Lachlan
Valley
Water Inc

Submission to IPART

Draft Determination of Bulk Water Prices

for NSW Office of Water
2011-2014

by Lachlan Valley Water

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SUBMISSION ON DRAFT DETERMINATION FOR NSW OFFICE OF WATER, 2010

1. Introduction

Lachlan Valley Water (LVW) is the peak valley-based organisation representing 650 surface water and groundwater irrigator members in the Lachlan Valley, including irrigators within Jemalong Irrigation Limited (JIL). This submission has been prepared on behalf of all members and represents a ‘whole of valley’ position, however, members also reserve their right to make separate submissions.

LVW is a member of NSW Irrigators Council (NSWIC). We support the NSWIC submission and provide the following comment on specific issues.

2. Commencement of New Prices

LVW supports the start date of 1 July 2011 for the new prices, and the three year determination period. The late and incomplete supply of information by NSW Office of Water (NOW) has delayed the completion of this determination and NOW should bear the consequences of that delay.

3. Allocating Costs Between Water Source Types and Valleys

We support valley specific and transparent pricing and accept that the allocation of costs based on cost drivers is a move in the right direction, although the decisions on the appropriate drivers appears to be based on NOW’s judgement rather than a careful assessment of the data.

We recommend that the cost drivers nominated by NOW should be reviewed to determine whether they are the most appropriate drivers. For example, it is unclear why the driver for C05-04 (Groundwater modelling) is the number of active monitoring bores rather than the actual FTE resources undertaking modelling of the water resource.

IPART has indicated that the cost driver approach will be refined over time and we urge that NOW be required to make sufficient information available to both IPART and stakeholders so that there can be an informed judgement on which drivers are most relevant.

LVW strongly opposes the decision to allocate groundwater costs to “coastal” and “inland” regions rather than on a valley basis. This will lead to less transparency in pricing and a lack of accountability for groundwater services in individual valleys. During the 2006-1010 determination period we saw large variations between NOW’s budgeted and actual costs for groundwater management (page 99, PWC 2010). The move to ”one size fits all” pricing is likely to exacerbate this problem, lead to an inability to allocate expenditure accurately and result in cross-subsidisation between valleys.

We consider the cost drivers nominated by NOW for many groundwater management activities are readily identifiable by valley, ie, entitlement, numbers of licences, number of active monitoring bores, and therefore should lend themselves to pricing on a valley basis. We ask that IPART reconsider the decision to allocate costs on the “inland” and “coastal” basis.

4. Structure of Prices and Two Part Tariff

LVW strongly supports the two-part tariff for all metered users. This is consistent with greater transparency and cost-reflective pricing. The two-part tariff also helps to align NOW with the commercial risks faced by their customers and provides an incentive to achieve efficiencies in operation.

In advocating100% fixed charges NOW has argued that its costs are independent of the volumes of water extracted and may, in fact, increase during times of drought. We suggest that this is an opportunity for NOW to consider its cost drivers under these circumstances – during severe drought much of NOW's water management effort may go into ensuring water supplies for towns and basic rights holders rather than licensed water users.

A charge for stock and domestic basic rights holders would be cost reflective in these conditions and we welcome IPART's statement that it will consider setting prices for these water users at the next determination.

5. Opening Value of NOW's Regulatory Asset Base

In our initial submission LVW opposed NOW earning a return on assets. Given IPART's decision to allow NOW to receive a return on assets, LVW supports the decision to set the opening value of the RAB at 1 July 2011 at zero. As noted by PWC, and 4 years previously by PB Associates and Halcrow, there are major, ongoing deficiencies in NOW's asset management program and no business cases to support major capital expenditure. Water users should not be required to pay for practices that do not represent efficient costs.

Secondly, the hydrometric network renewals should be reviewed to determine whether these gauging stations are required for operational reasons or other purposes such as flood mitigation. Flood mitigation is primarily a community driven activity and the return on capital for these gauging stations related to flood mitigation should be allocated to the community.

6. Additional Costs Associated with Commonwealth Reforms

LVW is strongly opposed to the decision to allow NOW to recover $1.4 million of Scenario 2 costs from water users if these are not funded by the Commonwealth.

The Intergovernmental agreement required the Commonwealth reforms to be at "no net cost" to the States. We reiterate the position from our original submission that if the NSW Office of Water application fails to convince the Commonwealth to fully fund the additional cost of the reforms, then why should water users be forced to fund these same reforms. The failure of the NSW and Commonwealth Governments to reach agreement should not be used as a means to shift the costs of reform from Government to users.

7. Managing Impacts on Users

LVW supports the 20% cap on forecast annual increases in bills. We concur with IPART that it achieves a balance between continued progress towards full cost recovery and mitigating impacts on users to increased costs.

8. Minimum Bill Size

LVW supports cost-reflective pricing as far as possible and recommend that NOW analyse the actual costs of managing small and zero share licences, to determine whether $95 covers the administration of these licences.

The minimum charge should be set at a level that achieves full cost recovery.

9. Reporting Requirements

NOW's repeated failure to meet IPART's reporting requirements and to provide information for the pricing process in a timely and usable form creates great difficulty for stakeholders. This lack of accountability is unacceptable in a monopoly service provider.

LVW endorses the establishment of a reporting framework for NOW and recommends that compliance with these requirements should be a threshold that must be met before even commencing the next pricing determination.