



Lachlan Valley Water Inc

ABN 38 597 032 631
Representing
and Uniting All
Lachlan Valley
Water Users

PO Box 819
FORBES 2871

CHAIRMAN
Dennis Moxey

Telephone
6344 8267

Facsimile
6344 8488

Email
denngal@westserv.net.au

EXECUTIVE OFFICER
Mary Ewing

Telephone
6851 2538

Facsimile
6851 4949

Mobile
0427 512 538

Email
ewing@westserv.net.au

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Mr J Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Cox,

Re: Bulk Water Prices 2006/07 – Draft Determination

Thank you for the opportunity to comment on the draft determination.

State Water Corporation Charges

- **Consumption Forecasts and Revenue Risk Management:**
State Water has expressed concern that under the draft prices there will be significant pressure on State Water's revenue in dry years. We support the decision by the Tribunal to use long run averages (LRA) for the consumption forecasts. State Water's proposed alternative to use LRA less one standard deviation would otherwise result in considerable over-recovery of costs.

However, we recognise the pressure on revenue in droughts such as the current one in the Lachlan. Over the last 4 years, from 2002/03 to 2005/06, the total allocation available for general security has been 22%, ie an average of 5.5% per year. This period included 2 consecutive years of zero allocation. This has put revenue pressure on both State Water and irrigators, but there is currently no recognised process for dealing with these exceptional conditions and no mechanism for State Water to charge other than the mandated prices.

Under these conditions we recommend that the costs of delivery of basic landholders rights water be recognised. Currently basic right access does not require a licence and there is no charge for the water, and under normal conditions the supply of basic rights is incidental to the supply of water to licence holders. However, during extreme drought periods supplying basic rights becomes a significant cost. In the case of the Lachlan, only 20% of the flow in the river during the two years with zero allocation was delivered to paying customers (water licence holders). The rest was for essential supplies, basic rights and base running of the river.

Consistent with the move towards greater usage based cost recovery, we ask that the Tribunal give consideration to introducing a Community Service Obligation for the delivery of basic landholder rights. This would be consistent with equity considerations and address the revenue risk under extreme drought conditions.

Department of Natural Resources Charges

Water Resource Management Costs

- **Operating Costs and Restructure of DNR:** We note that Halcrow/MMA recommended basing DNR's efficient level of operating expenditure on 274 staff, being the maximum numbers over the period 2001/02 to 2004/05. This figure is midway between the 2004/05 level and the projected 311 EFT that DNR itself forecast would be required in 2006/07, which represented an increase of 71 EFT. Under the current restructure DNR is seeking to reduce staff numbers by 200 through a voluntary redundancy process, with those redundancies to be finalised by June 30. While the final structure of DNR and the resources that will be allocated to WRM are not yet clarified, we question whether any additional staff numbers will be able to be directed into WRM activities under the new structure, or even whether existing staffing levels will be able to be maintained. We accept that the staff who accept redundancies are likely to be spread across the organization and that there is some ability to move staff from one area of operation to another.

However, given that direct remuneration costs account for 54% of WRM operating costs, we believe it is essential to determine what staffing levels DNR will be able to maintain in WRM in 2006/07 and onwards. If the 274 staff numbers assessed by Halcrow/MMA are unable to be maintained, then WRM operating costs should be reduced proportionately.

- **Operating Costs - Transparency and Accountability:** The draft prices represent increases of up to 23% for groundwater licence holders in the Lachlan valley as prices move to full efficient cost recovery. As stated in our submission, the current standard of information presented to stakeholders on costs at the valley level is inadequate and lacks transparency. In particular, regarding the links between staffing levels and activities, and between expenditure and WRM activities. Where licence holders are expected to pay full cost recovery for DNR functions we recommend that DNR be required to account separately for that income and report transparently on those costs. This could be accomplished by ring fencing DNR's income from water charges and requiring DNR to report on the income and expenditure on WRM activities at a valley level.
- **Cost Shares:** In general we support the cost shares recommended by the Tribunal, however, we consider that the following WRM activities represent normal compliance and statutory functions for DNR that are undertaken as a consequence of managing the resource for all beneficiaries, not specifically as a consequence of licenced water use, and that the user cost share should be zero:

C01-04 Surface water ecology/biology information provision
C07-15 Blue green algae operational planning
C07-17 Interstate and national commitments

Yours faithfully

Mary Ewing
Executive Officer