

PEEL VALLEY WATER USERS ASSOCIATION INC 8 JUN 2010
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Independent Pricing and Regulatory Tribunal
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REVIEW OF THE WATER ADMINISTRATION MINISTERIAL CORPORATION'S WATER MANAGEMENT CHARGES

1. Bring back the Department of Land and Water Conservation (DLWC) all is forgiven.

The DLWC was the mega department of the NSW government. One of its responsibilities was to deliver Bulk Water at an efficient cost. In IPART's determination December 2001 the efficient costs of the NSW Bulk Water system was estimated by the DLWC at \$102,544,000.00 which was revised by IPART to \$96,248,000.00 which formed the basis of IPART's price determination.

The DLWC was deemed to be an inefficient bureaucracy and was dismantled by a procession of Ministers with the Bulk Water business of NSW currently being managed by State Water Corporation and NSW Office of Water – two supposedly super efficient cost effective lean, green, mean, machines whose pricing submissions to IPART for the 2010 Bulk Water Price Review is based on the following costs.

State Water Corporation \$93,900,000.00
NSW Office of Water \$73,100,000.00
TOTAL COST \$167,000,000.00

That is the total "*efficient cost*" of the NSW Bulk Water system has risen over the last 8.5 years by a massive \$71,000,000.00 or 74%. Just a touch under the inflation rate of Zimbabwe.

Clearly the efficiency gains and cost reductions which were claimed to be the reasons for creating State Water Corporation and the smaller more efficient NSW Office of Water have not materialized.

What happened to the efficiency gains and reduced Bulk Water costs that were being attributed to the Corporatization of Bulk Water delivery services – *out the window*. The NSW Office of Water is a sub department of the Department of Environment, Climate Change and Water NSW and is clearly cost shifting environmental charges to the impactor or the beneficiary whichever hat fits the Bulk Water User to shift costs which are the responsibility of the Government into the public sector ie the Bulk Water User (reference appendix 4 NOW submission)

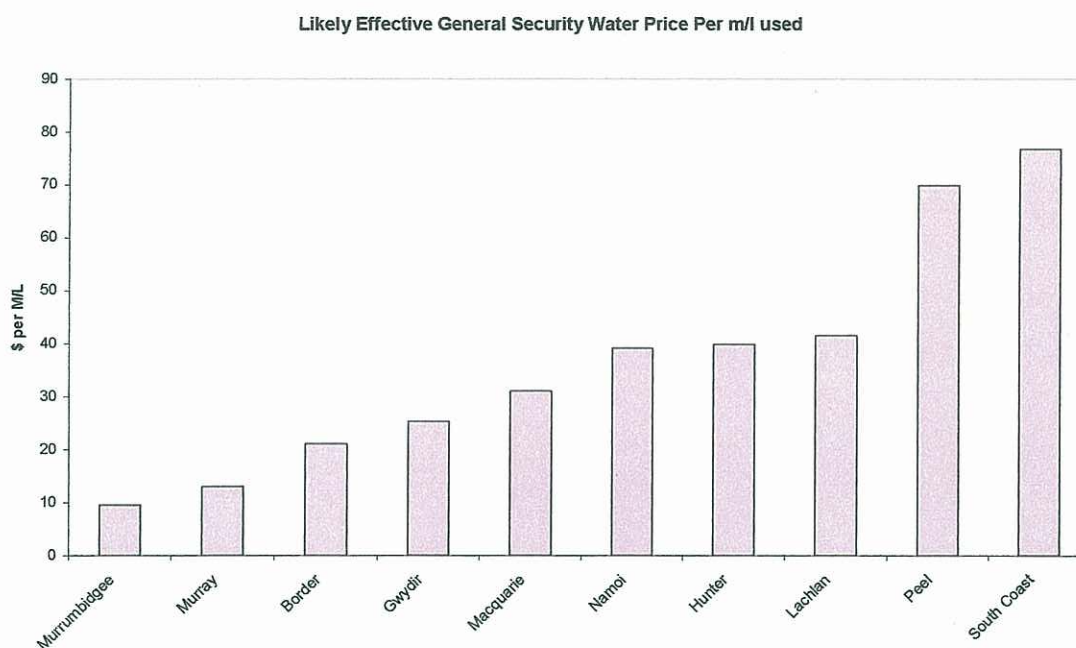
The Bulk Water business of NSW is being used by the NSW Government as a cash cow. Unfortunately the cash cow has black mastitis and several Valleys have a terminal illness as demonstrated by the Effective Bulk Water Prices detailed in table 1 and shown graphically in figure 1.

**LIKELY EFFECTIVE GENERAL SECURITY WATER PRICE PER ML USED –
IPART's 2010 DRAFT DETERMINATION FOR STATE WATER AND THE NSW
OFFICE OF WATERS PROPOSED CHARGES FOR BULK WATER**

Table 1

VALLEY	\$ -ML
Murrumbidgee	9.48
Murray	13.12
Border	21.18
Gwydir	25.26
Macquarie	31.07
Namoi	39.11
Hunter	39.97
Lachlan	41.52
Peel	69.93
South Coast	76.77
North Coast	202.87

Figure 1



IPART should detail in its determination why this massive cost increase in the NSW Bulk Water system has taken place as the cost increase and subsequent increased charges to the NSW Irrigation industry and other Bulk Water users are totally unreasonable and render the Peel, North Coast and South Coast unviable with several other Valleys (Namoi, Hunter and Lachlan) about to experience significant financial distress due to State Waters and NOW's Bulk Water cost blowout. *Welcome to life in the unviable lane.*

2. Integrated Quality and Quantity Model - IQQM

Both State Water and the NSW Office of Water preach the virtues of the IQQM to water users as the greatest water management tool since sliced bread. They stand behind the IQQM come hell or high water and deflect, defray and denigrate any criticism leveled by Bulk Water users at the modeled results made by the IQQM (reference appendix 1 – Comments on the Draft Water Sharing Plan Addendum no 2, 2nd December 2009 PVWUA)

What happens when the IQQM's modeled results don't line up with State Water's and the NSW Office of Water pricing submissions. The IQQM's modeled results get chucked out.

George Warne CEO of State Water at the IPART hearing at Moree on the 2nd December 2009 stated *"I am here to bury the IQQM not to praise it."* And the NSW Office of Water in their submission to the Pricing Tribunal based their consumption forecasts on average extraction from the past 15 years. The IQQM doesn't even get a mention except obliquely as a dot point on page 59

- *"Using a 15-year period of data (rather than over 100 years as previously used) accounts for climate change."*

Both State Water and the NSW Office of Water use the IQQM to support their case when the modeled results suit them but when it comes to the big ticket item of revenue raising and the modeled results don't suit them the IQQM model is dropped like a hot potato. It is little wonder that Bulk Water users who have suffered the brunt of IQQM modeled results have little respect for the integrity of the pricing submissions put before IPART by both State Water and the NSW Office of Water.

3. Fixed Pricing Regime of the NSW Office of Water

State Water Corporation and the NSW Office of Water have to come to grips with the fact that they are, to all intents and purposes, an agricultural produce industry dependent on the vagary's of nature for their financial well being. If it rains they have water to sell if it doesn't rain there is no water to sell and no income except of course that they are or have monopoly access to the resource and can stabilize their income with charges that can be levied when they have nothing or very little to sell.

If only farmers could do the same. Imagine the uproar that would occur if Jo Blow the public, had to pay for food that they were not going to get!! The Politicians and the Bureaucrats would spring into action to redress the wrong. Well its time that the Politicians and Bureaucrats had a long hard look at the Bulk Water businesses. Heads have been stuck in the sand for too long.

Both State Water and the NSW Office of Water should have a fixed and variable component based on an entitlement charge and a usage charge for each water source.

The fixed charge based on entitlement needs to be low enough so that the entitlement holder has a reasonable chance to pay his entitlement charges when there is no or little water available to generate an income.

The variable charge based on usage should be high enough to meet the efficient costs of NSW Bulk Water service allowing funds to be set aside in the high water use years to tide these Government agencies through the lean times.

Both the fixed and variable charges should be based on Uniform Statewide Bulk Water Pricing to recover the efficient costs of the NSW Bulk Water business.

The NSW Office of Water clearly support this position (reference CW10/268 4th May 2010 page 7) *"The Office is proposing that a common charge be levied against all approval holders with a meter. This proposal complements the Office's proposal for a fixed water resource management charge, socializes telemetry costs where it is the Office's decision as to which meters are telemetered and finally is a simple pragmatic approach."*

So much for all the reasons why Uniform Statewide Bulk Water Pricing can't be done!!!

A further justification for Uniform Statewide Bulk Water Pricing is the fact that the product cost codes for the activities of both State Water and the NSW Office of Water have the same percentage attributed to the user across all the River Valleys across NSW which means some Valleys are being subsidized by other Valleys by this cost sharing arrangement.

For example the Peel Valleys Water Sharing Plan allows the environment to access approximately 95% of the long term average annual flow in this water source which means that in the Peel Valley, the environmental impact of water extraction is minimal and the product cost codes associated with environmental issues in the Peel should have a very low % as the user share of these product codes whereas most other Valleys only allow the environment access to around 70% and in some cases down to 20 – 30% of a Valley based long term average annual flow. In these Valleys water extraction has a significant impact on environmental issues and it would not be unreasonable in these high water use Valleys for the user share of the appropriate product codes to be quite high as water use in these Valleys has the potential to impact on the environment.

In other words Valleys such as the Peel which has a very small environmental footprint are subsidizing Valleys such as the Murray and Murrumbidgee which have an environmental footprint the size of an elephant.

It would appear cross subsidization of Valley based pricing is acceptable depending on the direction in which the cross subsidy travels.

It is more than time that IPART, State Water, the NSW Office of Water and whoever else is needed, introduce Uniform Statewide Pricing for Bulk Water in NSW as it is the only way that water users across the State can be treated equitably and fairly and still allow State Water and the NSW Office of Water to recoup the efficient costs of the NSW Bulk Water Business without sending some Valleys which were financially viable - broke.

4. NSW Office of Water Charges for the regulated system

The NSW Office of Water has proposed a series of scenarios for its pricing regime. The NSW Office of Water should have the same pricing regime that will apply to State Water for the 2010 Bulk Water determination. Both State Water and NOW as stated previously are in

the agricultural produce industry and cannot expect to get all the income they want all the time. State Water has to some extent come to grips with this concept but the NSW Office of Water will need to be put on intensive re-education program to get used to the idea that their income is dependant on the vagaries of nature.

5. NSW Office of Water Fixed Charges for Unregulated and Groundwater Users

The NSW Office of Water has not proposed a fixed / variable cost structure for these two water sources and are proposing to get 100% of their costs recouped from the entitlement charge. This means that NOW will get all of its income from these two water sources year in year out regardless of whether there is any water available or whether NOW's Water Sharing Plan allows the full entitlement to be used. This is a totally inequitable proposition.

Groundwater

NOW shows complete arrogance in it's submission to IPART by **NOT** proposing a fixed / variable pricing structure for the Groundwater system as most Valleys have been metered for water usage since the late 1990's. IPART should insist that a fixed / variable pricing structure be applied to the Groundwater water source where metering of water usage occurs. (68% of Groundwater entitlement is currently metered-reference table 17 page 63 of NOW's submission December 2009)

Unregulated

Metering of the Regulated water source has been in place for several decades and most of the Groundwater for the last decade. Numerous reasons were put forward to justify metering including of course cost recovery and many other environmental issues. It has always been a mystery why the NSW Office of Water has not enforced metering in the Unregulated system given that unmetered unregulated entitlement in the unregulated water source accounts for around 10% of NSW's total "all water source entitlement". Now the penny has dropped – no metering means no usage charge can be levied so NOW can levy all its charges on entitlement. What more could one want? NOW however is trying to eat it's cake and have it too. How can NOW determine impactor or beneficiary costs in a system where they have no idea how much water is being used? I have no idea, does IPART?

6. NSW Office of Water Proposed Metering Service Charge

The annual operating and maintenance costs for the proposed metering service charge (\$230 to \$696pa) could only have been calculated by a bureaucrat who has lost the ability to nail two pieces of wood together.

There are two water meters on my property.

One has been there over 20 years and has required servicing twice. This involved undoing 4 nuts, removing the meter out of the mainline, removing the obstruction to the impeller, putting the meter back into the mainline and doing up 4 nuts. Time taken – about 10 minutes with no beads of sweat dripping off the brow. Cost, even at my high rate of pay would be less than half a slab of Tooheys Draft.

The other meter has been in place for about 15 years has been serviced once resulting from a State Water metering test which indicated that the meter was reading high. The meter was returned to the manufacture for recalibration and as it was out of warranty, cost about \$450. This event should not happen under the new regime as I would expect metering calibration to take place shortly after installation and while the meter was still in warranty.

In short the cost of metering maintenance on my property has been negligible. The same should apply to the NSW Office of Water given that the meters that are proposed to be installed should be newer, flasher, more reliable and require less maintenance than the old antiquated meters of yesteryear. The proposed metering charges should be reassessed.

7. The NSW Office of Water's Proposed Prices for the Peel Valley

Well, what can be said about **NOW's** proposed prices across all water sources in the Peel Valley without anger and frustration turning the page red.

We, the irrigators of the Peel Valley have to live in the real world. NOW does not. How else could one explain why the NSW Office of Water wants to increase its water charges by **THREE TO FOUR** times the prices determined by IPART for the 2006 /10 determination.

We, like most in the community are acutely aware that the NSW Government is short of funds and we expected some cost shifting to take place which might increase our costs for Bulk Water services over the duration of this price determination by something less than 20% to 30 %. A price rise of this order to the cost of Public Transport in the Metropolitan area would bring down the Government. What would happen if the cost of Public Transport in the Metropolitan area was to increase by a factor of 3 or 4 times the current price – anarchy.

In late April 2010 the **Water Sharing Plan** for the Peel Valley Regulated, Unregulated, Alluvium and Fractured Rock Water Sources was gazetted by the NSW Government. The NSW Office of Water was the architect of this Water Sharing Plan which set long term average annual extraction limits at about 20% of entitlement for both the General Security Water Users in the Regulated Peel and the Ground Water Alluvium Water sources. This means that about 80% of the entitlement in both of these water sources cannot be used most of the time.

The NSW Office of Water would have been clearly aware of this situation and it is totally unreasonable for the NSW Office of Water to base its charges on entitlement which about 80% basically cannot be used because the Water Sharing Plan which NOW was responsible for, effectively won't allow the entitlement to be used.

So much for the integrity of this process. Can IPART give an example of any other situation where charges are levied but no service provided or goods delivered. The NSW Office of Water's submission should be rejected by IPART in situations such as this.

Once again the water users of the Peel Valley have been staked out on a meat ants nest in the noon day sun by NOW's proposed price rises waiting for IPART to come to the rescue. This is totally inequitable and unreasonable position for any water users group to be placed in and

it is about time State Water and the NSW Office of Water took up IPART's recommendation enunciated in its Draft Determination March 2010 page 134 as follows

"In some instances (ie North Coast, South Coast and Peel), the Tribunal considers that cost reflectivity will never be achieved. In such instances, it considers State Water should review the future of these services and consult with Government in those cases where it considers that the service could be recognized as a community service obligation.116"

"We restate our view that State Water and the Government should access the long term viability of these valleys that are below full cost recovery."

116 IPART, Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1st October 2006 to 30th June 2010 – Report, September 2006 page 9

The numbers proposed by NOW for the water charges **across all water sources in the Peel Valley** are too far out of kilter to argue about. It would be like trying to have a rational argument with a strainer post.

Once again the Peel Valley Water Users Association would like to thank IPART for its past work on our behalf and giving us the opportunity to make a submission on the Bulk Water charges proposed by the NSW Office of Water.

Yours faithfully

Laurie Pengelly

Representing the Peel Valley Water Users Association.



PEEL VALLEY WATER USERS ASSOCIATION
PO Box 952 Tamworth NSW 2340

Comments on the Draft Water Sharing Plan – Addendum No 2 2nd December 2009

Submission – Background document page 38 Peel's IQQM

“As such, the model sets the irrigated area in each year based on the current known water availability vs. area relationship.”

The Department of Water was asked to justify this statement as the Peel Valley Water Users Association was not aware that there was any positive relationship between water availability and area planted for irrigation in the Peel Valley. Previous regression analysis which compared the percentage of water in Chaffey Dam as at the 1st October with General Security water use showed no correlation whatsoever. See figure 1.

On the 12.11.09 the Department of Water responded to our request with a document *“Replication of Irrigated Area Using Regression Relationship.”* Manuscript No 9

The so called *“known water availability vs area relationship”* turns out to be a graph of crop area vs rainfall as shown in figure 2.

This graph and the computer modelers reasoning to justify its existence has been the subject of extensive review which was thought to have been put to bed way back in early 2004. At that time the Department DIPNR issued a discussion paper on developing a Peel Valley Irrigated Area Rule by Robert Braaten, Paul Simpson and Chris Ribbons.

The area rule hypothesized that the area under irrigation increased as rainfall decreased so that irrigators could capitalize on the high price of Lucerne during drought years. This hypothesis was rejected by industry and the Department of Agriculture briefly some of the criticisms were

Lucerne - Price main driver for irrigation – WRONG

Lucerne is a perennial lasting around 5 years under irrigation. It is planted to achieve a plant population of about 100 plants per sq. metre with stand life, yield and quality dependent on maintaining a good plant population. This is done season in season out by meeting the stands water requirements via stored soil moisture, rainfall or irrigation requiring in total 11 – 12 ML/Ha each year.

Plant population will decrease quickly if this water requirement is not met. When the plant population drops below 40 – 50 plants per sq. metre the yield drops, quality deteriorates and the economic viability of irrigation goes down the drain.

For the modelers to conclude that Lucerne can be maintained as a dryland crop waiting for Hay prices to rise, before irrigation takes place, is quite frankly unbelievable. Ref. Peel Valley Water Users Association

"We disagree with the statement that Lucerne is only irrigated when farmers can take advantage of high prices. This is clearly off beam, indicating the authors' lack a basic understanding the irrigated Lucerne industry on the Peel." Ref. Ian Collect, District Agronomist Tamworth

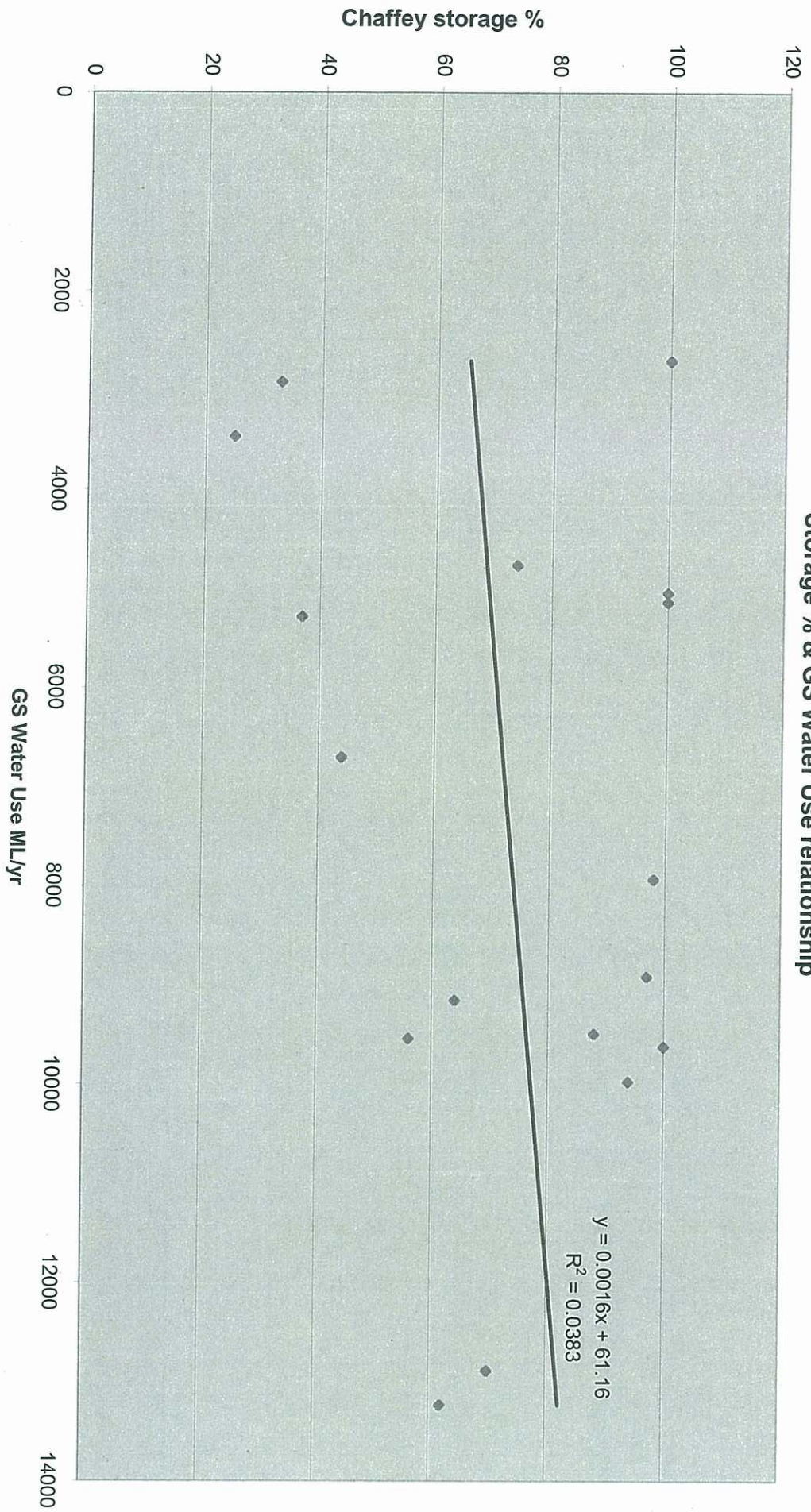
Five years have passed and the computer modelers are regurgitating the same incorrect hypothesis for their so called area rule. It is clearly wrong as demonstrated in Figures 3 & 4 & 5. These figures show that using the area rule to determine irrigator behaviour in the Peel results in the IQQM not meeting the crops water requirements in all but wet years. The IQQM model is significantly underestimating the crops water requirements in average to dry/drought years.

The IQQM for the Peel is clearly under estimating water use in the Peel Valley and has generated Plan and Cap limits which are far below real life water use in the Peel Valley.

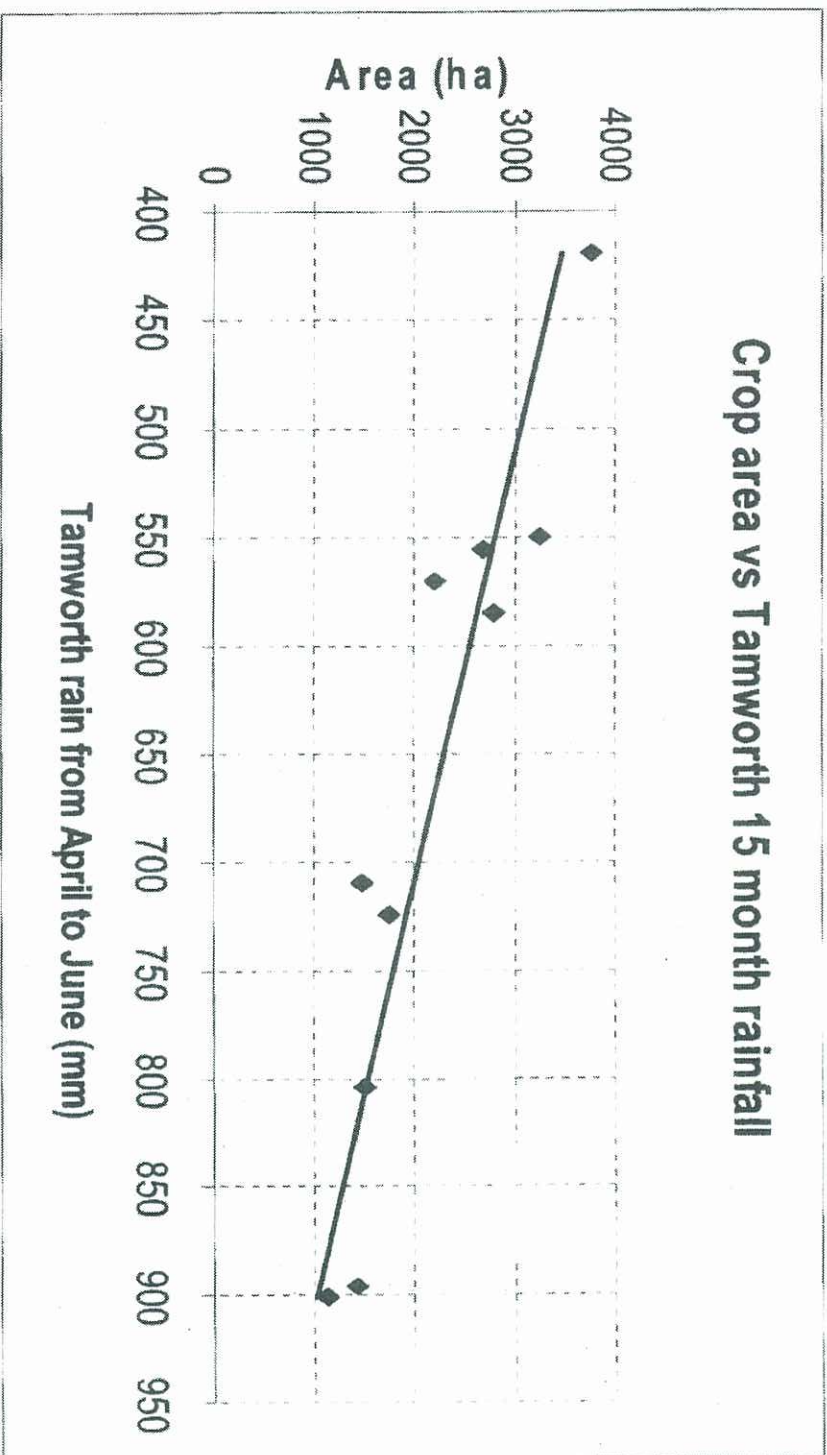
Contact

Laurie Pengelly

Storage % & GS Water Use relationship



Area Planted



April 93 to June 03

Figure 3

Lucerne-Total Water Use ML/Ha (Rainfall + Irrigation) 1991/92 to 2001/02

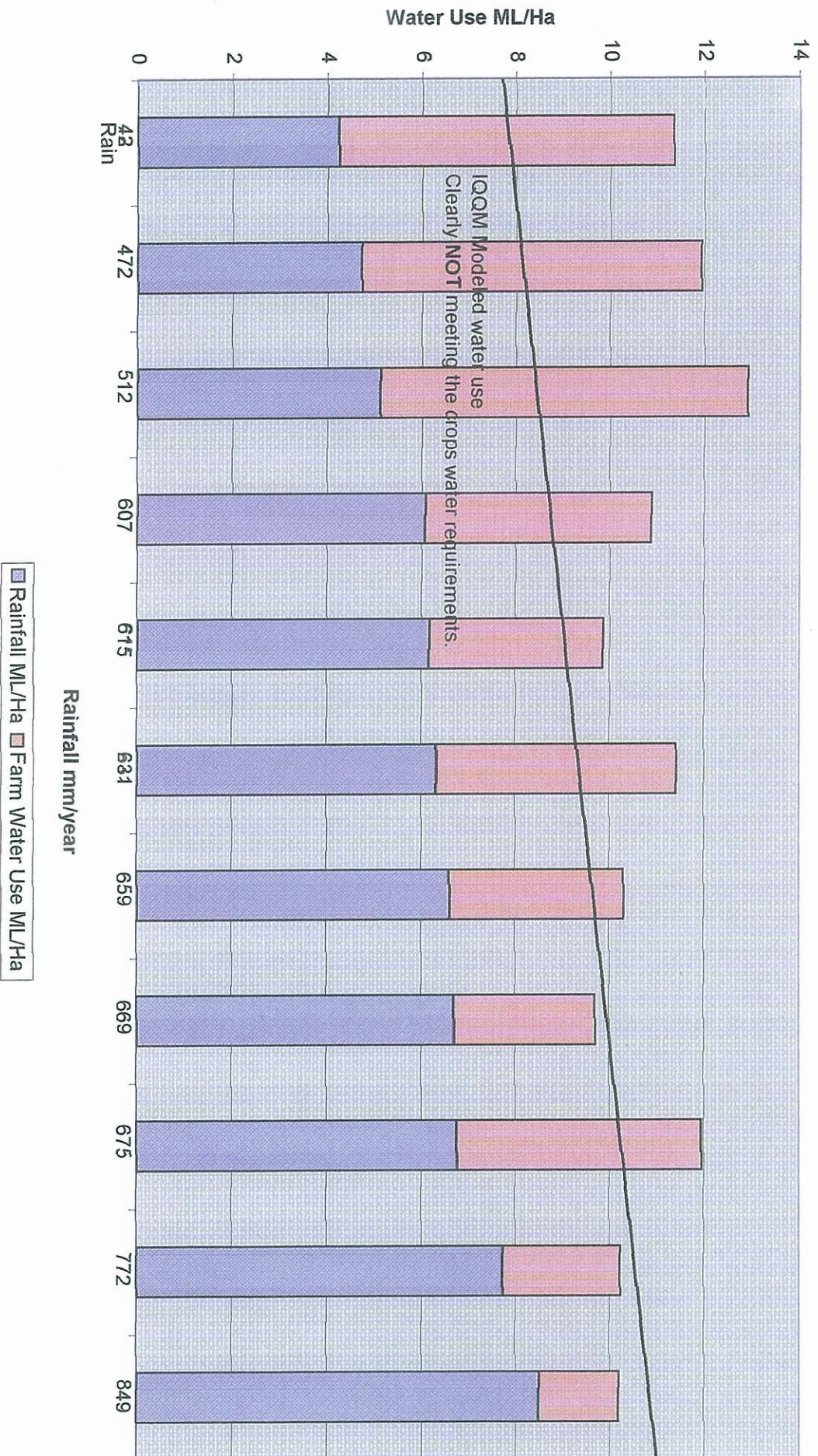


Figure 4

Lucerne-Total Water Use ML/Ha (Rainfall + Irrigation) 1991/92 to 2001/02

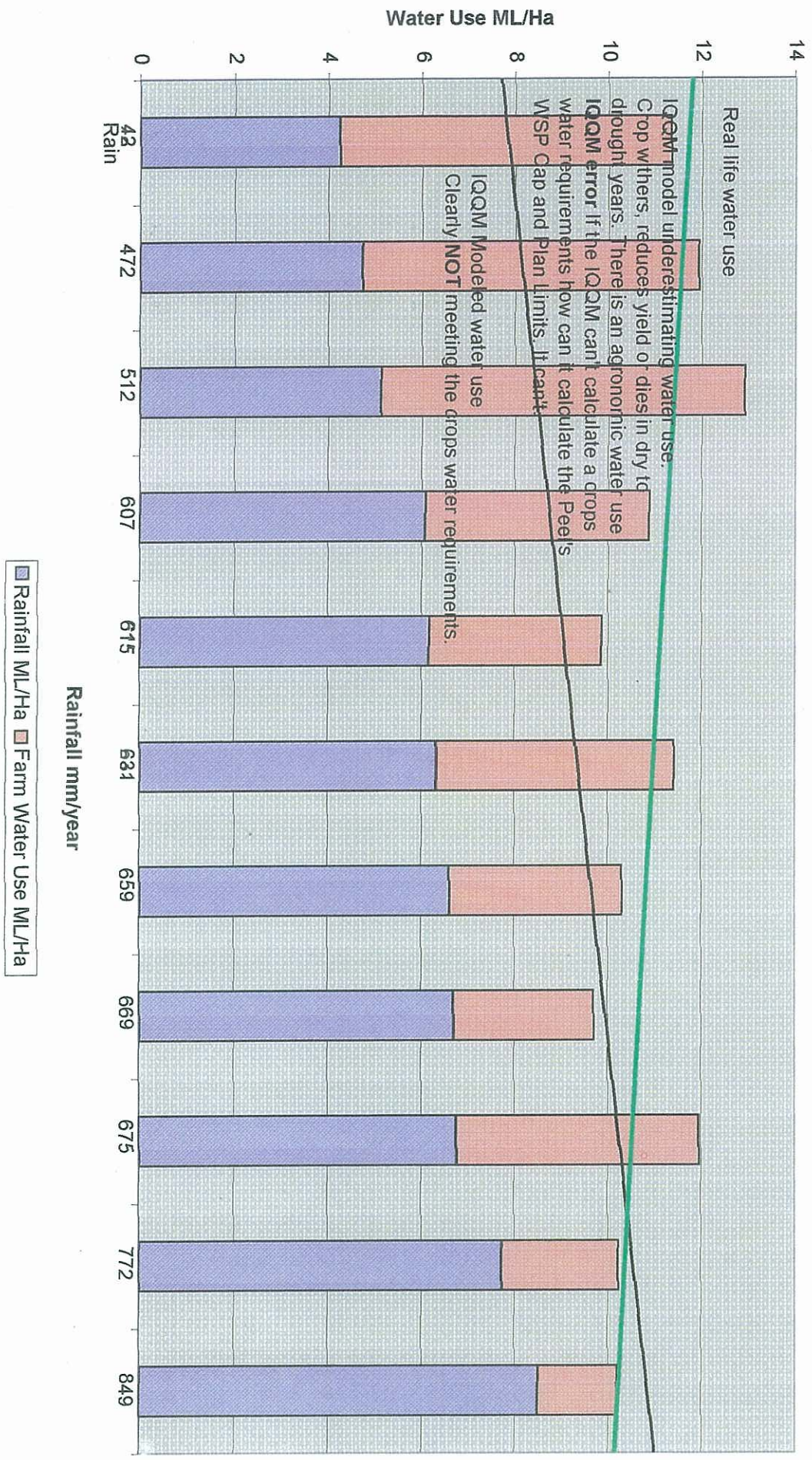


Figure 5

IQQM Error Irrigated Water Use as a Function of Rainfall 1991/92 to 1999/00

