

**Gwydir Valley Irrigators Association Inc.**

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Gwydir Valley Irrigators Associations  
submission to

*Review of Prices for Water  
Administration Ministerial  
Corporation*

Independent Pricing and Regulatory  
Tribunal

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## Executive Summary

The Gwydir Valley Irrigators Association (GVIA) welcomes the opportunity to participate in this IPART Determination on prices for Water Administration Ministerial Corporation.

In closely considering IPART's issue paper, NSW Office of Water (NOW) submissions, the Price Waterhouse Coopers/ Halcrow report, and other matters GVIA has developed a number of serious concerns with NOW's proposed prices.

GVIA also wishes to put on record its disappointment in the manner in which NOW has provided information in its submissions. The disjointed nature of the information, and the scant nature of valley based financials has made it very difficult to respond with the level of detail that GVIA Thinks such important pricing matters require.

GVIA's primary concerns can be summarised as follows:

- NOW has completely under-delivered on its 2006-10 Determination commitments. A large number of water sharing plans remain uncompleted, and very little progress has been made on major policy initiatives such as Basic Rights Use Limits, and Floodplain Harvesting Licencing policy.
- NOW's supports for the flawed 15-year (and quite possibly 20-year) rolling average as a replacement consumption forecasting tool for the Long-Run IQQM. Adoption of this short-term rolling average will severely disadvantage Gwydir irrigators, and is not supported by one vestige of credible evidence. It is astounding that NOW would seek to move away from the tool it developed, and one that underpins almost all water management in NSW.
- NOW's complete acceptance of a 380% increase in user share of MDBA costs, without the slightest attempt to ensure any assessment of efficient costs.
- NOW's willingness to provide a Scenario 1 and Scenario 2 approach to the estimated additional costs for NSW arising from the development and implementation of the MDBA Basin Plan, rather than a clear and firm commitment to these costs either being paid for directly by the Commonwealth, or NOW not carrying out the work.
- NOW has gone to great lengths in its submission to create an impression of great activity over the past four years, but in reality much of the activity relates to work that has been carried out by other bodies such as the Australian Competition and Consumer Commission (ACCC) or the Murray-Darling Basin Authority.
- NOW appears to have committed to a great deal of both internal and externally funded capital expenditure that will result in long-term operational and

replacement costs for irrigators, but there has been no serious consultation on this work nor has there been any public cost/benefit analysis.

- NOW's desire to move to a 100% fixed charging regime for water charges. A move that would lead to a further disconnect between the Office and the commercial realities faced by irrigators.
- NOW's proposed transaction fees which in some cases, such as temporary dealing of groundwater and unregulated water would see massive and unjustifiable increases.

## **Introduction:**

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 200 irrigators in the Gwydir Valley of NSW, centred on the town of Moree.

The organisation is voluntary, funded by a cents/ megalitre levy on regulated unregulated and groundwater irrigation entitlement. In 2008/09 the levy was paid on in excess of 93% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer, an irrigation efficiency officer and a part-time administrative assistant.

GVIA is a member of the NSW Irrigators Council, and as well as providing this submission, the Association endorses the submission made by NSW Irrigators Council.

The GVIA welcomes the opportunity to provide input into the “Review of Prices for Water Ministerial Corporation”, through the NSW Independent Pricing and Regulatory Tribunal (IPART) process.

GVIA has structured its response so it mirrors the NOW submission in terms of headings and chapter numbering system.

GVIA must express its severe disappointment in the quantity, quality, timing and presentation of information provided to it by NOW for this Determination, and these factors have severely limited GVIA’s ability to provide a comprehensive submission.

GVIA notes that its is clear from the tone of the Price Waterhouse Coopers/Halcrow consultants report that it too has been limited by the lack of access to quality and timely information.

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# 1. Introduction and Overview

No Comment

## 2. Key Reforms and programs since the previous review

### 2.1 National changes and requirements

The NOW submission alleges that the transfer of some State powers to the Commonwealth in relation to the Murray-Darling Basin has not reduced the level of NOW's water management activity, but has in fact added an extra layer of activity.

GVIA would like to make the following comments about that claim:

- If additional work is the result of a transfer and consolidation of water management powers, then the value of such transfers must be questioned simply from an efficiencies view.
- In agreeing to transfer the powers through the signing of the Intergovernmental Agreement on Murray-Darling Basin Reform, no additional costs were to be the responsibility of NSW. The relevant clauses of the agreement are reprinted below.

#### **PART 5 NO ADDITIONAL NET COSTS**

*5.1. The Commonwealth undertakes that the Basin States will not bear additional net costs as a consequence of the reforms agreed between the parties and the implementation of the Water Act.*

*5.2. The parties agree that no additional net costs refers to financial costs and means that the additional costs borne by each Basin State as a consequence of the reforms agreed between the parties and the implementation of the Water Act will be less than or equal to the cost savings and additional funds accruing to each Basin State from reforms agreed between the parties and in the implementation of the Water Act.*

- GVIA strongly contends that that the no additional cost clauses apply equally to NSW users, as they do to the NSW Government.

#### 2.1.1 Murray Darling Basin State Priority Projects

The NOW submission notes a long list of State Priority projects, and the considerable conditions that are attached to them.

Apart from having a close working relationship with the pilot component of the Irrigated Farm Modernisation project (managed by NSW Industry and Investment), GVIA has had virtually no input or consultation on the suite of projects, and therefore is in no position to either support or reject the projects, but would have very real concerns about any costs of these projects being passed onto irrigators through charges.

### 2.1.2 Restoring the Balance – Commonwealth’s buyback programme

The NOW submission makes much of the Commonwealth Water Buyback. However, this programme should not have created any extra work or responsibility for NOW, as the Commonwealth was simply acting as another buyer in the market. If anything, through the consolidation of licencing, the program should lead to a reduction in a number of NOW’s licence administration costs.

NSW’s decision to initially apply an embargo on the transferring of licences purchased by the Commonwealth, and the later Memorandum of Understanding between the Commonwealth and State limiting transfers, was in fact an over-arching policy decision by Government, and therefore should not result in any additional costs being applied to irrigators.

Further, with regards to the issue of “shepherding”, the Commonwealth specifically agreed to cover all the costs associated with the development of a “shepherding” policy.

### 2.1.3 Murray-Darling Basin Authority and the Basin Plan

NOW makes the point that it has provided considerable resources to assist in the development of the Murray-Darling Basin Authority (MDBA) Basin Plan. As raised earlier, this is meant to be at no net cost to the State of NSW, and therefore NOW should be receiving a commercial return for the services provided.

### 2.1.4 ACCC and water charging, water market and water trading rules

GVIA would like to make the following two points on this section of the NOW submission:

- As a closed valley as far as trading goes, the ACCC work has had virtually no impact (positive or negative) on Gwydir Valley irrigators.
- As it is part of the total Murray-Darling Basin reforms, the total costs should be borne by the Commonwealth.

### 2.1.5 Bureau of Meteorology and water information

GVIA is very concerned by any claim that the extra on-going costs of the enhanced monitoring network must be met by NSW, and therefore by default NSW irrigators. To

GVIA's knowledge there has been no cost/benefit analysis as to the value of an enhanced network. However, GVIA is confident that the enhanced network will neither improve the reliability or volume of water available to irrigators, and therefore is strongly opposed to users bearing a share of the cost.

### 2.1.6 Expansion of the hydrometric network

Similar to the above point, GVIA is far from convinced that an expanded network will result in improved reliability for irrigators. GVIA is also alarmed that instead of reducing maintenance and operation costs, this "expansion and upgrade" will actually lead to an increase in costs.

IPART must ask the question whether this expansion is going to provide a net benefit to NSW, and if so, who in particular are the beneficiaries?

### 2.1.7 Expansion of groundwater monitoring

The installation of telemetry systems on groundwater monitoring sites should reduce on-going costs rather than increase them. Again, there needs to be a thorough cost/benefit analysis of these projects prior to acceptance by government.

Further, if there are additional costs involved, any costs associated with the Great Artesian Basin project must be quarantined from irrigators, as this project is of absolutely no benefit to them.

### 2.1.8 Cap and pipe the Bores Program

This is a Great Artesian Basin project and is of no relevance to irrigators and therefore IPART must ensure that costs associated with this project are excluded in their pricing calculations.

### 2.1.9 Pipeline NSW

Like the above project, this project offers no benefits to irrigators, and therefore should be totally removed from IPART's pricing considerations.

### 2.1.10 Darling River Water Savings Project

This has been a very long-ongoing project that appears to have delivered little of tangible benefit, and following recent flows in the Darling River has now missed a significant opportunity to carry-out structural works in the near to medium future. While GVIA is very supportive of reducing losses out of Menindee, it seriously questions the value of the investment to date.

### 2.1.11 National Water Initiative and Water Reforms

The National Water Initiative and Water Reform Commitments were signed in 2004, and therefore NSW's commitments to this process were considered in the 2006-2010 Determination.

#### ***General comments on this section***

GVIA is puzzled by the inclusion of this whole section by NOW. It appears to be an attempt to create an impression of a great deal of extra and unfunded activity.

However, all the above projects either represents commitments that existed prior to the 2006-2010 Determination; or are subject to the "no net cost increase" clause of the Intergovernmental agreement; or apply to projects which do not benefit irrigators in any way.

## ***2.2 State changes and activities***

### 2.2.1 Agency restructure

GVIA notes that while there has been yet again a restructure of the water administration in NSW, the NOW submission makes no mention of the considerable savings that was expected from the new Departmental structure.

Then Premier Nathan Rees announced in June 2009:

#### **PREMIER ANNOUNCES HISTORIC PUBLIC SECTOR REFORM**

*11 June 2009*

*Premier Nathan Rees today announced the biggest structural reform to the NSW public sector in more than 30 years – creating 13 super departments from the 160 current state agencies.*

*Mr Rees said the reforms are aimed squarely at delivering better services for the people of NSW.*

*"I am determined to have the best structure to deliver better services for the people of NSW," Mr Rees said.*

*"These changes are designed to ensure a greater focus on our clients, better integration of public services and to cut internal Government red tape."*

*The reforms will:*

- Improve service delivery;*
- Better align a sprawling bureaucracy; and*
- Ensure the best value for taxpayers' dollars.*

## 2.2.2 Development and implementation of water sharing plans

GVIA is extremely dubious of NOW's claim that completion of the remaining water sharing plans has been delayed while awaiting clarification on the Commonwealth's role in the Murray-Darling Basin.

For this claim to have any substance the work would still not of recommenced as not even the draft Basin Plan has been released to provide some guidance. It has been known at least since the passing of the Commonwealth Water Act 2007 that there would be an ongoing requirement for State developed water sharing plans.

GVIA is strongly of the view that NOW has simply under-delivered on its 2006-10 Determination commitment, despite having the resources identified as being required by IPART, and are now seeking to justify additional resources.

It has always been important for the remaining water sharing plans to be completed, and it has been known at least since 2004 that the first of the plans would have to be re-done in time for 2014. This is not *new* work.

## 2.2.3 Conversion of water licences

Again, GVIA does not accept the explanation for not completing this work; that it has been delayed due to uncertainty surrounding the Basin Planning process. This was work that was meant to be completed during the current Determination period and has simply not been done by NOW. NOW must not be rewarded with additional resources to carry out work that should have long been completed with the resources previously approved by IPART.

## 2.2.4 Operational Planning

GVIA does not dispute that this work has to be done, and has infact been cooperating closely with NOW on the development of the Floodplain Harvesting Policy.

However, as pointed at in the PWC report NOW has been expending approximately \$5 million per year on operational planning and has only completed one of the ten guidelines that have been identified as priorities. Many of these guidelines were actually identified as priorities in the then Department of Natural Resources submission to the last IPART Determination.

GVIA knows from its own involvement that given the resources that have been devoted to it, there is very clear evidence of massive inefficiency in the development of the still draft Floodplain Harvesting Licencing policy.

Further, GVIA strongly argues that the development of these policies is actually a high level work of government, and therefore should be paid for by government, and not included as a user share.

If they are deemed to have a direct benefit, and users are assessed a share, IPART needs to clearly identify whether individual activities should be included or not.

For instance irrigators should definitely not be levied any cost share for the development of the “Reasonable Use Rules for Basic Landholder Rights”, or the “Use of Stormwater to meet Urban Requirements”, to name just two.

### 2.2.5 Repeal of the NSW Water Act 1912

While GVIA is supportive of this in principle, it does argue that the repeal of the NSW Water Act 1912 should actually result in large efficiency savings, as NOW would only be administering one primary act rather than the current two.

The repeal of this act should not in fact be a major undertaking in itself, as the major associated tasks are the completion of outstanding water sharing plans and the conversion of licences, something NOW has been well resourced for by the previous Determination.

### 2.2.6 Office of the Hawkesbury-Nepean

IPART should take special care to ensure that there is no cross-subsidy of this very focussed office by other water users.

## **3. Water Management expenditure and service delivery over the current determination period**

GVIA notes that NOW may not have received the revenue that it predicted, however, their customers have been facing the same, if not greater restraints, and have had to adapt their operations to match their revenue streams, while remaining functioning and credible businesses.

### ***3.1 Revenue received***

It should be noted that during what has been described as the worst drought in 100 years, NOW has still received 81% of its projected revenue, a feat that all irrigators in the Gwydir Valley would have loved to emulate.

NOW cannot expect to be immune from the water availability conditions that are faced by its clients.

GVIA notes that NOW actually slightly over recovered charges for unregulated river licences in the Barwon region.

### ***3.2 NSW contribution to the Murray-Darling Basin Authority and the Border Rivers Commission***

GVIA notes that NOW paid the Authority almost \$2 million more than budget, but provided no explanation for the higher payment, nor does it provide a valley breakdown on the costs.

GVIA has long been concerned that it has been contributing a disproportionately high share of the MDBA costs, given the effectively closed nature of the valley.

### ***3.3 Capital programs***

GVIA can only conclude that the very significant overspend on groundwater monitoring is the result of the joint NSW/Federal funded monitoring project described earlier in submission, but is astounded that NOW has provided no explanation for this extraordinary, unbudgeted overspend.

### ***3.4 Operating costs***

GVIA notes that operating costs have been effectively in line with budget, indicating two things:

- NOW has taken no effective efforts to try to match its expenditure to revenue.
- That despite spending its IPART determined amount, NOW has failed to deliver on a number of the key tasks identified in the 2006-10 Determination such as completing all outstanding water sharing plans etc.

### ***3.5 User share expenditure***

GVIA is amazed by IPART's explanation that while actual total opex was in line with forecasts, the actual activities undertaken have resulted in a greater proportion of these costs being attributable to the user share component.

At this very least this suggests appallingly bad budgeting and planning by NOW, and demonstrates the lack of understanding NOW has of its cost drivers. It makes it very

difficult for GVIA to have confidence in the submission presented by NOW for this Determination.

### **3.6 Achievements over the determination period**

#### **3.6.1 Water Information**

GVIA is very concerned that users are bearing the cost of the 385 gauging stations that are not externally funded (it should be noted the externally funded gauges are in fact funded by irrigators through their State Water charges), yet these gauges provide a great deal of information that is used by such groups as the Bureau of Meteorology, Emergency Services and the like who contribute nothing to the provision of this information.

GVIA believes there should be a full review, including industry participation, of the gauging network, with a thorough cost benefit/assessment, and a clear assignment of who requires the information generated from each site.

#### **3.6.2 Resource condition monitoring**

GVIA notes NOW's claim that it has gathered benchmark information on resource condition for riverine and groundwater sources. GVIA is unaware of this information, and asks whether it has been collected in a manner that is useful for the assessment of the success or otherwise of water sharing plans.

If its sole purpose was to provide information for Catchment Management Authorities, it should have been done on a fee-for-service basis.

#### **3.6.3 Monitoring of environmental flows**

GVIA argues that given that the management of environmental flows has passed over to the Department of Environment, Climate Change & Water, but out of NOW, then the cost of these activities should be funded out of Consolidated Revenue.

#### **3.6.4 Water Sharing Plans**

GVIA is amazed that NOW can try and make an achievement out of completing 14 water sharing plans during the current Determination period, when according to their submission to NOW for that Determination it had expected to have completed 60 additional plans by 2009.

In regards to the assessment and release of progress reports on the 34 water sharing plans that had commenced earlier, this process was far less extensive and resource hungry than originally envisaged, and therefore should have been completed for a fraction of the cost that was allowed for under the current Determination.

While NOW has administered the \$135m ASGE programme, specific funding was included in the programme to cover administration, and only about half of the Community Development Component of the programme was ever delivered.

### 3.6.5 Water licencing and compliance

The submission makes no mention of the fact that the 6,200 licences converted falls far short of the number budgeted for in the current Determination. It is just another example of NOW massively under-delivering despite spending its full budget allowed for under the current Determination. Furthermore, many of these plans lack any rigorous implementation plan or manual so cannot yet be considered operationally complete.

### 3.6.6 Water Trading

NOW should be congratulated on its work in developing a more efficient water trading system, and GVIA expects that this more efficient system will flow through to lower costs and quicker turn around times.

### 3.6.7 Water availability and management

NOW claims to do fortnightly assessments on water availability on regulated rivers. While this may be true for southern NSW, assessments are normally only made monthly in the Gwydir Valley, and IPART should ensure that Gwydir costs are calculated accordingly.

### 3.6.8 Water modelling

IPART should ensure that the work done by NOW in collaboration with CSIRO on the impacts of climate change was charged out at a commercial rate, and not paid for by user contributions.

### 3.6.9 Drought response

Despite on going drought conditions in the Gwydir, IPART should note that none of the activities identified in the NOW submission were carried out in the Gwydir.

### 3.6.10 Water Infrastructure and Recovery for the Environment

All the actions identified in this part of the submission appear to either relate to externally funded projects, or were carried out to attract external funding, and therefore should not be considered within the IPART framework.

#### 3.6.11 Water Policy

GVIA is amazed that NOW would boast about achievement in this area when progress in this area has been at a snail like pace, and offers little in the way of return on the \$5 million dollars or so that is invested annually in water planning and policy.

Further, the cost of policy development is specifically excluded from the National Water Initiative full cost recovery principals, and therefore should be funded from consolidated revenue and not through user charges.

#### 3.6.11 Amendments to the Water Management Act 2000

Amendments to legislation should be a cost of government.

#### 3.6.12 COAG water reforms, National Water Initiative and Murray-Darling Basin IGA

As previously discussed, all work associated with meeting NSW's commitments to National and Murray-Darling Basin reform should be either a whole of government cost, or a cost of the Commonwealth under the "no net cost" clause.

#### 3.6.13 Response to the community

It should be noted that many of the activities presented here directly relate to serving the Ministerial Office and therefore should not be included in user cost shares.

### ***General comments on this section***

GVIA is puzzled by the inclusion of section 3.6 in NOW's submission as it makes no attempt at all to justify its actions against the relevant IPART Determination, instead appears to have been designed to demonstrate to IPART that it has been busy. It would have been a lot more useful if it had described its activities in a manner that allowed a simple comparison between what the current determination allowed for, and what NOW managed to deliver.

## **4. Regulatory framework for the 2010 Determination**

### ***4.1 Length of determination***

From a resourcing and clarity point of view GVIA favours keeping Determinations in synch with the State Water Determination. This is also important for customers who have suffered from excessive confusion in the billing system when previous determinations have been “out of synch”.

Just whether that now means a three or four year Determination period for NOW, will depend on how IPART handles the fact that the State Water and NOW processes are considerably out of synch.

### ***4.2 Price setting approach***

GVIA does have concern with the “glide-path” approach, when it results in artificially high prices towards the end of a Determination period. This leads to the situation where the starting point for the next Determination is significantly higher than what actual costs would dictate. This issue was covered in detail in our submissions to IPART on State Water pricing.

#### **4.2.1 Regional-based prices for groundwater**

In the current Determination IPART effectively settled on a regional based pricing system, which reflected the now redundant departmental regional boundaries.

In reviewing the current Determination it is clear that IPART was convinced that there were significant cost variations between regions.

GVIA has always supported valley-reflective pricing, and therefore in the absence of any cost information from NOW demonstrating that costs are the same across all inland aquifers, and the same across all coastal aquifers; GVIA recommends the retention of the current system, or ideally back to a true valley-based system.

#### **4.2.2 Increase emphasis on fixed charges**

GVIA is strongly opposed to any move away from the 40% fixed / 60% variable pricing structure that currently exists. Any move to increase the emphasis towards the fixed component would only further the disconnect NOW has with its licenced irrigators.

NOW's performance over the current Determination, when it still collected 81% of its IPART Determined income, even though it clients was experiencing the worst drought in 100 years, demonstrates the current system adequately address's NOW's income risk.

#### 4.2.3 Revenue required to fund capital expenditure

GVIA does not support a return on capital component in any way, shape or form for the NSW Office of Water. NOW is a policy and regulatory arm of government. It is not a business, as it purport's to be in this section of its submission.

Further evidence that it is not a business can be gleaned from Commissioner Harriss's letter to IPART dated January 27, 2010.

*"The work of the Office of Water in providing rural water services is varied and complex, particularly as we are responsible for groundwater and unregulated river water sources as well as regulated river water. As its resources are limited, the Office of Water takes care that the production of financial information does not unduly detract from the resources available to focus on frontline, value adding activities which directly benefit our stakeholders."*

It is clear from this that NOW does not view itself as a business, and nor is it. If IPART was to allow NOW a rate of return, then that rate of return would also have to be applied to all other government activities.

### **4.3 Incorporation of additional new types of licences**

#### 4.3.1 Floodplain Harvesting Licences

GVIA is aware that the NSW Government has in-principle approval for \$50 million of Federal funding to roll out its "Healthy Floodplains" programme, which includes the issuing of floodplain water access licences and associated water supply works approvals.

There is no justification for applying a charge on top of this funding.

Further, the most direct precedence for this licencing process was the issuing of surface supplementary licences as part of the implementation of the Water Management Act 2000 and the commencement of the Gwydir Regulated River Water Sharing Plan.

No charge was levied for the issuing of those Supplementary Water Access licences.

With regards to on-going water management and planning charges GVIA feels it is far to premature to even be considering charges as there as been no information as to what services NOW might provide and the efficiency of those services.

Further, GVIA would be very surprised if licences were even issued during the life of the new Determination.

#### 4.3.2. Licences with adaptive environmental conditions

GVIA supports the levying of normal water management charges on adaptive environmental licences.

#### 4.3.3 Great Artesian Basin conveyance licences

While GVIA does not have a direct view on charges for these licences, it certainly does not support charges paid for by irrigators contributing to any of the costs associated with managing the Great Artesian Basin.

#### 4.3.4 Tidal pool licences

GVIA has no direct views on these licences, but certainly opposes any irrigator subsidy of activities associated with tidal pool extraction.

### ***4.4 Simplifying the billing process***

GVIA has recently become aware that groundwater irrigators have been charged fixed charges based on the total shares of their groundwater supplementary licences, rather than on the adjusted Available Water Determination, which under the groundwater plans will be reduced annually, so that by the completion of the plans, these licences will have an Available Water Determination of zero.

GVIA is unsure whether this billing on the full amount has been a deliberate act by NOW or an oversight, but contends that in regards to supplementary groundwater licences, which have a specific role as part of an adjustment process, fixed charges should be based on the AWD rather than the total share component.

GVIA strongly supports the retention of the caps on the percentage size of an annual bill increase, and while it concedes that it may lead to a slightly greater level of complexity, it is nothing that a modern, computerised billing process shouldn't be able to handle with ease.

## **4.5 Definition of water management activities**

### **4.5.1 Activities profile**

GVIA has a couple of concerns with the revised cost codes and users shares. GVIA agrees that NOW does not appear to have made any major changes, but where new activity codes have been created, for example C01-02, through the amalgamation of one or more other codes, the new user share appears to always favour an increase load on users. GVIA has been provided too little data to be able to verify whether this is justified, but it appears that NOW has readily accepted the principle that “when in doubt, round-up.”

Further, GVIA remains strongly opposed to the C02 activities being 100% User Charges. There needs to be some recognition that NOW carries out groundwater monitoring in areas that are entirely unaffected by groundwater based irrigation, and therefore government should wear some of those costs on behalf of unchargeable ground water users such as those who use groundwater for stock and domestic purposes.

## **5. Additional resource requirements for core water management activities from 2010**

### **5.1 Staffing numbers**

GVIA understands that the current Determination allowed NOW IPART regulated staffing of 276, two more than the 274 recommended by the IPART consultants. It therefore seems strange that NOW has been operating with 256, despite originally requesting 302 for the current Determination period.

In this Determination NOW is again seeking a considerable staffing increase over the current levels, and in part NOW seems to be trying to justify this increase by pointing to a backlog of work.

In summary it appears NOW is asking irrigators to fund more staff, to do the work that should have been done by the people NOW did not employ, but were paid for.

Naturally, GVIA is absolutely opposed to this blatant attempt at double dipping.

GVIA takes some heart from the PWC/Halcrow report that recommends instead of increasing staff numbers by some 48 FTEs, NOW should reduce its staff by 23 FTE, bringing it to 233 FTE.

## **5.2 Cost of water management activities**

GVIA welcomes NOW's commitment to achieving four percent efficiency savings in 2010 and 2011, and believes this level of efficiency gain should be mandated for each year of the Determination.

## **5.3 Future water management costs – core activities**

GVIA has already made reference to the staffing findings of the PWC/Halcrow report and endorses them. GVIA does not have the resources to determine the efficient level of staffing for each of the following activities, but will make general comments for consideration by IPART.

### **CO1 Surface watering monitoring**

Most of the additional work being required here appears to be directly linked to NSW's support for the Murray-Darling Basin Plan and the National Water Initiative. Very little of it will result in any net benefit to irrigators.

Therefore, while GVIA has no objection in principle for improved information, it does object to irrigators paying for services that provide no real benefit to them.

### **C02 Groundwater monitoring**

The monitoring and inputting of data from the groundwater networks is being increasingly computerised and therefore should be generating significant labour savings rather than resulting in a requirement to engage more staff, in tasks that are unlikely to give any significant direct benefits to irrigators.

### **C04 Surface water and groundwater analysis**

GVIA would suggest that NOW should be taking a strategic approach to quality testing, rather than seeking to increase the overall volume of tests by increasing the levels of skilled labour.

### **C05 Water modelling and impact assessment**

IPART should be aware that part of the \$50 million Healthy Floodplains project would be used to fund some of the activities identified in this section.

### **C06 Water management implementation**

In its submission for the current Determination NOW (or its predecessor) identified the completion of 90 Water Sharing Plans as part of its workload priority. It appears amazing

that NOW can in this submission request additional staff members to complete a task that was included in and accounted for in current Determination.

This sectional also states additional resources are required to identify risks to Groundwater Dependant Ecosystems. This is a task that should have been completed by 2009, and again, was included in the consideration of the current Determination.

### **C07 Water management planning**

Again, this section deals largely with activities that were considered for the current Determination period. It does not represent an additional body of work.

### **C09 Water licensing administration**

While GVIA supports strong compliance, this appears to be a massive increase in staffing for this section. It also provides no information on how NOW ensures that its compliance activities do not overlap with the compliance activities of State Water.

### **C11 Business administration**

GVIA contends that there is plenty of opportunity for NOW to improve its efficiency of its financial administration, which would negate any need for increased staff.

## ***5.4 Forecast water management operating expenditure***

GVIA reinforces its support for the PWC/Halcrow recommendation that instead of seeking a 47.5 FTE increase in staffing NOW should be able to manage with a 23 FTE reduction.

In keeping with this support for the PWC/Halcrow report, GVIA also endorses that NOW's base level operating expenditure should reduce from \$48 .8m to \$45.4m.

## **6. Forecast capital expenditure**

GVIA is very concerned about the NOW's capital expenditure plans, primarily for gauging and monitoring networks. There has been no industry engagement on the need for these networks, and the cost/benefit justification.

GVIA has demonstrated in the past that it is prepared to financially support enhanced gauging networks when there is an identified benefit, however, it cannot give blanket support to capital projects.

GVIA also congratulates NOW on identifying in the submission two important on-going issues in regards to capital expenditure; increased operating costs and increased capital replacement contributions.

GVIA believes NOW, and IPART, must ensure that all capital programmes clearly identify a significant net economic benefit, and assigns that benefit to the financial contributor prior to approving any capital works.

GVIA will not tolerate its members having to pay for capital works and their operation if they do not provide a significant and direct benefit to them.

There also appears to be a major discrepancy between the capital expenditure shown on page 44 of NOW's submission and that shown in Table 5, page 45 of the same submission.

## **7. Murray-Darling Basin Authority and Border River Commission forecast costs**

It is a damning indictment on the IPART Price Determination process that NOW believes it can cover off on a massive 380% increase in user share of MDBA costs with one page and one table in its submission.

It is completely unacceptable that irrigators should be faced with an increase from \$1.7 million to \$6.5 million with no greater explanation than the MDBA is now placing a greater emphasis on resource management.

IPART must either fully scrutinised this cost, or refuse to pass it on to irrigators.

One can only assume that such a dramatic turn-around in emphasis by the MDBA (if it has indeed occurred) must be associated with the Murray-Darling Basin IGA, and therefore the no net increase in cost provisions should apply.

## **8. Base level of revenue needs for water management core activities**

While irrigators have accepted that they must pay their fair share of operating costs, GVIA remains resolute that there is no justification for expecting irrigators to pay a return on capital to a government office that is charged with the responsibility of managing the water resources of the State.

GVIA only reluctantly supports a payment for a return of assets, if the payments can be effectively quarantined to ensure essential assets are replaced at the end of their working life.

GVIA again endorses the conclusions of the PWC/Halcrow report, that if all other factors remain the same, there is significant scope for NOW's revenue requirement to be reduced.

### ***8.1 Projected revenue to be recovered from users***

NOW is proposing a massive 60% increase from current IPART Determined user contribution to the 2013/13 level.

This increase will apply to many valleys that were deemed by IPART to be on track to reach full-cost recovery by the end of this current Determination period.

NOW's justification for this enormous leap includes claims that it has now correctly attributed licensing overhead costs, and an increase in activities that have a greater user-share.

GVIA calls on IPART to closely examine those claims, and notes that there is no irrigator input into where NOW devotes its resources. GVIA is unaware of any significant change in the priorities of NOW, but assumes some of that change is related to MDBA costs which GVIA has already flagged as something IPART needs to examine very closely.

In addition GVIA believes licencing overhead costs should be included in the transaction fees, and not as part of overall user costs.

### ***8.2 Revenue needs for core activities split between water sources***

GVIA notes the information provided in the Tables 9 to 11, but submits without detailed financial information, which NOW has not provided in usable format, GVIA is not in a position to comment on whether NOW has correctly proportioned costs between Regulated, Unregulated and Groundwater.

## **9. Additional costs associated with Commonwealth reform activities**

It is contemptuous of NOW to try to justify an additional \$10.5m of annual expenditure supposedly associated with Commonwealth reforms with a page and a half in its submission.

This \$10.5m approximately represents a 15% increase, yet NOW is simply satisfied with presenting to IPART a rough estimate, and a half-baked argument that if the Commonwealth does not meet these costs the users must.

The NSW Government and NOW have been at pains to point out in numerous forums that the Murray-Darling Basin Plan, and associated agreements, are a Commonwealth plan, therefore NSW should have a water-tight guarantee from the Federal Government that it will cover whatever costs are necessary to complete and implement the plan, or NSW should simply not contribute to it.

It is entirely unacceptable for NSW to try to bill irrigators for costs that the irrigators have absolutely no control over.

IPART should keep in mind that the outcome of the Basin Plan is expected to reduce irrigators' access to water, and asking irrigators to wear these costs is the same as asking them to fund someone else to destroy their businesses and communities.

Given GVIA's complete opposition to having its members fund any of these costs, GVIA is reluctant to comment at all on any of the listed "additional activities", even though many of them seem to have no relevance to irrigators; are being primarily funded by other bodies; are part of NOW's core activities and therefore already accounted for; or appear to be totally excessive.

## **10. Future water metering costs**

### ***10.1 Metering projects***

IPART should note that NOW currently does not have an approved metering project for the Murray-Darling Basin, and irrigator groups including GVIA, have very strong reservations about the proposed NSW Murray-Darling Basin metering project.

GVIA contends that in the absence of a project IPART should not recommend any charges for metering during this Determination period, and that this issue should be revisited at the next Determination when the facts of any project, should it have proceeded by then, would be known.

At this present period GVIA is very concerned about the notion that "metering can create savings", and how those created "savings" might be shared in a manner equitable to all stakeholders.

In addition, GVIA would expect that any modern, telemetry based system should result in significant operational saving, and that these savings must be passed on to irrigators.

In summary, GVIA is in no position to give its support to a proposed metering project that NOW has not been prepared to discuss with irrigators, and IPART should not be prepared to enter into a metering charge determination, while the project remains in the proposed stage.

## **11. Consumption forecasts and entitlement basis for management charges**

GVIA supports the retention of two-part tariffs wherever possible, and is strenuously opposed to any fixed charge only regime, as it would completely disconnect NOW from the businesses it serves, and would lead to unacceptable financial pressures being put on the businesses NOW services.

In regards to consumption forecasts GVIA is astounded at the hypocrisy of NOW who wishes to abandon its own water management modelling tool IQQM, in favour of “number fiddling” to facilitate a short-term gain.

### ***11.1 Rationale for fixed pricing regime***

As discussed in this submission, the adequacy of the current fixed/usage charging regime is evidenced by the fact that NOW was able to collect 81% of its determined revenue during the worst drought in 100 years.

For NOW to claim that water charges represent a small part of a viable farm business, and therefore a shift to 100% fixed charging would have very little impact would be laughable if it was not so serious.

Fixed charges represent a significant business cost burden during dry periods when productive ability is at its lowest, and they represent a non-discretionary cost. For many Gwydir irrigators, who have been accumulating losses over the past decade, paying fixed charges has led to having to cut back on labour, which has had dramatic flow-on impacts in our communities.

GVIA is at a loss as to what is the relevance of the temporary assignment prices quoted in this section of the NOW submission, and would suggest it may be the Independent Commission Against Corruption (ICAC) rather than IPART, that should be looking at NOW if there is even a hint that NOW has not been completely transparent in its determination of allocations and water releases.

Having a Usage/Fixed Charging regime places an economic discipline on NOW that keeps it in synch with the licence holders it services.

## **11.2 Regulated rivers**

### 11.2.1 Consumption forecasts

GVIA is writing this response with the knowledge of IPART's Draft Determination for State Water Charges, and in particular is draft decisions to adopt a 20-year rolling average, as opposed to the 15-year rolling average proposed by NOW.

GVIA remains implacably opposed to these two alternatives, and consider the 20-year average proposal favoured by IPART has nothing more than "number fiddling", without even the slight justifications offered by State Water and NOW for their 15-year proposal.

Regardless of the genesis of these two proposals, GVIA considers that they are both based on arguments put up by the State Water/NOW jointly funded report by the Centre for International Economics.

This report essentially justified a move away from the Long Run Integrated Quantity and Quality model result, used in previous Determinations, on two grounds:

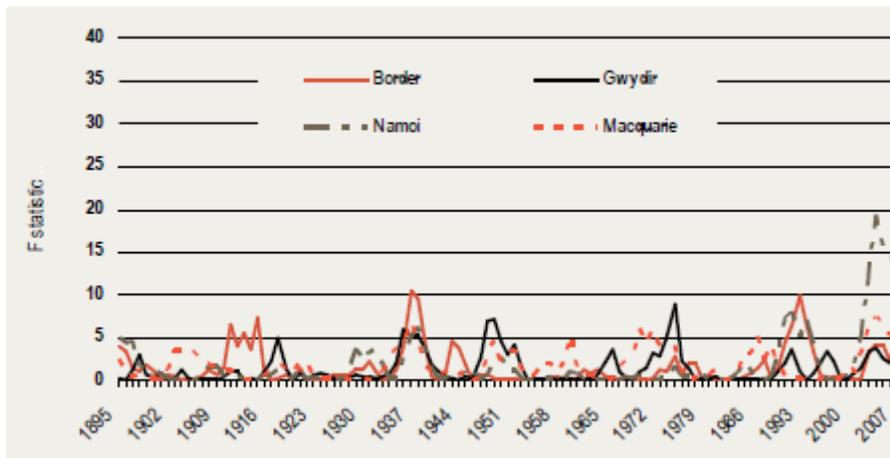
- An identified statistical change in deliveries going forward.
- Climate Change

GVIA's outright opposition to the acceptance of this report is based on the fact that the report itself states that it has failed to identify any statistical break in deliveries for the Gwydir Valley.

The following is extracted from page 49 of the CIE report:

*"In the northern and central valleys, there is less evidence of structural changes in extractions, although the F statistic for the Namoi is very high for the recent period (chart 4.8).*

#### 4.8 Structural change in northern and central river valleys



<sup>a</sup> The year is the beginning year for the five year period. The regression is for the period 1896 to 2009.  
Data source: The CIE.

Given the above quote and chart it is clear that even CIE cannot support the statistical break claim for the Gwydir Valley.

In regards to climate change, the CSIRO Sustainable Yield study for the Gwydir, the most comprehensive study into the likely effect of climate change, concluded that by 2030 water availability in the Gwydir may increase by 34% or decrease by 29% (CSIRO, p39). Even if CSIRO's best estimate is accepted of a 9% decline in General Security water use, this is a lower figure than what is proposed by both the State Water and IPART models. And it must be remembered that CSIRO is only predicting that degree of decline by 2030, and not for the period of 2010 to 2014.

It is clear that neither NOW, State Water nor IPART in its draft determination for State Water has been able to come up with any credible justification for change away from the long-run IQQM figure, except for some vague feeling that the IQQM did not deliver the intended result over the past four years and therefore will not deliver over the next four years.

It is very interesting to note that for the 2006-10 Determination IPART funded a study by the Centre for International Economics entitled "Review of consumption forecasts – Analysis to support 2006 Bulk Water Price Determination".

In that study CIE concluded: *"The use of consumption as modelled based on DNR's IQQM is reasonable given the available data and the absence of an alternative model for forecasting."*

It should be noted that mathematical concepts such as 15-year and 20-year rolling averages were understood in 2006, so it would be hard to see how they could be considered alternative models in 2010.

## 11.2.2 Entitlement volumes

GVIA supports NOW's inclusion of all environmental water entitlements for charging purposes, and strongly argues that Water Sharing Plan mandated allowances, such as the Gwydir Valley Environmental Contingency Allowance should also be included in the charging regimes, as they are only not a legal entitlement by technicality.

## 11.3 Unregulated Rivers

GVIA supports the retention of the two-part tariff option for licence holders on unregulated streams, and believes this option will be used more frequently as there is greater uptake of metering on these streams.

## 11.4 Groundwater

As discussed earlier in this submission GVIA has recently become aware of an anomaly where holders of supplementary groundwater licences have been charged the fixed component on the full entitlement of those licences even when the Available Water Determination attached to those licences has been deliberately reducing each water year as part of the structural adjustment process covered in the relevant Water Sharing Plans.

GVIA notes that the NOW submission states that Supplementary licences will be charged at the same rate as other groundwater licences. While GVIA agrees with the concept of applying the fixed charge, it contends, because of the unique circumstances in the way these licences are being managed, the fixed charge component can only be based on the megalitres being made available by the reducing AWD.

GVIA calls on this anomaly be rectified immediately, and any over payments returned to licence holders.

# 12. Water management charges

## 12.1 Price Structure

GVIA considers lifting the cap on price increases as a significant change, and one that is strongly opposed by the Association. GVIA is amazed that any organisation can consider price increases in excess of the Consumer Price Index (CPI) under the present economic circumstance. However, if IPART must approve price increases in excess of CPI, GVIA is of the view that those increases should be capped at 5% in actual terms.

As discussed earlier in our submission, GVIA is opposed to the amalgamation of groundwater into just two categories – inland and coastal, and calls for a return to full valley-based pricing that ensures no inter-valley subsidisation.

GVIA calls for the retention of the 40% usage and 60% fixed charging regime, as a method of keeping NOW in synch with the people that it services.

GVIA 's greatest concern about the concept of 100% full cost recovery is that the goal posts appear to be constantly changing as to what represents full cost recovery. Under the current Determination the Gwydir was deemed to be at full cost recovery, yet if IPART was to accept NOW's submission Gwydir regulated water users would be facing real increases of 103% between now and 2013.

In no other industry would customer be expected to wear such massive increases for what are effectively non-discretionary costs. There does not appear to be any end to attempts by NOW to add costs to the 100% Full Cost Recovery base.

GVIA is completely opposed to a government Office receiving a rate of return for managing the state's resources. NOW by its own admission is neither a business nor a State owned corporation, if IPART accepts this claim for a return on capital, then it would have to apply the same principle to all other government activities.

GVIA cannot support the almost completely undocumented acceptance by NOW of a massive increase in the MDBA component of user costs. To simply write off a 380% increase as a result of an "increased focus of water resource management activities" is entirely unacceptable.

With regards to NOW's two separate pricing scenarios IPART needs to firmly apply the ultimatum that it will only consider the costs listed under Scenario One, should the Commonwealth fail to honour its "no net cost" agreement with all of NSW, then NOW should simply not do any of the work.

Scenario Two is akin to an executioner asking the condemned prisoner to pay for his own bullet!

## ***12.2 Scenario 1- Proposed prices reflecting cost increases in core activities***

### ***12.2.1 Regulated river pricing***

#### ***12.2.1.1 Fixed price basis only***

GVIA totally rejects any movement at all away from the current 40% Fixed/ 60% Usage charging regime. As stated earlier, the current regime effectively shares risk between NOW and the stakeholders it services, and helps to keep NOW in synch with irrigation entitlement holders.

With regards to the prices outlined in the table, GVIA believes they need to be completely re-assessed after IPART takes into the account the very valid views of stakeholders and the PWC/Halcrow report.

GVIA does not believe there is any basis for applying a fixed charge fee to either supplementary or floodplain harvesting licences at this point in time, but it is something that may need to be fully canvassed as part of future determinations.

### *12.2.1.2 Fixed and variable pricing*

As stated above, GVIA believes the appropriate regime is the retention of the 40% Fixed/60% Usage regime, and therefore the table presented in the part of the NOW submission must be recalculated to take into account that mix as well as changes adopted by the Determination process.

## 12.1.2 Unregulated river pricing

### *12.2.2.1. Fixed price only*

GVIA supports the retention of the 100% fixed or two-part tariff models for unregulated water users. GVIA believes with the greater uptake of metering on unregulated streams there will be increase use of the two-part tariff.

GVIA believes the prices proposed in Table 21 are totally unrealistic, and need to be recalculated after IPART takes into the account the recommendations made in submissions and the PWC/Halcrow report.

## 12.2.3 Groundwater pricing

As previously described GVIA is opposed to moving to a coastal/inland model for groundwater pricing.

### *12.2.3.1 Groundwater Pricing – fixed price charges only*

As previously described GVIA is opposed to any attempt to move towards a 100% fixed charge model for groundwater. GVIA supports the retention of a 40% Fixed/60% Usage regime.

#### 12.2.4 Minimum charges

GVIA supports a revenue neutral increase in the minimum charge to \$200, provide entitlement holders are given one year at the current \$60 minimum to amalgamate licences where appropriate.

This will allow for greater efficiency, by minimising the number of individual licences that need to be administered, while more fairly distributing the base load costs of NOW.

GVIA also believes that IPART should strongly consider the levying of a revenue neutral water management charge on all rural properties, as a contribution towards the management of the state's water resources so access to riparian rights, stock and domestic and other basic rights are maintained.

The easiest way to administer such a charge would be to add the levy onto the existing Livestock and Pest Authority invoices, as the states LPA's obviously have a complete data base of rural properties.

#### ***Scenario 2 – Proposed prices reflecting cost increases in core activities and the additional costs of Commonwealth reform activities***

GVIA will limit its comments to this total section, by simply reiterating its total opposition to irrigators bearing any of these additional costs. Either the Commonwealth honours it to the "no net increase in costs to States", or NOW simply does not do the work.

### **13. Impacts on pricing**

#### ***13.1 Implications for customers***

NOW's so called analysis of the impact of its proposed price increases on customers is nothing short of insulting and contemptuous.

In the Gwydir NOW is highlighting real General Security bill increases of 233% from now through till 2014, and yet suggests that the impact will be small, due to the supposed fact that water charges make up only a small proportion of farm budgets.

Water bills are not the only component of farm costs, but they become more and more significant in years of low water availability, and therefore low farm productivity. The proposal by NOW to move to 100% fixed charges will only exacerbate this problem.

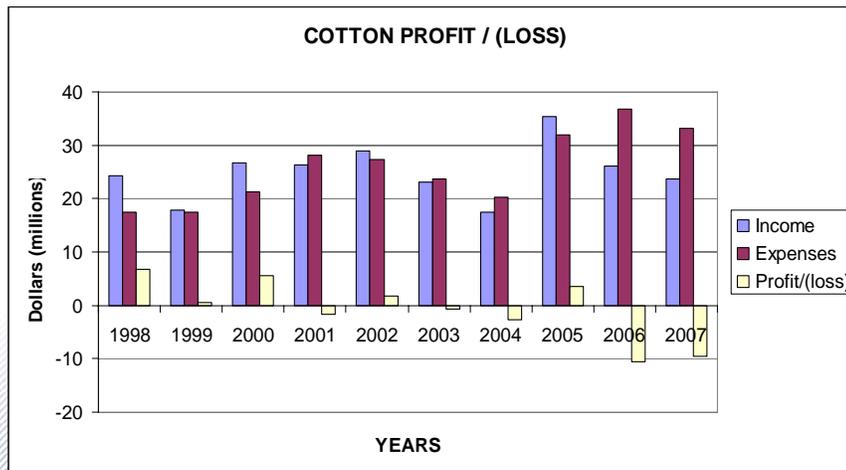
In addition, NOW charges are basically non-discretionary costs that an irrigator can do little to minimise, and therefore having to pay them will come at a cost to other farm expenditure.

It enters into the grounds of economic lunacy to suggest that any 233% cost increase over four years is not significant. Irrigators' economic performance during the drought, as evidenced by the following graphs, is such that any price rise at all is having significant impact on already negative earnings, and the type of increases being proposed by NOW would be absolutely crippling for so many irrigators.

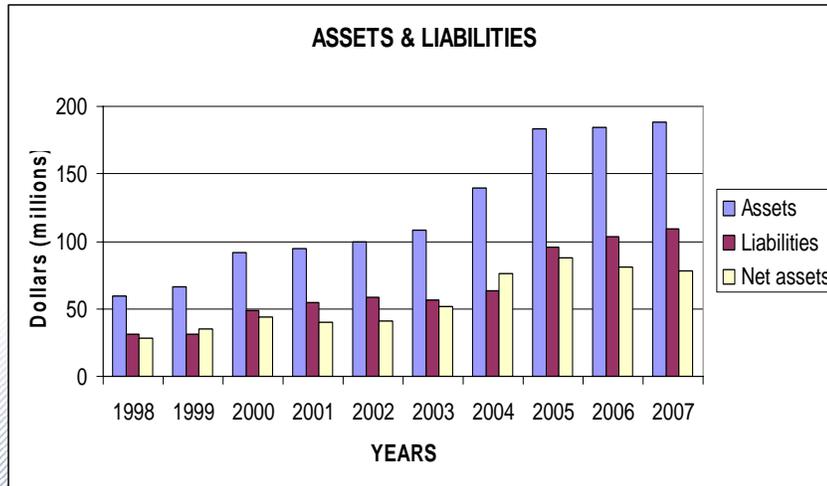
The graphs have been prepared from the results of the annual cotton industry comparative analysis, prepared by the regional accounting firm Boyce Chartered Accountants, and show what has been happening to both profitability and net assets during the drought.

The graph clearly shows the trend to actual farm losses and decreased net assets. Any increase in costs will exacerbate this trend.

### What have our growers done?



## What have our growers done?



12

NOW seems to think there should be some sort of relationship between water allocation prices and water charges. However, it fails to acknowledge that in valleys like the Gwydir where it has been two-and-a-half years since an allocation has been made, that it does not matter what price water allocations may theoretically trade for, when there is no water to trade. However, the fixed charge component of water charges must be paid regardless.

### ***13.2 Impact on bills of price increases due to core activities***

#### **13.2.1 Regulated Rivers**

GVIA is not convinced that NOW has properly calculated the extent of bill increases in this section. However, regardless as to whether the calculations are exactly correct, it is clear that NOW is proposing substantial increases in real terms for all its customers.

In virtually all cases the proposed increases will see anything from a doubling to quadrupling of annual bills, and only someone totally disconnected from real world economics could suggest that such increase will have insignificant impacts.

#### **13.2.2 Unregulated Rivers**

Again we are seeing impacts in the Barwon region of a 114% increase in bills, which must be considered a very significant and unsustainable increase.

### **13.2.3 Groundwater**

Throughout the analysis NOW has conveniently used entitlements that do not reflect commercial entitlement levels.

For example, in the groundwater section it has settled on an example entitlement of 100 megalitres, and considers an initial increase from \$247 in 2010 to \$873 in 2011, an increase of \$626 insignificant.

However, to be a commercial irrigator in the Gwydir, with only access to groundwater, you would need to hold a minimum of 1000 megalitres, and if that was your entitlement you would be facing a \$6260 increase in your water bill, a massive increase no matter how you look at it.

And no matter what size your entitlement is, an increase of 265% in real terms over five years is massive, unsustainable and unjustifiable.

## **14. Transactions fees for water consents**

GVIA acknowledges the crucial role that a sound water licencing and transaction system plays in the modern irrigation industry.

GVIA acknowledges the right for NOW to recover the efficient costs of these transactions, however, GVIA strongly suspects that NOW is far from efficient in administering these transactions, and believe the vast majority of these could be carried out by commercial operators under guidelines established by NOW.

### ***14.1 Service delivery***

GVIA believes it is crucial that NOW reviews its application and consent requirements to ensure only information that is actually required to be collected and assessed is collected and assessed.

In addition the Government should review its advertising requirements for certain applications, to ensure they are not placing overly burdensome requirements on both the applicants and the government.

## **14.2 Costs involved**

GVIA notes that NOW has made some progress towards the development of systems for the electronic lodgement of applications, and believes that this trend should be accelerated, and it should offer significant cost savings.

GVIA recommends that the right for third party objections should be reviewed, as in many cases these objections are not only vexatious in nature but lead to drawn out and very resource hungry resolutions.

## **14.3 Proposed fees**

### **14.3.1 Principles for recovering costs and structuring fees**

GVIA supports NOW's principles for water transaction consents fees, but is confused by what appears to be a contradiction between the principles and practice.

As GVIA understands it the over head costs associated with the water consent functions of NOW are not recovered by the transaction fees, but are absorbed into the overall operating costs of NOW, and are therefore funded by users through their water charges.

GVIA would recommend that all costs associated with these activities are recovered through transaction costs that reflect efficient costs.

GVIA accepts to a point the validity of sliding scale fees that reflect the size of the works, but only to the extent that the greater the size, the greater the effort that goes into the consent process.

For instance, GVIA is not convinced that there is necessarily any more work involved in approving an application for a 300mm pump, than there is for a 100mm pump.

### **14.3.2 Proposed water consent fees**

It is very difficult for GVIA to comment on specific costs, but it is stunned by the proposed fee of \$760.76 for temporary dealings of ground water and unregulated water. GVIA understands the current charge is \$50 plus .50 per megalitre up to a maximum cost of \$150. This is a very clear example of monopolistic price gouging.

GVIA also notes that Basic Rights approvals appear to account for approximately 30-40% of all approvals, yet revenue based on the 2006 Determination charge of \$105.69 would account for less than 10% of NOW's required revenue.

Based on these observations GVIA recommends that IPART very closely examine the justification for NOW's proposed prices, and ensure they reflect an efficient costs.

GVIA is also very opposed to any fee being applied to the initial issuing of floodplain harvesting, Great Artesian Basin conveyance and tidal pools access licences, as these are all process connected with the move from the 1912 Water Act to the Water Management Act 2000 and therefore should not result in extra costs to users.

**Submission ends**