent Pricing & Regulatory Tribunal
PO Box Q290
QVB Post Office
SYDNEY NSW 1230



SUBJECT: DLWC Bulk Water Pricing Submission 2001/02 – 2003/04

Regulated Surface Water – Namoi-Peel

The regulated milking cow of the Peel River is about to be dried off and sent to slaughter.

This is the cumulative **affect** of the NSW Governments zealous pursuit of full cost recovery under the banner of the Council of Australian Governments (COAG) and National Competition Policy to achieve the rewards bestowed in the form of Tranche payments. i.e. Full cost recovery + National Competition Policy = \$300 Million 3rd **tranche** payout for NSW Government.

The regulated general security users of the Namoi-Peel system will, if **IPART** approves and endorses the DLWC's 20% progression to **full** cost recovery of bulk water, **will** suffer serious viability problems resulting in significant socio economic dislocation to both the Peel and Namoi Valleys.

The following table demonstrates the change in bulk water pricing since 1993, Past, Present and probably NO Future.

Bulk Water Prices – Past, Present & Future

| 1993/94 | 2000/01 | 2003/04* | 2006/07* |
|---------|---------|----------|----------|
| \$2.00 | \$11.03 | \$19.04 | \$32.78 |

* The prices for 2003/04 & 2006/07 are based on **IPART** accepting the DLWC's proposal of 20% annual price rises coupled with the fact that under the DLWC's user cost sharing regime, neither the Peel nor the Namoi will be at "full cost recovery" by 2006/07.

I don't remember being rich in 1993/94 and am certainly not rich now. The irrigated industry in the Peel is largely one of price takers. There is no option or opportunity to pass on input price rises.

IPART is aware from previous submissions that the active water user of the Peel Valley uses, in most seasons, about 35% of entitlement. The low water usage relative to entitlement is required for DROUGHT mitigation as Chaffey Dam has a low reliability of supply averaging only 50% “start of season” allocation for the 1990’s. This means that the effective price paid for regulated water in the Peel is extremely high as shown in the table below and demonstrated in Fig. 1.

Effective Bulk Water Prices - Past, Present, Future

| | 1993/94 | 2000/01 | 2003/04 | 2006/07 |
|-------------------------------|---------------|----------------|----------------|----------------|
| Effective \$ ML 35% Use | \$2.30 | \$20.35 | \$35.16 | \$60.60 |

Prices post 2000/2001 will have serious viability issues for the Peel as clearly demonstrated in the NSW Agriculture’s very conservative “Economic Assessment of Water Charges in the Peel Valley.” This assessment predicts that the increase in bulk water prices will REDUCE NET FARM INCOME BY A MASSIVE 11% to 27%. A loss of income of this magnitude is significant by any measuring stick and is particularly painful as the farm gross margins listed in the report are over estimated. (a critique of this report is the subject of a separate submission to **IPART** by the Peel Valley Water Users Association)

To further demonstrate the significance of the NSW Government bulk water pricing policy, the component of my bulk water charges as a **function** of farm variable costs is tabled below and demonstrated graphically in Fig 2.

Bulk Water Charges – Function of Variable Costs

| | 1993* | 1999* | 2000* | 2003** | 2006** |
|-------------------------|--------|--------|--------|--------|--------|
| Bulk water \$ | 960 | 4,754 | 6,419 | 11,959 | 20,663 |
| Total Variable Costs \$ | 48,616 | 64,823 | 51,885 | 63,033 | 71,726 |
| Bulk water % | 2% | 7.3% | 12.4% | 19.0% | 28.8% |

* actuals

** estimates

Under this scenario the Hay producers of the Peel Valley will be able to join the **Riverina** rice growers association, as bulk water charges as a function of variable costs will be up there with the rice growers. Unfortunately unlike rice, Lucerne dies when it is left standing in water and so will the irrigation industry of the Peel if the pursuit of full cost recovery continues to be progressed by the NSW Government by the **IPART** process.

The magnitude of the annual bulk water bill incorporating the proposed price rises is demonstrated in Figure 3-4.

It should be pointed out that whilst it is the Peel and Namoi Valleys, which are likely to be priced out of business by this round of **IPART** hearings, other Valleys will follow and these Valleys in likely order of annihilation in the next **IPART** round are **the:-**

Lachlan
Macquarie
Gwydir

By **2006/2007** virtually all of the regulated water users North of the Murrumbidgee will need substantial NSW Government contributions if there is to be any semblance of an irrigation industry in this large part of NSW.

IPART would be aware that the irrigation industry of NSW was NOT built on any preface of PULL COST RECOVERY even if it was based on only these costs associated with “efficient delivery of bulk water services” and did not include the proletheria of **ambit** claims, wish lists and other red hearings included in the **DLWC**'s submission.

IPART must put in the hard yards and answer this question “**Is** NSW going to have a viable irrigation industry – or shut down inland **NSW**”– it's up to **IPART**.

Measures, which may assist **IPART** to put in the hard yards to ensure that NSW has a viable irrigation industry and preserve the socio economic fabric of the inland rivers would include

1. DLWC Submission on Bulk Water Pricing

IPART should ensure that this submission has the degree of honesty and integrity that the people of NSW would require of the agency charged with the stewardship of the water assets of NSW. The Bulk Water Submission for 200 1/02 -2003104 does not meet this criteria. Some examples of this are

- (a) It contains emotive statements, which can't be substantiated by fact and easily proven to be incorrect.

*“The underpricing of **bulk** water **services** will **perpetuate** ecological **degradation** because water services are not allocated to those users who **value** them most. As a **result** water is used in an **inefficient** manner. ”*

*“**Environmental problems** exist in **NSW** rivers and **groundwater** systems due to water regulation and extraction. Full cost recovery is an incentive to **reduce** water extraction. ”*

Tell that to the Namoi Valley Ground Water Users

The Murray Darling Basin is water resource constrained – over allocation of water management areas or MDBC Cap will ensure the efficient use of water, not price. Also water use is climate driven, not price driven. This is clearly evident from examination of water use in the Peel Valley. Also DLWC cap compliance strategy relies solely on the correlation between climate (evaporation) and water use.

(b) Impact Assessment

Gross Margins Impacts – DLWC Submission. *“The study only looks at the contribution of bulk water charges to changes in GM.”* Only the usage charge is evaluated by the DLWC in its gross margin analysis NOT the full cost of bulk water as claimed by the Department.

A GM is the gross income from an enterprise less the variable costs in achieving it. Variable costs are defined as costs directly attributable to an enterprise.” Enterprise implies the farm enterprise, not an individual crop. The DLWC did NOT assess the impact of the proposed increases in bulk water on the FARM GROSS MARGINS.

I expected the study to use the *“Effective Price of Bulk Water”* in its assessment NOT only the USAGE CHARGE. Why?

Because all Water Management areas in the NSW part of the Murray Darling Basin as stated before are resource constrained either by over-allocation of the resource or the MDBC cap itself which means entitlement holders cannot use their full entitlement

EG. Namoi Regulated – effectively fully developed 93/94
Maximum long term use 90%
Peel 35%

The effective price is the only price, which counts

NOTE the NSW AG gross margin handbooks are produced to help farmers make cropping decisions for their farming enterprise – comparing one crop with another. It is inappropriate to use these gross margins to examine the effect of price rises of water or fuel for that matter on the GM of the farm enterprise.

The GM's in the Ag Dept. Farm Budget handbooks are crop specific and don't represent the effect GM on farm enterprise. The variable inputs are few and are crop specific – the crop specific GM's are significantly inflated – each page contains a rider “Guide Only”

Nevertheless I have reworked the effect of the proposed changes in bulk water prices for spray irrigated Lucerne in the Peel to demonstrate the change in crop GM which will occur in the Peel if these prices take place.

I used 2000/2001 Ag Farm Budget Handbook – Not 98/99 as used by DLWC (*the 99 handbook, surprise, surprise has much larger GM for irrigated Lucerne in the Peel than the handbooks on either side of the 99 Model*) and includes a component for **labour** in the variable costs (Farmers employed **labour** but not any more apparently)

| | |
|---|-----------|
| Result – Peel Lucerne Enterprises | 2003/2004 |
| DLWC Submission Entitlement Cost 98/99 Ag figures | = - 0.70% |
| Ag Figures 2000/01 Entitlement Cost | = - 2.4 % |
| Ag Figures 2000/01 Effective Price | = -11.5% |

i.e. 16 times the effect produced by the Dept in its submission. 1600% negative result.

A change of this order would take the cream off salaries of public servants but it will take the dry bread and water off the tables of many irrigators.

(c)Impacts on Farm enterprises -Peel and Lachlan Studies.

The Peel study in its current form is not worth the paper its written on, has been the subject of correspondence to Minister Amery by the Namoi – Peel CSC and will be the subject of intense scrutiny by the NRRMC when its socio economic expert is appointed.

I would bore you with the reports numerous deficiencies but I draw your attention to Page 13 Table 4 Representative Gross Margins (a separate submission will be made to **IPART** by the Peel Valley Water Users Assoc. on this report)

Node 20/21

| | | |
|-------|------------|------------------------|
| | Peel Study | NSW Ag Budget Handbook |
| GM/ML | \$608 | \$283 |

Alarm bells should have been clanging! ! But the authors did not wake up, neither did the DLWC for that matter. Maybe **IPART** will.

Three of the Four so called representative farms are in the top 20% of **licence** entitlements – therefore unrepresentative of the Peel.

The NSW Ag Dept. at my request ran an additional scenario through the system.

Price – effective water use 2000/2001 @ 50% usage = \$16.05 + three 20% rises
 Half of base allocation used
 Application 6 ML ha

Result *--even under the first price scenario, all of the farms have negative returns and some have negative farm incomes.* i.e. There is no future for the irrigation farmers of the Peel under these price scenarios.

Points for **IPART** to Note

- (i) The Namoi-Peel CSC is less than impressed with the DLWC pricing submission. It should have been put before all of the **CSC's** for comment and correction and consensus before going to **IPART**.

Any positive aspects of the submission which may benefit the environment community and users will be lost as the user groups in my opinion will have to object in the strongest possible terms to **IPART**.

- (ii) The CSC members of the Namoi-Peel particularly the Chair (and I'm sure this applies to the other CSC's) have put a lot of time and effort into the process and are being rewarded for this by being treated as FOOLS by the DLWC and State Water.

2. Users Should Contribute a Reasonable Share of the "Efficient Delivery of Bulk Water Services"

There are many examples that could be used to demonstrate that the DLWC is stretching the limits of the imagination with what is considered to be costs associated with the "efficient delivery of bulk water services. Some examples are

- (a) DLWC Works Programme Reference Figure 5
Renewal and Compliance Capital Works Programme

Peel 200 1/2005 \$11.96 million

Breakdown

- 2.2 million Water Quality Investigation and Improvement. The water quality of the Peel more than meets the requirements for irrigation.
- 4.75 million Design and Construction; Upgrade of spillway. Releases **from Chaffey Dam** for irrigation purposes rarely exceed 300ML per day. Currently the discharge gates can release up to 1000ML per day. When the Dam exceeds 100% as it did in November 2000, flow through the Morning Glory reached 47,000ML per day. The current spillway set up more than meets the needs of the Peel irrigation industry.
- 3.3 million seismic upgrade, preliminary design and construction -- No direct benefit to irrigators. As can be seen, this expenditure has nothing to do with the efficient delivery of bulk water services. They are principally Dam safety issues presumably so that the Dam can withstand a 1000 year rain event coupled with an earthquake.

These costs should not in any form be attributed to the water users of the Peel. They are a public benefit and therefore should be Government funded.

The DLWC submission however considers that users should contribute

- o 50% of the cost. i.e. 6 million
- o Plus annuity payment -- equivalent to the depreciation of the asset.
- (iii) 7% return on total cost of the asset

Talk about double or triple dipping. **IPART** should reject this type of **ambit** claim as they clearly have nothing to do with a reasonable share of the cost of the **efficient** delivery of bulk water services. **IPART** should also be aware that the expenditure in the Renewal and Compliance Works programme for 2001/2005 is several orders of magnitude larger than the equivalent expenditure for 1995/2000. Why -- **Homebush Bay??**

(b) Water Meter Reader. 100% costed against the Users.

In the Peel the water meter reader reads the metres about every month. Why? To monitor water use to ensure **MDBC** Cap compliance- However the computer modelling has not been done to determine the Peel MDBC Cap. – The financial beneficiary in meeting cap compliance is the NSW Government.

Because 60% of the **DLWC**'s revenue is raised from entitlement charges, meter reading for billing purposes need to be done only annually or bi annually. Therefore metering costs should be significantly less than they currently are. I draw your attention to the value of the meter reader, as one would normally expect metering to be solely met by the users but this is clearly not the case. The case of the meter reader is raised to demonstrate the clear cut inaccuracies of the current cost sharing regime and is not meant in any way to **criticise** the work of an individual. All cost sharing ratios should be re evaluated with a full job description detailing all beneficiaries of the service so that the appropriate user share can be apportioned.

3. State Wide Bulk Water Charges

As clearly demonstrated earlier in this submission the NSW Government will, if it wants to have an irrigation industry North of Macquarie, need to change its policy towards a more user **friendly** and more equitable bulk water cost recovery programme.

Many of the states dams were not built as sole purpose irrigation dams. In fact very few were. Most of the older dams were built for flood mitigation and irrigation developed downstream as an adjunct to dry land farming.

Cost recovery let alone full cost recovery was never contemplated and even the large irrigation schemes of the MIA and Coleambally were developed on the premise of regional development. Full cost recovery was then and is still an unviable option. These schemes and most of the rest of the states irrigation industry would NOT have been developed with the consequent loss of a stable socio economic structure, which is now present in our major inland river valleys. A structure, which is now under threat.

IPART should rationalise all cost inputs on the basis of the **efficient** delivery of bulk water and apply a state wide water charge instead of the valley based charges which are about to cause significant economic hardship to Northern **Inland** NSW.

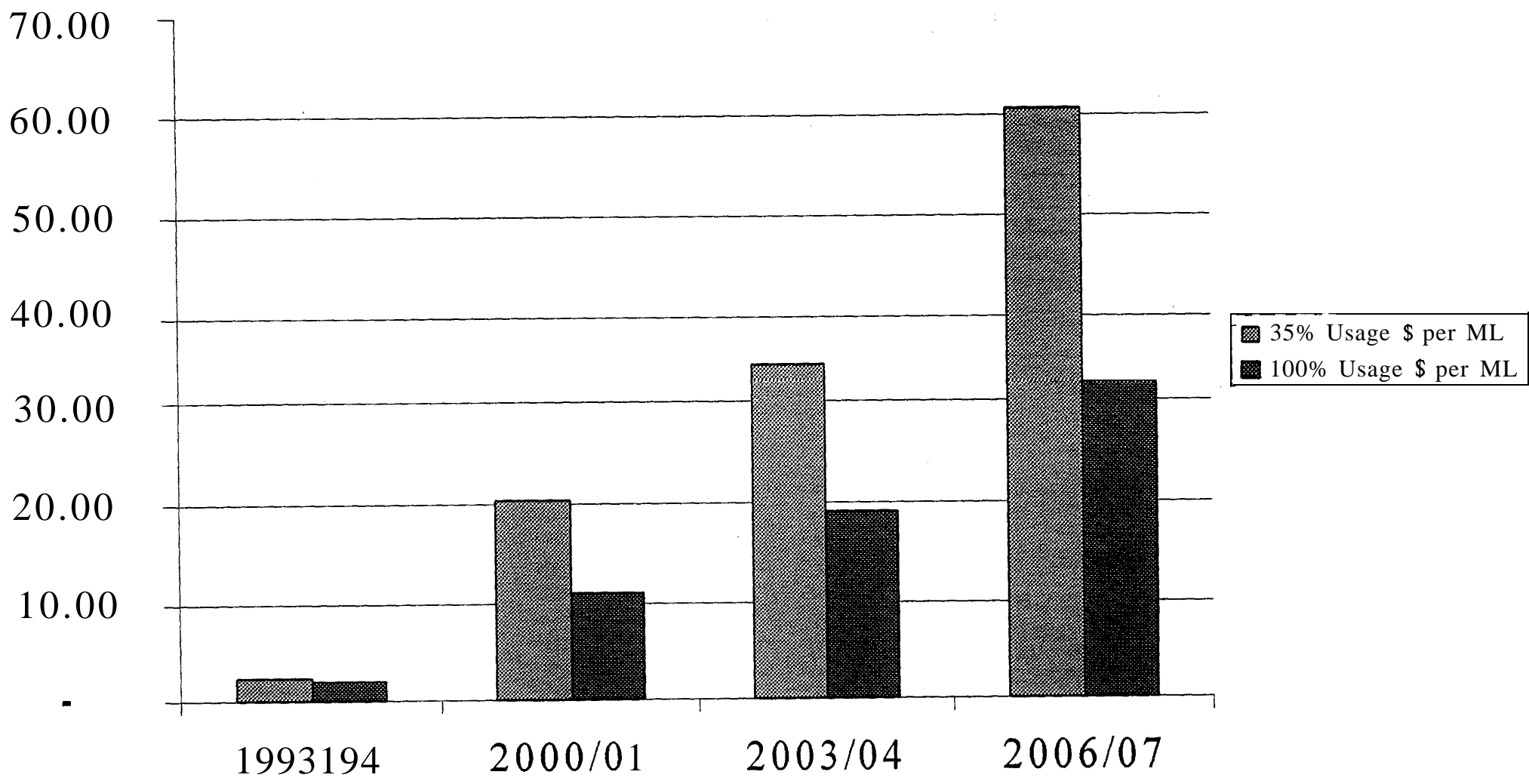
At a general meeting held by the Peel Valley Water Users Association on Tuesday 1May 2001 attended by about 90 water users, the following motion was unanimously passed,

“In the regulated system the bulk water valley based charges should be replaced by a uniform state wide charge, for the efficient delivery of bulk water services”.

IPART will be remiss in carrying out its function if it does not pursue this avenue to ameliorate the insidious consequences of the current bulk water pricing regime. Now is the time for **IPART** to look outside the square, find innovative solutions and maintain a viable irrigation industry thereby supporting the socio economic fabric of the river valleys of NSW.

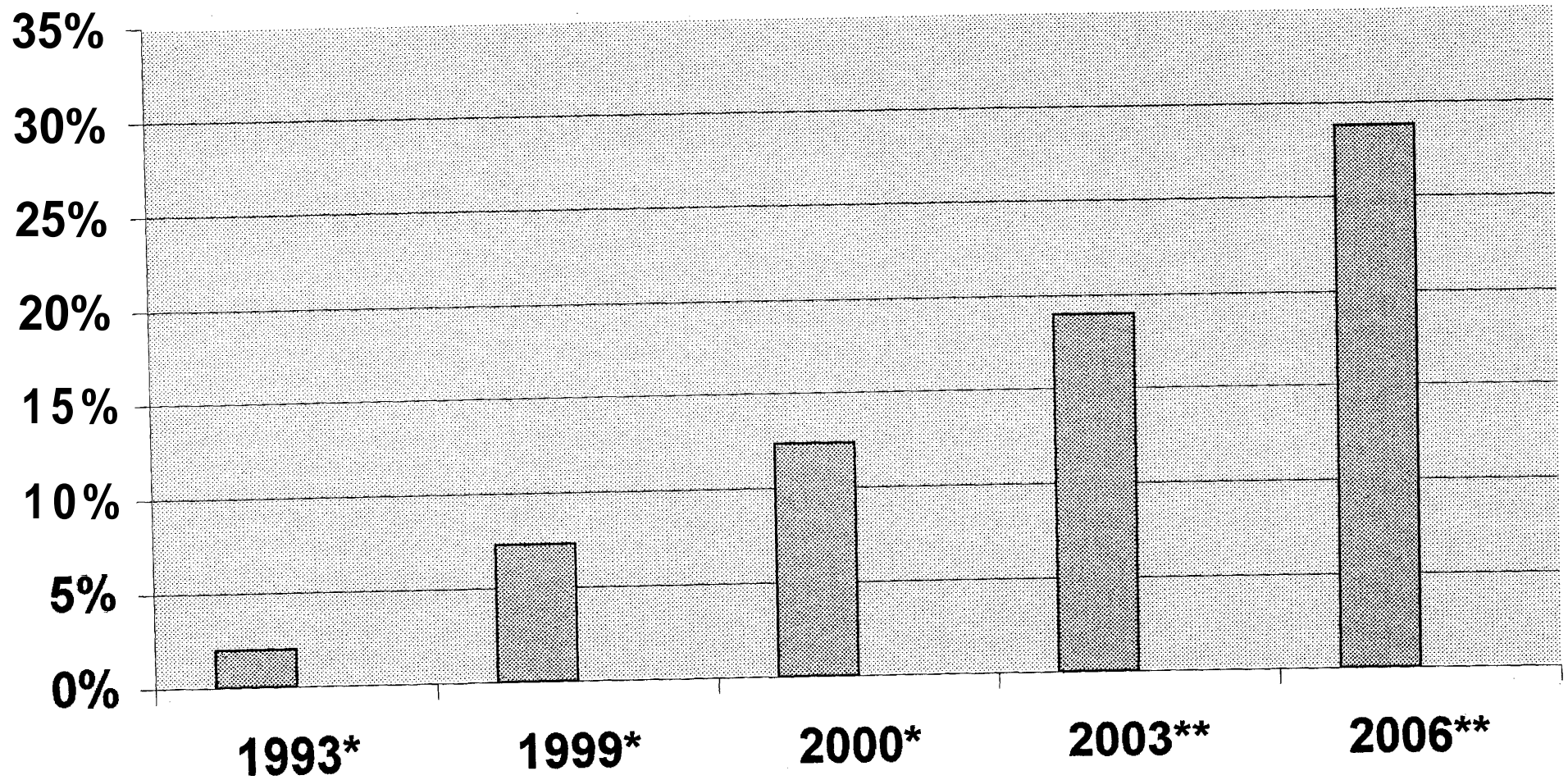
[EFFECTIVE COST PER MEGALITRE- USED

Fig. 1



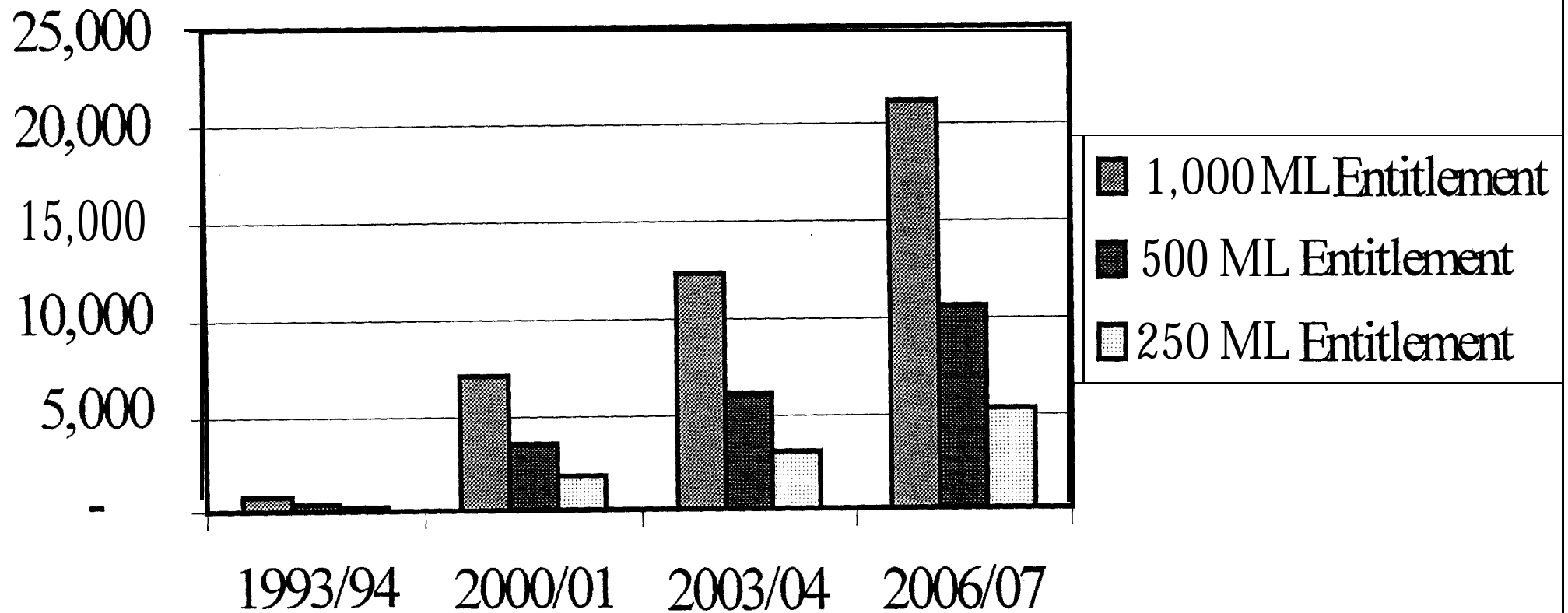
BULK WATER AS A % OF FARM VARIABLE COSTS

Fig. 2



YOUR REGULATED BULK WATER BILL AT 35% USE OF ENTITLEMENT

Fig. 3



YOUR REGULATED BULK WATER BILL AT 100%

USE OF ENTITLEMENT

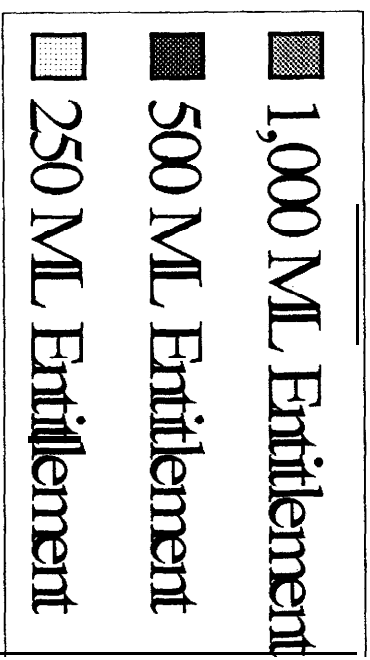
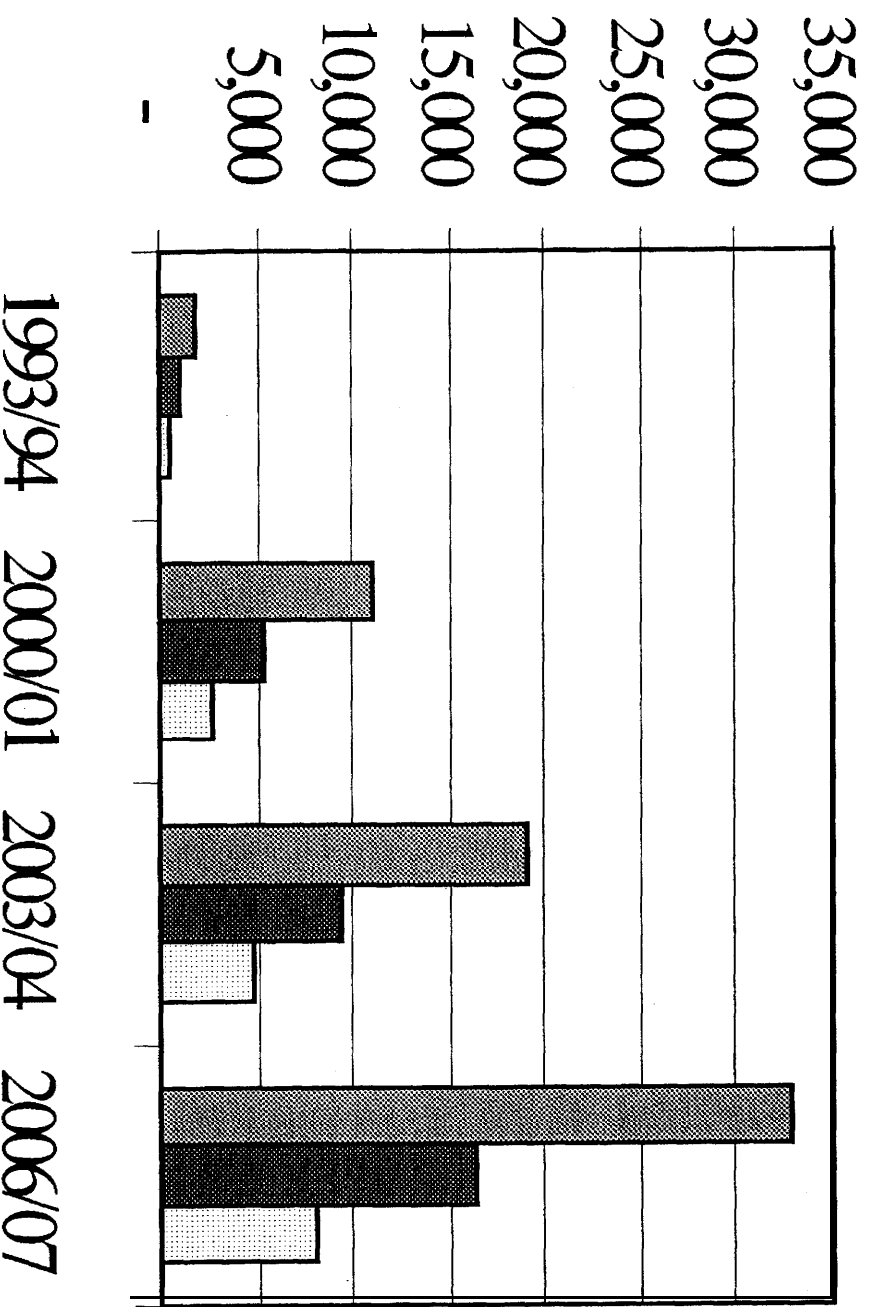


Fig. 4

DLWC WORKS PROGRAM

The table below summarises the regulated river capital works program in five (5) lots for the next thirty (30) years. The summary is of the renewal and compliance works program only. Excluded is any enhancement work.

| Renewal and Compliance Capital Works Program 2000/2001 to 2029/2030 | | | | | | | |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------|
| Regulated River | 2000101 to 2004105 \$000 | 2005/06 to 2009110 \$000 | 2010111 to 2014115 \$000 | 2015116 to 2019120 \$000 | 2020121 to 2024125 \$000 | 2025126 to 2029130 \$000 | TOTAL \$000 |
| NAMOI | 39,049 | 10,361 | 1,861 | 2,207 | 936 | 1,843 | 56,257 |
| PEEL | 11,965 | 1,485 | 454 | 365 | 348 | 224 | 14,841 |

PEEL 2001 to 2005 1 1.96 million
 2.2 million Water Quality Investigation and Improvement
 4.75 million Design and construction, upgrade of spillway
 3.3 million seismic upgrade, preliminary design and construction

1. 50% contribution from users.
2. Plus annuity payment – equivalent to the depreciation of the asset.
3. 7% return on total cost of the asset.