

**Submission from
Lower Nepean Hawkesbury Water Users Association
for
IPART Price Determination for
Water Administration Ministerial Corporation For Water Planning and
Management**

Background

1. The Lower Nepean Hawkesbury Water Users Association (LNHWUA) has been in existence for over 30 years and it represents irrigator and farming interests in the Hawkesbury Nepean (HN) River valley stretching from Wallacia, in the South, to Wisemans Ferry in the North. The Association has some 600 financial members who are predominantly vegetable, mushroom, corn, Lucerne, citrus, stone/apple fruit, berry, flower, poultry, herbs, nuts, honey, cattle, horse and turf farmers. They rely almost exclusively on the Hawkesbury Nepean River for their farm water.
2. Land holdings of these farmers are in the main small, with an average of about 70 acres concentrated along the river flats/banks and terraces. The land is very fertile, productive and close to the Sydney markets. Little land is available for on-farm storage of water.
3. The HN river operates almost constantly, except for major flushes or floods, in a water scarcity mode due in the main, not to drought or climate change, but to the fact that over 97% of the fresh water is captured and exported to Sydney for consumptive use there. The water which keeps the river flowing is predominantly sewerage treatment plant (STP) discharges from some 23 STP plants. The larger of which are: Penrith, St Marys, Quakers Hill and Winmalee STPs.
4. There is currently a small volume of fresh water released to the HN river from Warragamba Dam as a compensation for downstream river dependent communities, including farmers and riparian users (Basic Landholders Rights or BLRs). This volume of water is about to be stopped when the Advanced Water Treatment Plant (AWTP) at St Marys becomes fully operational. A replacement flow of highly treated STP water is planned for release when the AWTP commences full operations.
5. The key point here is that the HN Valley is in many ways quite different to inland river systems/catchments and even some coastal rivers. Our river water is used 97%, and soon almost 100%, by Sydney users and therefore needs a different approach to metering and water management charges. NOW's argument regarding more resources being needed due to prolonged drought conditions and water scarcity cannot be sustained in the HN Valley. For this Valley to be simply lumped in with the total charging framework for the rest of the State cannot be sustained on a logical basis or on a business model analysis. The MDB system and other catchments inland and west of the divide certainly have their fair share of challenges when it comes to water resources and the management thereof, but to expect this relatively small valley of farmers to cross-subsidize the huge

costs of water resource management in that part of the State seems neither equitable nor fair, and we seek IPART's intervention to prevent this from happening.

6. The HN river is an unregulated river system delivering over 600,000 ML per annum to urban water users in the Sydney basin. Licensed water entitlements held by farmers and irrigators, in aggregate, amounts to about 88,000 ML per annum and we are soon to have (via the mechanism of the HN Water sharing Plan) imposed a Long Term Average Annual Extraction Limit (LTAAEL) cap of 71,000 ML per annum. It would thus seem reasonable that the LTAAEL be used for water management charges in our Valley instead of as at present, the full water entitlement.
7. Lastly, NOW states in several places in its main December 2009 Submission (p 58, 74) that water management costs are small in relation to the total budget of a viable farm business. Farm input costs are increasing significantly particularly in the HN Valley and when taken cumulatively across all farm cost centres and compared to static or decreasing terms of trade, increases of 100% or more become a great concern for farm business operators. This is particularly the case when capital equipment installed and maintained by a State agency seeking to recover 100% of costs and a one-part tariff basis. We are referring here to the HN metering project which is a 'gold plated' system valued at about \$15,000 per installation. Farmers do not have recourse to 100% cost recovery, but must take prices determined by the market place. NOW's proposed revenue model could be described as a 'run-a-way' system, but where in this charging model is there a mechanism to drive down costs over time? For this revenue approach to be credible with water users there must be clear and robust processes in place for eliminating costs from NOW's operations going forward.

Comments relating to specific aspects of NOW's December 2009 Submission and the April 2010 supplementary Submission are as follows:

NOW's December 2009 Submission:

1. It is not obvious from their submission that NOW is fully cognizant of the fact that irrigators/farmers are subject to very variable incomes/revenues and often face severe financial shortfalls in relation to their revenue needs – such is the nature of business and very much part of the risk farmers face on a daily basis. NOW is proposing to take the revenue variability out of their budgetary system by proposing a fixed 100%, one-part tariff and a 100% cost recovery from users. 'Nice work if you can get it', but that is simply not the 'real' world of business. They have also argued that the IPART imposed cap of 20% on annual bill increases be removed. However, the PwC Report states that if all the increases NOW are proposing were granted, then NOW's costs would be 38% higher than 2009/10 levels. NO group of farmers or irrigators can be expected to fund such

huge increases over a few short years and the bill cap should remain. Cost efficiencies greater than the proposed 4% plus 4% for the two first years of the Determination under Review must be found within NOW operations to restrain ever increasing costs and therefore charges to farmers. Some of the large operators such as SWC and SCA, who can pass-on cost increases, may be able to accommodate such huge increases, HN farmers can't.

2. The clear impression left from reading the NOW submission is that work is expanding at a prodigious rate with Commonwealth water reforms, MDB policy work, State Priority Projects, State Agency reorganizations, new standards, water trading, updated monitoring systems, new water resource legislation and regulations, water sharing plans, metering etc etc. What is not clear is how NOW senior management intends to develop systems and strategies to contain, and over time, reduce costs to be passed on to users. Farmers are revenue/income constrained by a very harsh reality: the market place, and their terms of trade, and there is simply not the capacity to meet ever increasing water management costs on top of all other farm input costs. In this regard it is noted that the Government share of the revenue need for NOW remains pretty well level at \$23.5 m over the proposed three years of the Determination. Compare that to the escalating costs to water users, viz farmers, over the same period.
3. On the metering section of the Submission, it is clear that the HN Valley is pioneering this 'experiment' and is the 'launch customer', with the MDB to follow later in 2010; if the Commonwealth funding is ultimately approved. Given that a business case and proof of concept was not developed for this 'farm based' project, and given that metering on this scale is new territory for all Agencies in Australia, the cost unknowns going forward are quite uncertain; even high risk from a business risk perspective. Given also that the HN metering 'solution' is very elaborate, even gold plated, future costs for on-going repair & maintenance, operations and capital replacements could be beyond farm affordability. The list of 'benefits' to be derived from this massive investment are not 'in tune' with the installation and equipment fit-out proposed for on farms. All of the benefits listed for this project could be obtained from a much simpler engineering solution and this goes to the point made by PwC regarding technical efficiency of this project. In this respect the requirement to fit the large majority (80%) of farm meters with real-time data collection using telemetry is very risky and serves no real purpose. Meter with a data logger and farmer submitted extraction data would be much less costly and even more 'field' robust.
4. If NOW's costs are to be recovered based on full water entitlement basis it needs to be noted that for the HN water source the HN water sharing plan proposes to impose a Long Term Annual Average Extraction Limit (LTAAEL) which amounts to 22% of the total water entitlement of all HN users. Thus it would not seem fair to use the full entitlement for cost recovery from those farmers.
5. The introduction of a 'return on assets' of some 7.9% needs much more explanation and justification before it should be entertained. Few HN farmers, if any, would achieve such a return on their assets. Imagine if farmers kept adding

7.9%, a 6% cost of capital plus a 10% profit margin to all the fresh fruit and vegetables they produced. Sydney consumers and family households would soon be paying \$30 for a lettuce and cauliflower. (Note: There are several terms used throughout the NOW Submission, viz, return on assets, return on capital and return on revenue – it would be good to know which they were really after.)

NOW's May 2010 Submission

1. Our concern is not with the introduction and installation of meters on farm pumps throughout the HN Valley, but rather with the technical/engineering solution chosen to deliver the stated objectives of the metering project. Given that no business case and proof of concept has been developed, it is not surprising that a more efficient solution was overlooked.
2. Our main concern has been, and remain, the telemetry component of the solution. None of the stated objectives/benefits require such an expensive and elaborate technical solution. Of the componentry specified, viz, pipes, valves, meter and data logger pose any real problem. They are all 'stock' standard, very reliable, robust and reasonably cheap to purchase, maintain and operate. When it comes to the telemetry the picture changes significantly. Telemetry requires, at the farm level, a mobile data modem, aerial and power source and a good mobile phone network coverage. In the HN Valley the network to be used is Telstra's NextG network. Such networks are often 'flaky' where farmers have their pumps located, near or close to the river. Drop-outs occur frequently, electrical storms interfere as do welding, grinding and other farm equipment. System/network 'errors' will occur frequently; ask anybody in the HN Valley with a mobile phone. Modems will need 'resetting or rebooting', system errors will need technician call-out for diagnosis, analysis and possibly repair. Telecommunications carriers change systems, eg, CDMA, 3G, NextG etc, and change data routing interfaces, switches, software updates etc and incompatibilities and unsupported systems will become 'legacy' systems in the field. ICT systems are changing at a phenomenal rate and what was working today, will not work, or not work as well tomorrow. Upgrades will be needed across the 'fleet'. All this is super expensive to maintain and operate on a real-time basis. A network specialist technician visiting a remote farm site for several hours to track down an 'intermittent' fault is not cheap. (Not to mention the data receivers, routers, cables, servers, databases at NOW's 'data collection centre' somewhere in the City.) Multiply that by 2,000 meters in the HN Valley and 9,000 in the MDB and there is a future cost blow-out looming on a frightening scale. And all of these maintenance and operations costs will be recovered on a 100% cost recovery basis from users if NOW's Submission is accepted as is. (HN farmers will get a three year 'free' period, or at least until Jul 2013, when full cost recovery will kick in.)
3. During public consultations with farmers on this issue it was pointed out repeatedly by NOW staff that the telemetry is much cheaper than anything else and thus will cost less in the long run. If that is the case, and NOW is quite confident about future charges relating to the telemetry aspect of this project,

then we ask that such costs be carefully documented over the period and capped at the proposed universal charge of \$379 per annum, plus CPI going forward.

4. Our solution would have seen a meter and data logger installed with tamper proof readings done by farmers and submitted to NOW on a defined basis which could be quarterly, half-yearly or whatever was required by NOW. The meters and data loggers could be identical to those proposed by NOW. Data loggers can record reliably pumping activity over intervals ranging from seconds to days, and have enough inbuilt memory for several years of logging. Once received by the NOW data centre the upload of data to the databases would be automatic. It is a simple matter to check pumping times, days, durations, water volumes etc. Should license or cease-to-pump breaches be detected appropriate action could be taken. Farmers water accounts could be updated each time and readily verified. This is a much simpler system, less costly and meets the criteria of recording objectively every drop of water extracted by the farmer, when and over what time etc. The ATO employs a self-assessment system and it works quite well. Audits of pump sites could be scheduled across the fleet as is proposed by NOW in their submission. Reconciliation of the water account could be done on a regular basis, posted on the web site for the farmer to access, if needed.
5. In public forums NOW staff have stated that replacement costs for meters would not be recovered through IPART processes. It is clear from the NOW's IPART submission that for the first three years, or until Jul 2013, such costs for the HN Valley would not be recovered as the Commonwealth Government has funded the capital costs and the equipment warranty period will cover other aspects. However, if wash-outs occur, trees fall, lightning strikes, vandalism, theft, farm or native animals destroy the meters or ancillary equipment, it is clear that NOW intends to recover such capex from users in the future. What HN farmers would like to see is that NOW bear the costs of such replacements given their undertaking not to at the public forums.
6. For various operational reasons, or due to part damage to the system, a pump installation may need to be relocated. Farmers often have to 'pull pumps' when floods are imminent, only to replace them when floods recede. It would be totally unfair to impose a relocation fee on farmers for such occasions.
7. Many farmers have very small license entitlements in the order of say 20 ML. This small grower will face the same universal metering/monitoring service charge as the farmer with a much larger entitlement, say 500ML. HN farmers would like to see a sliding scale of the metering service fee which could be a percentage of entitlement or LTAAEL, say 100% for 200 ML and above and sliding to 10% at 20 ML. Farmers with no meter on their entitlement should not be asked to pay a metering service fee.

Paul Rasmussen

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