



IPART REVIEW OF NSW OFFICE OF
WATER
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Addendum to HSI-M Submission to IPART on NSW Office of Water 2010-2014 Price Determination

This submission is written as an addendum to our original submission that was submitted 20/1/2010 before the “clock was stopped” and subsequent to additional information being provided by the Office of Water in January 2010.

MBDA Negotiations with the Office of Water

In his letter to IPART Mr Harriss 27/1/2010 stated “I do not believe it is appropriate for the Office of Water to publicly release details of MBDA costs.” Yet in the original submission the Office of Water is asking for an additional \$ 42 million from users over the price determination period to cover these costs. HSI-M contends that if IPART cannot examine these costs as to the efficiency and appropriateness of them, then IPART cannot fairly set prices for their recovery from users.

HSI-M re-iterates the view that negotiations between the Commonwealth and the NSW Office of Water over “no additional net cost” of provisions associated with the MBDA and the Basin Plan applies equally to users as well as the NSW Government.

Fixed verses Usage Charges

In the light of the draft review of bulk water charges for the State Water Corporation (March 2010) that recommended a ratio of 40/60% fixed to usage HSI-M would support a similar ratio to apply to the proposed Office of Water charges to keep consistency between the items appearing on Irrigators bills.

Consumption Forecasts

In the first submission to IPART HSI-M rejected the move away from the long term average extraction that applied under the IQQM model. The Office of Water proposed a 15 year rolling average similar to the one outlined in State Water Corporation, IPART proposes a 20 year moving average of historical and actual extractions claiming that it strikes a more appropriate balance between the views of Irrigators and State Water. If this decision is the final outcome of that review HSI-M would then reluctantly accept for the sake of consistency that a similar proposal applies to the Office of Water review. However HSI-M is of the view that the IQQM model using the long term average of data accumulated over the last 115 years is the best and fairest method of determining consumption forecasts.

Water Sharing Plans

In the previous determination period 2006-2010 the fore-runner to the Office of Water had funding to complete 60 water sharing plans. In this determination period there are still 38 Water sharing plans to go. Why were these plans not completed? Was it through lack of resources or skills to get the job done on time? While it is acknowledged that there remains a great deal of work to be done to ensure the water sharing plans comply with the Basin plan by 2014 the past record of failure to complete water sharing plans on time does not engender confidence in the Office of Water to complete this task on time.

Office of Water and MDBA costs.

All of the additional costs for core water management activities sought by NOW are the direct result of additional responsibilities imposed by meeting the requirements of the MBDA. HSI-M is strongly of the view that these costs should be borne by the Commonwealth not by users, especially the same users who more than likely will be subjected to cuts in entitlement that result from the SDLs that the MDBA will announce as part of the Basin Plan. The quantum of these reductions in entitlements is not known at present but may range from severe to less severe but in both scenarios limiting users ability to pay for these increased costs.

PricewaterhouseCoopers/Halcrow Consultant's Report.

It is clear from reading the consultant's report that they too had a great deal of trouble in getting information from NOW on both operating and capital expenditure.

HSI-M comments on the report:

1. The report highlights many of the points that concern this organisation concerning NOW, such as the lack of evidence of proven efficiency gains, lack of clear business plans for all of its proposed future activities and failure to reallocate resources from one activity to another when there is clear evidence of under utilisation in some areas while others are needing more. To quote from the report "In most cases, there is insufficient evidence of robust strategy or business cases underpinning

the historical and forecast operating expenditures.” Further on the issue of staff reallocation the report states “Apart from an example of reallocating staff from water plan implementation to water sharing plan development, there is no other clear evidence that consideration has been given to the possibility of reallocating staff resources from existing activities that are being scaled back to new areas of work that require higher priority.” This is clear evidence that the increased costs that NOW is seeking for these activities should be rejected by IPART.

2. The recommendation in the report to reduce operating expenditure over the next determination period has the full support of HSI-M.

3. The report comments on expenditure on water management consent transactions noting the high variability of costs occurred during previous years and the fact that NOW has allocated a fixed amount of \$5.8million for each year of the next determination period. PwC has suggested that an efficiency gain of 0.5% be applied over that period to recognise improved on line systems. HSI-M is of the view that a 0.5% efficiency gain is conservative particularly in view that 52 FTEs are engaged to carry out this activity, and suggest that a much higher gain should be possible. The report also notes that the \$5.8million excludes overheads and indirect costs that are recovered through water resource management costs and not from transaction fees. HSI-M believes cross subsidies are not appropriate and that transaction costs should cover the full cost of each transaction from the user of the service. However those costs should be competitive with similar costs applied in other jurisdictions.

4. The list of activities that the ACCC under the 2007 Commonwealth Water Act ,requires NOW to undertake, seem largely to fall within the duties that are already carried out by NOW. Therefore should require no additional funding, particularly in relation to water trading rules that are the responsibility of the ACCC.

5. In the section of the report dealing with treatment of policy activities PwC makes the point that cost attributable to high level policy development do not constitute a water planning and management activity and therefore should not be recovered from water users. In appendix B; NWI Water Pricing Principles- water planning and management section 3 A; specifically attributes such activities as the MBDA Basin Plan to be the responsibility of Governments.

In conclusion HSI-M contends that the Office of Water has not justified a case for increasing costs to users due to the fact that information presented was misleading, incomplete and in the case of MBDA costs totally lacking. If the NSW Office of Water was a public company, there would be a clear case for both share holders and ASIC to question the competence and skills of both the directors and management of the company. Therefore HSI-M believes that IPART should not, and indeed, cannot make a determination based on the current information from NOW.