

# **COASTAL VALLEYS CUSTOMER SERVICE COMMITTEE**

**Response to the IPART Draft  
Determination and Draft Report on Bulk  
Water Pricing for  
State Water Corporation  
and Ministerial Corporation  
from 1 August 2006 to 30 June 2010**

**June 2006**

**Submitted by:**

Robert J Doyle  
Chair  
Coastal Valleys Customer Service Committee  
PO Box 915  
MUSWELLBROOK NSW 2333

**Submitted to:**

The Tribunal  
Review of Bulk Water Pricing for State Water Corporation and Water Administerial  
Corporation  
Independent Pricing and Regulatory Tribunal of New South Wales  
PO Box Q290  
QVB Post Office NSW 1230

## 1. INTRODUCTION

The Coastal Valleys Customer Service Committee (Coastal Valleys CSC) has prepared the following comments for consideration of IPART in relation to the Draft Determination Bulk Water Pricing for the State Water Corporation and Water Administration Ministerial Corporation.

The Coastal Valleys CSC has developed this submission in a similar manner to our previous submission to IPART in that:

- ❖ This submission by the Coastal Valleys CSC represents the collective view of a committee made up of a diverse representation of consumptive users.
  
- ❖ The purpose of the Coastal Valleys CSC is to represent customers in their respective coastal valleys by providing advice to State Water Corporation (SWC) on the effective management and delivery of rural bulk water and asset management.

This submission addresses a number of issues that impact on coastal customers.

## 2. FAILURE TO RECOGNISE THE IMPACT OF THE PROCESS ON THE NORTH AND SOUTH COAST CUSTOMERS:

There is a failure in the draft determination to recognise the severe impact significant increases in water charges will have on coastal customers in particular the North and South Coast irrigators. Irrigators cannot pass on the increased costs and on the Coast the proposed price increases threaten farm viability.

There is also a failure to recognise the fundamental flaw in the current operating licence and its unfair impact on coastal customers, in particular, general security customers. It appears that our submissions have had no influence what so ever on the determination.

### **60% Fixed – 40% usage**

The draft determination incorrectly states all CSC's indicated a preference for uniform ratios across all valleys. The Coastal Valleys CSC (since 1999) has always advocated that the move to increase usage charges more than entitlement charges is **not** in the long term interests of either the customer or SWC on the coast. The factors that drive efficient and cost-effective water use on the coast are different to the western valleys.

We have been led to understand that under the terms of the Operating Licence of SWC that it is inevitable the ratios of fixed to usage ratios will increase towards usage. As a committee we appreciate there are many sleeper and dozer customers on the coast that receive a direct personal benefit with the draft determination price structure. **We consider this is not in the best long term interest for customers, SWC or treasury for the coast.**

Specifically for this submission we have canvassed our South Coast, and North Coast customers, through their Water User Associations and their links to the CSC. Our Customers consider a 60% entitlement-40% usage based charge best serves the interests of customers, SWC and Treasury and is a ratio that is acceptable for the **whole coast**. Our customers know this results in a higher customer based revenue for SWC. It is important that we determine a long term strategic approach that minimises the threat of price determinations on the agricultural businesses on the coast. We believe

the draft determination unfairly targets the more active users who already tend to be the most efficient water users and fails to address the fundamental differences for the coastal business of SWC.

The Coastal Valleys CSC and SWC openly recognise that there will always be opportunities for improved efficiencies. It is our opinion that the signals were already strong enough for SWC to strive for improved operational efficiencies and a 60% entitlement-40% usage based charge does not weaken that signal to either SWC or the customer.

We recognise our position is different to other valleys and we also recognise that there will be some need to follow the majority view but we were of the opinion that the mechanisms already put in place, (including the setup of the Customer Service Committees) allowed for the unique issues of individual valleys to be addressed.

There is no point in SWC being operationally efficient on the coast if there are no customers because the majority of SWC costs on the coastal dams are fixed costs. If not one megalitre is delivered the majority of SWC costs will still be incurred. If that situation occurs the cost to Treasury will be higher than what we propose as the best and fairest solution for all stakeholders.

### **Minimising the CSO on the North and South Coasts**

The Coastal Valleys CSC ask IPART to give coastal users consideration of our different circumstances and put to you an alternative mechanism of charging coastal customers. It is the customers on the three small dams ( Toonumbar, Lostock and Brogo) who are most severely threatened by the current process and we believe this is not being acknowledged in the price determination process.

We put forward our recommendation on the basis of the following points;

- We as a collective group have agreed on the key principle of 60/40 entitlement /usage in order to simplify the mechanics of the determination process.
- The Coastal Valleys CSC has always supported transparency between valleys and continues to support full transparency and we put this recommendation on the basis it will be transparent to all including COAG.
- The three small coastal dams over this determination will not and cannot achieve full cost recovery.
- The price structure must aim to give the best solution for the four key stakeholders, the Customers, SWC, the Government and the Community. **It needs to be a relationship that should not make any of the four key stakeholder's position untenable or all four stakeholders will lose.** It will actually be a case of minimising losses for Treasury.
- The coastal customers want to work cooperatively with SWC and the Government and the customers have cooperated to sort out the differences both within and between the coastal valleys before putting this recommendation to IPART.
- The value of maintaining the water resource cannot be under estimated for the future. There is an understanding with customers that on the three small coastal dams there will be demand other than agricultural such as town water in the future. In the meantime SWC has to maximise its income and with the increased weighting on usage demanded by its operating licence, it has to set a price that doesn't limit use such that total income is reduced. The Coastal Valleys CSC believes the draft determination **will decrease SWC's total income because it makes it uneconomic to irrigate for dairying and provides an incentive for sleepers and dozers to sit on their entitlement.**

## Recommendation

**The Coastal Valleys CSC recommends that SWC will be best served by maintaining delivery of water to irrigator customers by setting a price on the North and South Coasts that is the same as the Hunter price.**

This does not threaten the viability of irrigators although it is considered that for dairying the price is getting close to its upper limit. It does send a signal water use efficiencies **must** be achieved. On the North Coast we have been told the draft determination prices will force the closure of at least one dairy and there is already a need by SWC to increase sales to reduce business losses. With the current pricing process every irrigator that ceases operation on the North Coast and is not replaced by another user only makes it more difficult for SWC to achieve cost recovery. The proposed price determination will force dairyfarmers to exit the industry from the North and South Coasts. SWC income will be reduced as a result of this determination. This is not in the best interests of the customer, SWC or Treasury. Our recommendation can keep farms more viable and increase SWC revenue and reduce the Community Service Obligation by Treasury.

We have selected Hunter prices, as they are the most efficient of all the coastal dams, have the same preferred entitlement / usage ratio and are currently managed together within SWC. (This does not imply we fully accept the proposed prices for the Hunter. These issues are discussed later in this submission) The price pressures on the Hunter customers means the CSC processes will still need to operate to encourage improved efficiencies. The price increases themselves will force customers to improve the efficiencies of their businesses. It should **not** be considered the customers on the North and South Coast would be sent incorrect signals to improve their water management. The viability of dairy industry the largest water user is already marginal and increased bulk water prices are just another burden. All costs are under constant review as is any opportunity for a productivity improvement. The proposed price determination for the Hunter will still be an increase in water charges to North and South Coast irrigators that may still be the straw that breaks the farmers back. The proposed Hunter prices **will continue to send a signal** to customers to improve their operational efficiencies.

The Coastal Valleys CSC understands this recommendation requires Treasury to pay a Community Service Obligation ( CSO ) and The Coastal Valleys CSC has always stated we want the fact there is a need for a government CSO to be fully transparent. This CSO should be in accordance COAG principles. We believe the CSO will be less using our recommendation than using the proposed price determination for the North and South Coasts. We also believe this linking of the North and South Coast regulated prices to Hunter prices is of absolute importance to allow these coastal businesses to survive.

### 3. DNR COSTS:

There remains a concern that we do not understand the service being provided by DNR to regulated customers. We do acknowledge the reduction in charges for the Hunter as these customers have been overcharged. On the South and North Coasts there are increases proposed. There continues to be a need to have a mechanism of accountability and transparency. DNR must consult and be accountable **directly** with their customers.

There is also a concern that in the next round of job reductions in DNR the level of service will be reduced by default and, therefore, the customer will be paying for a service that will not be delivered. If the charges by DNR were accountable and transparent we would have some confidence in the process. Currently we do not have that confidence.

#### **4. THE HUNTER PRICES:**

The Draft determination appears to compromise Hunter customers on a number of specific issues.

➤ **Entitlement:Usage Ratios**

As stated above and in previous submissions the CSC considers a 60% entitlement 40% usage charge best serves the long term water user interests in the valley. It is our understanding SWC prefers our ratio to that proposed in the Draft Determination.

➤ **High Security ratios**

The Coastal Valleys CSC supports the principle of using the WSP as the basis of determining the price ratios for High Security water. It would appear there is a misreading of the WSP for high security on the Hunter. Under WSP Rule 55 the ratio should be 3, not 2.2. ( Attached is a copy of the relevant extract from the Hunter Water Sharing Plan )

➤ **Macquarie Generation:**

Macquarie Generation have a security above High and yet they have no requirement to pay for that additional security. If the security is paid for in line with the Water Sharing Plan rules, we would expect the general security user to get a fairer deal. Market forces will impact in the Hunter although the Coastal Valleys CSC believe the reduced entitlement charges is sending the wrong signals to sleepers and dozers, and is making it increasingly more difficult for the genuine irrigator to maintain viability.

➤ **Cross Subsidisation:**

To be consistent with our argument for the North and South Coasts, the costs of the Paterson should be separated from the Hunter and the Paterson be treated the same as the North and South Coasts. This will result in full transparency of operating all the dams and we consider that this is consistent with the principles of the COAG and openly recognises the need for a CSO.

#### **5. UNREGULATED and GROUNDWATER CUSTOMERS on the COAST**

There appears to be no acknowledgement of our concerns for accountability and transparency for DNR costs in the draft determination. In our November 2005 submission we made representation for unregulated and groundwater customers and made a number of recommendations. The need for a consultative process with DNR was emphasised and the need still exists. The Coastal Valleys CSC has attempted to develop a consultative process that may have merit on a broader scale. It certainly identified a need by unregulated customers. The lack of accountability and transparency by DNR is not acceptable when there is an expectation customers pay our fair way.

#### **6. CONCLUSION**

The Coastal Valleys CSC appreciates this opportunity to participate in the Price Determination Process. We do feel our concerns haven't been listened to as well as in the past and hope this is an oversight. In the big picture what happens to some small irrigators on the coast may appear insignificant. It is not insignificant to us as customers or to our families. We consider our recommendations minimise the straight out cost to Treasury for maintaining the infrastructure put in by government as well protect the very businesses that keep our rural communities viable into the future.

## Water Sharing Plan for the Hunter Regulated River Water Source 2003

**Part 10 Dealings with access licences****52 Access licence dealings**

- (1) This Part is made in accordance with section 20 (1) (d) of the Act and with the Minister's access licence dealing principles gazetted on 27 December 2002, under section 71L of the Act.
- (2) Applications for access licence dealings may be granted subject to the Minister's access licence dealing principles gazetted from time to time under section 71L of the Act and the rules in this Part.

**Note.** Access licence dealings include changes of licence ownership, conversions of licence category, movement of share component from one access licence to another access licence, movement of water allocation from one access licence allocation account to another access licence allocation account and changes in the location of water supply that can take water available under the licence. These dealings must comply with the provisions of the Act, the Minister's access licence dealing principles, and the rules in this Part.

**Note.** Where there is an inconsistency between access licence dealing rules established in this Plan and Minister's access licence dealing principles gazetted subsequent to the commencement of this Plan, section 71L of the Act provides for the access licence dealing rules to prevail.

**53 Rules relating to constraints within this water source**

- (1) This clause relates to dealings under sections 71B, 71D and 71J of the Act and to dealings in respect of water allocation assignments within this water source under section 71G of the Act.
- (2) Any dealing that would result in the total volume resulting from the sum of X, Y and Z exceeding 81,000 shall be prohibited, where:

X = the total number of Ml/year or unit shares in the share components of domestic and stock access licences, local water utility access licences, major utility access licences and regulated river (high security) access licences nominating water supply works in Management Zone 1,

Y = the total number of Ml/year or unit shares in the share components of regulated river (general security) access licences nominating water supply works in Management Zone 1 multiplied by the conversion factor applying to conversions from a regulated river (general security) access licence to a regulated river (high security) access licence under clause 55, and

Z = the current estimated number of Ml/year for the basic landholder rights requirements in zone 1.

**Note.** Assessments indicate that the conversion factor applied to conversion of a regulated river (general security) access licence share component to a regulated river (high security) access licence share component should be 1/3 rd - see Note after clause 55 (6) (a).

- (3) The Minister may increase the 81,000 limit set in subclause (2) under section 45 (1) (b) of the Act as set out in Part 14 of this Plan.
- (4) Assignment of water allocations from a major utility access licence water allocation account shall be prohibited.