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22 March 2004

Review of Bulk Water Pricing 2004/2005
Independent Pricing and Regulatory Tribunal
Level 2
44 Market Street
Sydney NSW 2000

Dear Sir/Madam

REVIEW OF 2004/2005 BULK WATER PRICES.

Thank you for the opportunity to make a submission to the Review of Bulk Water Prices.

As a general comment, we must say that we have been disappointed with the process thus far – the DIPNR submission being 105 days late. This brings into question the independence of the process and indeed IPART. We are also faced with extra costs as DIPNR's submission is only interim and we will have to respond to their medium term pricing proposal in September. We wonder whether it would be easier for the Commission to roll over the charges for a further 12 months.

We are dismayed at the way in which both DIPNR and State Water have sought to increase their prices with no thought into ways in which they may actually become more efficient and thereby decreasing prices to users. Both are monopoly providers and are acting as such.

We also believe that there needs to be much more work done on providing information at a valley by valley level and against an individual product and service level. We are left in the position of not being able to judge whether we are getting value for money, whether the resources are prioritised in a manner which enables the government's natural resource management objectives and outcomes to be delivered.

In short we make the following recommendations which are contained in our submission.

- That State Water Pricing be undertaken in line with the principles stated in 2.3 of our submission.
- When revenue to State Water decreases, State Water first look to shed costs. Price increases are to be viewed as a last resort.

- That the government pay the costs of delivery of environmental water and that those costs be calculated on a proportion of the total water resource delivered.
- That the State Government provide funding to State Water to upgrade all pre 1997 assets to meet necessary asset maintenance standards.
- That State Water's asset base and resulting TAMP be reviewed to ensure that State Water has the necessary asset base to deliver its services.
- That State Water pursues alternatives for the provision of engineering and asset management services.
- That irrigators do not pay for works that are not triggered by a compliance requirement. These costs including operating, maintenance as well as remaining lifecycle costs be borne by the party requesting the work.
- That State Water only pays for the number of hydrometric and hydrographical services it needs to undertake its business.
- That IPART ensure that the cost of Hydrometric / hydrographical services is not being charged for twice through State Water and through DIPNR.
- That the price for high security water be set at the general security price multiplied by the high security access premium in the water sharing plan multiplied by the number of years State Water is required to store water for HS users. (For the Murrumbidgee Valley this is 1.1)
- That the ratios between fixed and variable charges be based on the weighting according to the average availability of water.
- That the price of bulk water to private irrigators be decreased in line with the dropping of bulk water discounts to irrigation companies.
- That State Water review its business with a view to reducing costs and becoming more efficient.
- That Regulatory and WRM charges be fully met by the state as this is the role of government.
- In the case that IPART rule that WRM charges should be paid by impactors IPART requires DIPNR to assess the full range of users and how they might charge them for WRM costs.
- That IPART not grant DIPNR any increases in WRM charges.
- That IPART undertake an audit of DIPNR'S databases and information management to ensure that they are capable of providing information required to manage the State's natural resources.
- As part of the audit, IPART to determine whether or not irrigators are receiving value for money.
- That as a matter of urgency, DIPNR be required to place a budget for each product and service it undertakes for WRM and that it does the same on a valley by valley basis.
- That IPART require DIPNR to provide actual 2003/04 costs.

Again we would like to thank the commission for the opportunity to make a submission into this process. We would be pleased to discuss the issues we have raised at a public hearing.

Murray Shaw
Chairman

Lee Furness
Executive Officer

MURRUMBIDGEE PRIVATE IRRIGATORS INC.

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**SUBMISSION TO THE REVIEW OF BULK
WATER PRICING BY THE MURRUMBIDGEE
PRIVATE IRRIGATORS INC.**

The Murrumbidgee Private Irrigators represents the irrigators on the Murrumbidgee and its tributaries who pump directly from the river. These are the irrigators who are not in the Murrumbidgee Irrigation Area or the Coleambally Irrigation area. They represent some 680 irrigators with 30% of the entitlement of the Murrumbidgee Valley. They range from small holdings of up to 100 ML entitlements up to large stations with over 30,000 ML of entitlement.

We would be pleased to attend a hearing to discuss our submission and any issues relating to our submission.

We wish to make some overall general comments about the process and will then make comments about issues arising from first the State Water Submission and then the DIPNR submission.

1 NEW SOUTH WALES IRRIGATORS COUNCIL

We are member of the New South Wales Irrigators Council and are in broad agreement with their submission to this process.

2 GENERAL COMMENTS

2.1 LATENESS OF DIPNR SUBMISSION

We are dismayed at the lateness of the DIPNR submission. State Water was able to get their submission on time yet DIPNR was some 105 days late. Why was this situation allowed to arise? IPART should have either demanded DIPNR adhere to the timetable or made an interim decision to keep their funding at the present level. This then makes us question the independence of IPART. We have a situation of the tail wagging the dog – State Water was able to get its submission in on time why couldn't DIPNR. To our mind it is simply not good enough.

2.2 MEDIUM TERM SUBMISSION ON WRM CHARGES

We are very unhappy that DIPNR will be given a second bite of the cherry and be able to put in a medium term submission on WRM charges. This means that we will have a rolling IPART process covering nearly two years. While government departments have the luxury of more than adequate resourcing (in this case paid for by irrigators) we will have to undertake another round of consultation with members and take the time to reply to another submission by DIPNR. Again this was not the process which was outlined, the tail is wagging the dog and IPART seem to be powerless to do anything about it.

2.3 FUNDAMENTALS OF PRICING

At a recent Irrigators Inc¹ meeting held in Numurkah, a draft policy on pricing was tabled. It states:

Water Pricing must be accountable and transparent.

¹ Irrigators Inc. is the peak body representing irrigators from the four states in the Murray Darling Basin.

- There must be an independent process, removed from government, to determine water pricing.
- This process must include significant public consultation.

Water pricing should be based on recovery of costs directly attributable to water users:

- Efficient storage and delivery of water users' shares of the resource (with efficiency established by recognised benchmarking).
- Infrastructure maintenance and refurbishment costs established by a transparent, rigorous and accountable asset management planning process and based on a realistic risk profile.

Governments must pay in full for the costs associated with:

- Planning for and managing water for the environment.
- All legitimate community service obligations involved in the storage, delivery and management of water for public benefit eg flood mitigation, recreational use of facilities, stock and domestic supplies.
- All research required in association with planning processes

Natural Resource management cost can be shared between water users and governments in accordance with nationally defined principles that recognise and clarify:

- The significant benefits to the community as a whole from water planning and management
- The positive contribution that irrigated production makes to the economies and social amenities of the regions in which it occurs.

Water pricing must not involve:

- The payment of a rate of return on public infrastructure built for public benefit.
- Depreciation charges on assets
- The use of pricing over and above the recovery of efficient costs as a mechanism for structural adjustment
- Charges for environmental impact
- Charges based on the principle of 'scarcity'
- A component aimed at modifying the behaviour of water users
- Dividends, taxes and interest on loans payable to state treasuries or other state financial institutions.

We believe both DIPNR's and State Water's submissions fall short of meeting these principles and we will detail this later in the submission.

3 STATE WATER SUBMISSION

3.1 CORPORATISATION OF STATE WATER AND ITS EFFECT ON PRICES

MPI is in favour of State Water being run in a more business like way but this has not been reflected in their submission. It is worthwhile reflecting at this point on the differences between a State Owned Corporation and a Private Sector Corporation.

Element	Governments, SOCs	Private Sector Corporations
Ownership	Limited shareholders, (one or two Ministers), single ownership (government)	Many shareholders, multiple ownership
Assets	Public	Private
Accountability of Ministers/Directors	Diffuse: Government/corporate legal requirements vs wishes/influence of political leaders	Focussed and accountable as per corporations law.
Motivation	Emotional: voter driven	Objective: organization driven
Competition	None or very limited	Market driven
Profits	Often appropriated into consolidated revenue	Partially or fully retained to enable growth, or distributed to shareholders to build shareholder wealth.
Sales philosophy	Try to increase sales however if sales reduce charge more	Increase sales, charge less, driven by product development, consumer demand and innovation.
Financing	Funds accumulated in advance for anticipated future commitments	Prudent levels of debt
Debt	Financed by Government, which benefits from the interest.	Competitively financed.

SOCS are not private organizations but we welcome a business discipline approach to State Water's management which has been lacking for some time. We believe that the role of government is to support the overall well being of the people, not to make inordinate profits from the people. This would amount to nothing more than highway robbery. So then what should we be seeing as a result of State Water's corporatisation? Given that State Water are now going to be run on a more business like manner we would have expected costs and therefore prices to decrease not increase. State water is proposing an increase of 10% per annum per year for 10 years being a 140% increase in water prices over the period. What other industry could propose this? In reality - none. Only a monopoly supplier could suggest this.

Water is the most significant input into the productive sector, without it nothing can grow. Producers can not rely on price increases for the commodities they grow in the same order as State Water is expecting to get for its product. What producers can do is make sensible planning decisions, use technology and good management to cut their costs and become more efficient. This is just not apparent in the State Water submission. Nowhere do we read about their wish to reduce costs, to use better and more efficient technology to drive down costs and deliver water more efficiently and at less cost to producers. This then questions why you would then corporatise them in the first place if there is no business discipline in the way they are going to undertake pricing?

On Page 15 of their submission State Water states:

Reductions in water for consumptive use will reduce State Water's income from water user customers, while State Water's costs will not decrease If the volume of water delivered decreases by 3%, water charges per unit of entitlement and per unit of water delivered must either be recovered from the beneficiary of the 3% or, fixed and usage charges must rise by an appropriate proportion.

And on page 16 we read:

...that a reduction in the water entitlement base of 2% resulting from transfer of water to the non-chargeable environmental licences should cause an automatic or progressive adjustment of per-unit prices within the relevant valley, to maintain the revenue base.

Here we see how blatantly State Water has no regard for its role as a monopoly provider. State Water is not adverse to increasing prices merely to keep its income at present levels. There is no thought to "cutting your cloth to fit your table".

RECOMMENDATIONS

- **That State Water Pricing be undertaken in line with the principles stated in 2.3**
- **When revenue to State Water decreases State Water first look to shed costs. Price increases are to be viewed as a last resort.**

3.2 DELIVERY OF ENVIRONMENTAL WATER

State Water undertakes the delivery of environmental water for governments. In their submission State Water are signalling that they may not be paid for the delivery of this water. More water for the environment will mean less water for producers and therefore less revenue for State Water. The government should pay for the delivery of environmental water. This should also include costs of storage and delivery. Further these costs should be in proportion to the amount of irrigation water delivered. So for instance if the total resource consisted of 65% environmental water and 35% irrigation water then the government should pay 65% of the costs involved in the delivery of that water.

This would meet the COAG principle which states:

The full cost of providing water services to specific beneficiaries or impactors should be recovered through charges to those parties.

There needs to be transparency in the amount and timeliness of delivery of environmental water. Both Irrigators and environmental groups agree on this. Both want to see the maximum efficiency and benefits in the delivery and use of environmental water. The cost of this is not something which should be paid for or subsidised by irrigators alone. The government has an obligation to deliver this water and should therefore pay its share of the costs of delivery.

RECOMMENDATION

That the government pay the costs of delivery of environmental water and that those costs be calculated on a proportion of the total water resource delivered.

3.3 THE BUILDING BLOCK APPROACH

State Water's submission gives us a lot of detail about using either the Annuity Approach or the Building Block Approach (Regulated Asset Base - RAB) as a basis for asset replacement and refurbishment. State Water are concerned that with the write down of their assets pre 1997 to zero this does not give them a significant enough asset base on which to generate revenue for the ongoing maintenance and upkeep of their assets. Further they are concerned that the \$75 million asset value they now have will not meet the requirement to provide an appropriate return on public sector assets.

We believe that the \$75 million should be the level at which a return for the shareholders is calculated. IPART in their wisdom found:

That government investment prior to 1997 was sunk costs – “this was consistent with the view that much of the infrastructure was constructed for non-commercial objectives and a commercial return on this historical expenditure was therefore not justified”.

If a commercial return was not justified then, we would contend that a commercial return is not justified now.

Frontier Economics undertook a review of Pricing Policies for Goulburn Murray Water². They stated at paragraphs 48 and 49:

Although we conclude that the RAB approach is preferable since it establishes a better incentive environment for promoting the long-term interests of customers, the move to a RAB approach would have significant implications for customers and for G-MW. The main issue is whether customers would prefer on balance to pay a relative constant amount each year, recognising the deficiencies of the approach in terms of uncertainty, business performance and accountability, or move to a RAB approach on the understanding that it is likely that the capital charge profile will rise over time, but only after the expenditure has taken place.

The ‘rate protest’ by irrigators in 1991 clearly illustrates customer sensitivity to rising prices. A question is whether the price increases that would occur under a RAB approach, and under the watchful eye of the economic regulator, would attract similar ire. We expect that customers will be more inclined to accept price increases if a clear link is established between prices and the need to meet service requirements, particularly in the knowledge that the regulator had scrutinised the

² Available on the Goulburn Murray Water Website.

associated costs before allowing the expenditure to be included in the RAB.

The problem that we have had for some time is the lack of a clear link and the need to meet service requirements. We would be happy to pay for service requirements but the reality is this does not happen.

State Water is asking that an initial RAB value be assigned which is commensurate with the revenue and the costs required. They are suggesting a figure of some \$300 million which is significantly below the replacement value of approximately \$2.3 billion. Of the \$300 million, State Water proposes to allocate \$105 million to bulk water customers for pricing purposes with the balance of \$195 million being allocated to Government. This would provide them with the necessary revenues to undertake asset management.

It has been a well known fact that the State Government has not given State Water the necessary funds to maintain its assets. This has been happening over a long period of time. State Water indicates that it has not received required funding to complete its maintenance program for the three years of the most recent pricing determination. The government should give State Water a cheque for the amount it was supposed to. State Water should not be required to explain or make submissions for this funding. When the Irrigation areas were privatised (or put into local ownership) there was recognition that government investment in their infrastructure had been lacking and all received government funding to bring the condition of their assets up to standard. We believe that this should happen with State Water. The government should fund the upgrade of all pre 1997 assets to meet necessary asset maintenance standards. If this occurred then a RAB of \$75 million is not out of the question. This will be enough to generate the necessary revenue to maintain the assets.

RECOMMENDATION

That the State Government provide funding to State Water to upgrade all pre 1997 assets to meet necessary asset maintenance standards.

State Water also provides some information on dam safety. We agree it is imperative that dams meet the necessary safety requirements and are maintained in accordance with that. We note however that the NSW Dam Safety Committee (DSC) has produced draft guidelines which incorporate a risk management approach to dam safety. We are unsure if this will affect the way in which dam upgrade and maintenance expenditure occurs. For instance if the risk profile changes will that mean less expenditure in some cases. We believe that a thorough review of dam expenditure in the Total Asset Management Plan (TAMP) should be undertaken if the draft guidelines are accepted. Also State Water gives us no indication if there is any flexibility in the timing of works. Is everything absolutely necessary yesterday or could they be done in 50 years time?

To our mind there are still some fundamental issues to be sorted with regard to its asset management philosophy. There are a number of questions which need to be asked.

- Are all the assets which State Water has on its books needed for delivery of water?
- Should some assets be decommissioned and not maintained?
- Should State Water focus on being an efficient water delivery operator and sub-contract asset management?

There is missing in the pricing submission, any thought of reviewing the level of assets State Water currently own and manage. We get the sense that everything is vital and in fact we will be building and refurbishing even more. Any additions to State Waters assets need to be examined in terms of State Water's ability to raise capital to fund its construction and also its ability to fund the depreciation of that asset into the future. Most businesses realise that the only good asset is one which produces income for the business. We believe that a thorough review of State Water's asset base be undertaken with a view to ensuring it has an asset base which is needed to provide the services it delivers.

RECOMMENDATION

That State Water's asset base and resulting TAMP be reviewed to ensure that State Water has the necessary asset base to deliver its services.

One of the other major issues is that State Water has not managed to spend its capital budgets for the last 3 years. On the one hand they have complained that they did not receive all their funding yet on the other hand is unable to undertake the works they were funded for (albeit at a lower level). This raises bigger concerns about the ability of State Water to indeed undertake the ambitious programme it outlines in its submission. This then begs the question of whether the price path outlined is necessary given its inability to undertake its capital programmes. It may be more prudent for State Water to forecast capital expenditure in line with its past five years' experience. This would be a more realistic basis on which to forecast and therefore set prices. If and when State Water builds its capacity and is able to undertake it programme then this would then be able to be factored in.

We know at a local level that State Water has struggled to undertake works when it promised, has struggled to get competent staff, and the competent staff it has got are greatly over worked. I have no doubt this is exacerbated by the locations of State Water offices and this makes it all the more critical that State Water look at other alternatives for provision of art engineering and asset management services.

RECOMMENDATION

That State Water pursues alternatives for the provision of engineering and asset management services.

3.4 ENVIRONMENTAL COMPLIANCE COSTS

We strongly object to the notion that if works are undertaken voluntarily, for desirable environmental outcomes, but not triggered by a compliance requirement that State Water would treat this as any other asset, whereby the operating and maintenance costs as well as remaining lifecycle costs would

be borne by the water users. We should only be paying for those works essential to deliver services to irrigators. If a third party (including the government) wishes to undertake work then they should pay for this as well as the operating and maintenance costs and remaining lifecycle costs.

RECOMMENDATION

That irrigators do not pay for works that are not triggered by a compliance requirement. These costs including operating, maintenance as well as remaining lifecycle costs be borne by the party requesting the work.

Again this also calls into question the rigour in which State Water manages its balance sheet i.e. its assets. If the asset is superfluous to State Water's business then it should not have it and further the government should not be seeking a return on that asset.

3.5 COST OF HYDROMETRIC / HYDROGRAPHIC SERVICES

State Water is suggesting that of the 818 gauging stations that only 399 are required for their operations. State Water should only pay for the stations it needs to run its business. If the stations are integral and vital to the business of State Water then these services should be transferred to State Water. However we would only support this if the information was readily available to irrigators. We do not want to find ourselves in the position of paying once for the information to be collected and then paying again to get information when we need it.

Given that in the DIPNR Submission they want irrigators to pay 100% for information collection/management we need to be assured that this is not a 'double dip' on behalf of the government.

RECOMMENDATION

- **That State Water only pays for the number of hydrometric and hydrographical services it needs to undertake its business.**
- **That IPART ensure that the cost of Hydrometric / hydrographical services is not being charged for twice through State Water and through DIPNR.**

3.6 HIGH SECURITY AND GENERAL SECURITY CHARGES

We agree with State Water that there should be no cross subsidies between high and general security charges. Where water is held for a period of two years this is necessarily more expensive to manage and this should be reflected in the price only if this has not been factored into the WSP conversion rate.

RECOMMENDATION

That the price for high security water be set at the general security price multiplied by the high security access premium in the water sharing plan multiplied by the number of years State Water is required to store water for HS users. (For the Murrumbidgee Valley this is 1.1)

3.7 ENTITLEMENT AND USAGE CHARGES IN REGULATED RIVERS

State Water argues that most of its costs are fixed in nature and that there should be a standardized ratio applied across the state of 60:40 entitlement to usage (variable) costs in order to reduce financial volatility through droughts and low water use periods. This again is a monopoly provider at work. In all businesses, when there is a low period, decisions have to be made about cutting costs. If State Government is to become more business like then we expect that at times it will have to take some hard decisions about reducing costs be they fixed or variable. State Water makes an underlying assumption that it is already as efficient as it can possibly be. If this was so the government would have no need to corporatize it. While we sympathise with State Water wanting to retain good staff, our members are faced with this dilemma on an almost daily basis. For the last three years we have seen the worst drought in living history with many producers having to reduce costs. We expect the same discipline to apply to State Water. State Water must address financial volatility in times of low water availability and this does not simply mean increasing the ratio of its costs between fixed and variable components. A fairer way of deciding what the ratio should be may be to weight it according to the average availability of water. That is the lower the average availability, the higher the use charge should be in relation to the entitlement charge.

RECOMMENDATION

That the ratios between fixed and variable charges be based on the weighting according to the average availability of water.

3.8 WHOLESALE DISCOUNTS

We support the review of wholesale discounts to irrigation companies. Where irrigation companies provide services to State Water then this should be done on a fee for service basis. If discounts are kept we would also be in favour of large corporate users having access to a discount.

However given that State Water argues that private irrigators (river pumpers) have been subsidising the companies to the tune of \$2 million per annum we look forward to receiving our rebate cheques.

On a more serious note, given that the Murrumbidgee is already at or close to full cost recovery and we are presuming that the price of water will decrease to private irrigators if discounts are discontinued.

RECOMMENDATION

That the price of bulk water to private irrigators be decreased in line with the dropping of bulk water discounts to irrigation companies.

3.9 PRICE PATH TO FULL COST RECOVERY

State Water outlines its price path to full cost recovery. We again argue that this is in isolation to any attempt to run State Water on a more business like footing and therefore be looking at ways to reduce the cost of business. This section should be entitled “**How State Water can keep the same revenue level and provide you with better services**”. For valleys that are already at or near full cost recovery, our prices should not be going up. In fact they should be decreasing. State Water needs to be rigorously looking at its business to see where it might decrease costs, become more efficient and not just look at how it is going to put up its prices. As previously stated no private sector business could get away with increasing its prices 10% per annum for 10 years. Customers would simply deal with someone else. The point in fact is that State Water is a monopoly masquerading as a corporation.

RECOMMENDATION

That State Water review its business with a view to reducing costs and becoming more efficient.

3.10 IMPLICATIONS OF CORPORATISATION

Again we make the point that Corporatisation is meant to make State Water more efficient not less efficient. State Water is required to operate under an onerous operating licence and this requires several different cross checks on State Water. A private sector public company has to satisfy an external audit and also reports to shareholders annually. State Water on the other hand is required to report to a myriad of different Government scrutineers including Treasury, IPART, DIPNR, DEC as well as its customers. This then loads costs on to State Water which in turn is passed on to customers.

A further implication of corporatisation has been the on-going under funding of State Water over a long period of time. Irrigators are now being asked to pay twice having already paid water charges for which work was not carried out. IPART need to undertake a review of this under-funding and the government should fund the shortfall needed to ensure its assets meet compliance standards.

3.11 APPLICATION OF COST REFLECTIVITY

The Tribunal issues paper raised the question of state-wide versus valley prices, which could result in a move away from reflecting all costs at valley level. We believe that costs should be assigned on a valley by valley basis and there should be no cross subsidisation of costs between valleys. As previously stated we do not agree that State Water is a 100% fixed cost business. This is simply ludicrous. We question State Water’s logic in seeking to achieve undefined water conservation outcomes as part of its justification for setting the ratio between fixed and variable costs. We are assuming that State Water is referring to demand pricing or pricing to achieve water conservation. This introduces an externality into water pricing that is neither transparent nor able to be justified regarding a defined ratio between fixed and variable costs. We have suggested that the proportion of fixed and variable charges should reflect the valley’s average water availability so that

the lower the security of supply, the lower the entitlement charges in proportion to the variable user charge.

3.12 STOCK AND DOMESTIC WATER ACCESS

State Water comments that it receives no specific payment for stock and domestic water. We believe that in line with the National Water Initiative, full cost recovery for all rural surface and groundwater based systems needs to occur. They also recognized that there will be some small community services that will never be economically viable but need to be maintained to meet social and public health obligations. If stock and domestic supplies are not viable then this should be transparent and the government should pay for those services. Irrigators should not be subsidising stock and domestic water access. Stock and Domestic users should be classified as a customer of State Water.

3.13 FISH PASSAGE

We are in favour of the development of a strategic framework to look at cost effective methods to improve fish passage. However, our dealings to date with Fisheries has led us to believe that they are more interested in forcing State Water and irrigators to build expensive fish passage contraptions which may or may not work instead of looking at cheap and effective alternatives. We have on a number of occasions met with NSW Fisheries staff who have agreed with some of our suggestions only then to have head office disagree. A strategic approach is needed but one which looks at all possibilities for delivering efficient and effective fish passage. We do not want to put in and pay for expensive fish passages which do not actually enable fish passage (as we have seen in some rivers).

3.14 YANCO CREEK AND TRIBUTARIES ADVISORY COUNCIL SUBMISSION

The Yanco Creek and Advisory Council are a constituent group of the Murrumbidgee Private Irrigators. We support their submission on the increases suggested for the Murrumbidgee Valley to fund works required as part of their natural resource management plan.

4 DIPNR SUBMISSION

As previously stated we are dismayed at the way in which DIPNR has handled the whole IPART process. Its submission was 105 days late and its submission is only interim with a medium term price path to be presented in September. We will then be in the position of having to respond again. This makes a mockery of the process and is a case of the tail wagging the dog. This calls into question the independence of IPART.

We are also dismayed at the lack of detailed information the submission contains and also the lack of intellectual rigour which is evident. While we are aware that the natural resource management area has had a substantial reorganization in the last 18 months, the IPART timetable has been known to government and the Department should have factored this into its activities. DIPNR's approach allows no certainty for producers and shows our industry how little DIPNR is 'in tune' with the commercial realities our members are faced with on a day to day basis. We do not support DIPNR's argument that:

“Given the ‘bedding down’ of recent changes in water management in NSW, DIPNR believes it is appropriate for IPART to determine an interim WRM pricing regime apply from 1 July 2005.”

DIPNR have been heavily involved in all aspects of the government’s reform programme – the IPART process has just not been a priority for them.

4.1 WRM SERVICES UNDERTAKEN BY DIPNR

In the IPART Issues Paper, WRM is described as

Activities (that) arise out of the need to manage a resource that is being consumed by a wide range of user groups ... (with) the overriding aim of ... ensuring the long term sustainability of the resource which will allow continued water extraction while maintaining the health of the natural ecosystem.

DIPNR then goes on to describe in some detail the products and services it provides to undertake WRM. These are:

- Water databases
- Water information products
- Water allocation strategies and policies
- Water licensing
- Groundwater management strategies
- Flood operations
- River quality / flow reforms
- Blue-Green algae and wetland strategies
- Bacterial, chemical and other regional plans
- Water industry strategies

DIPNR then states that:

“The majority of WRM activities undertaken by DIPNR arise directly from the provision and use of water services. In the absence of water extraction/use, and its management and regulation through licensing and compliance activities, DIPNR’s WRM costs would be minimal.”

We fundamentally disagree with this statement. This begs the question of “what is the role of Government? Is it not to regulate and manage resources on behalf of the wider community? If we are moving to impactor pays who are the impactors?”

We are fundamentally opposed to DIPNR including any regulatory activities in its pricing submission. This is because regulation is the sole domain of government, which it undertakes on behalf of the whole community – not just a single group of constituents. We also believe that policy development, plans and strategies to manage the State’s water resources are the genuine role of government and must be fully funded from the resources of the state. This is the case in most western countries.

Irrigators are being expected to meet 100% of these costs and yet DIPNR states that the resource is being consumed by a wide range of user groups. Why then is DIPNR hell bent on only pursuing one group to pay for these costs? The City of Canberra has been known to discharge untreated sewage into the Murrumbidgee – are they being charged? What about all the businesses who rely on the river to support their tourism businesses? What about other businesses such as the timber industry are they being asked to pay? The simple answer is that DIPNR has a mechanism to charge irrigators via water accounts. This is lazy and poor quality thinking and policy development.

We also note that DIPNR did not provide a detailed review of costing information, involving verification and reallocation of costs at sub-product level for the purpose of applying cost shares to establish water user costs for this submission. Where is the accountability? We understand that this will be available for the medium term pricing submission however this should have been provided for this submission. How are we supposed to be able to make informed comment if the information is not available?

We have little confidence in the legitimacy of DIPNR's current prices based on the lack of information provided in their submission. We also doubt whether they have the adequate capability to meet service provision requirements. We also note that DIPNR will make legislative amendments to increase the 2003/04 bulk water charges by 2% from July 1 2004 in order to maintain prices in real terms. Pricing is used very loosely in this context, what DIPNR are doing is allocating costs with no accountability. We believe that IPART should be concerned as we assume that DIPNR is proceeding without an IPART recommendation. DIPNR have failed to meet the requirements of IPART and COAG with this submission and we are being left with a take it or leave it attitude –

We'll just take the last determination's prices and simply add inflation.

RECOMMENDATION

- **That Regulatory and WRM charges be fully met by the state as this is the role of government.**
- **In the case that IPART rule that WRM charges should be paid by impactors IPART requires DIPNR to assess the full range of users and how they might charge them for WRM costs.**
- **That IPART not grant DIPNR any increases in WRM charges.**

4.2 ACCOUNTABILITY FOR PRODUCTS AND SERVICES

We note that DIPNR provides a number of products and services towards meeting its WRM responsibilities. The question we would ask is “why then is it so difficult to get meaningful information”

We have a number of members who are groundwater pumpers and they are likely to be affected by groundwater reform. The NSW government has

proposed a reform package on the basis of history of use. To enable DIPNR's methodology to be applied to each individual, a detailed analysis of each groundwater pumpers' history of use is required. Irrigators have been charged for the collection and management of this information yet DIPNR was not able to provide this analysis saying that the details are either not available or incomplete. DIPNR is then expecting irrigators to make a decision on whether or not they should take what the government is offering, yet both pumpers and the government do not know or can not demonstrate what the effect is. Is this the way we want to be running the State? This is truly frightening if DIPNR purports to be collecting information to enable it to provide robust policy advice to its minister, to be well informed and to be able to show how the policy will affect people and when the information is really needed, is unable to supply it. The corollary to this is that we have a number of members who could give the daily and monthly levels of their bores and the amount of water they have pumped for the last 20 years. Perhaps we could enter into a contract with DIPNR to provide that information for them?

We believe that it is essential that information is able to be provided on a valley by valley basis. Again DIPNR provides no information in this regard even though IPART in the 2001 determination noted that more work had to be completed in this area. Valley accounting enables groups like ourselves to be able to monitor WRM activities occurring and may enable us to better target our resources with regard to the WRM activities we undertake.

We are also unhappy that DIPNR are asking for a lump sum of \$45 million and there is no allocation of this cost against those individual products and services. We are then unable to ask for accountability in the spending of the money or be able to make comments on the priorities of the level of resourcing for those activities. Government departments are notorious for wanting big buckets of money for which there is minimal accountability. What we seek is accountability that the application of funds DIPNR has received for the collection and management of data and information is being used for that purpose and that the information industry and the government requires to deliver robust policy development and analysis is able to be provided. We would expect IPART to regulate this on our behalf.

RECOMMENDATION

- **That IPART undertake and audit of DIPNR'S databases and information management to ensure that they are capable of providing information required to manage the State's natural resources.**
- **As part of the audit, IPART to determine whether or not irrigators are receiving value for money.**
- **That as a matter of urgency, DIPNR be required to place a budget for each product and service it undertakes for WRM and that it does the same on a valley by valley basis.**

4.3 WRM COSTS

DIPNR refers to its 2003/04 costs as indicative rather than actual in this section and provides some justification as to why it has not undertaken a detailed review of costing information. The end of the financial year was on 30 June 2003 and it is now March 2004. We can not imagine that Treasury

would be happy with this state of affairs and quite frankly neither are we. We expect government departments who receive money directly from user groups to be accountable (and probably more so) for the use of that money. The State can not run its business nor produce its next budget if one of its largest departments can not produce final accounts nine months after year end.

DIPNR is seeking cost recovery for WRM costs, while at the same time the CMA's are being given increasing responsibilities within the area of water resource management. We have been given no idea as an industry what the costs are for each of the different arms of the State's natural resource management. This does not enable us to make any judgments on the services we are being provided or whether or not service outcomes are being met. We are unable to see if costs are being double dipped. Again we would like to see some accountability in this area.

RECOMMENDATION

That IPART require DIPNR to provide actual 2003/04 costs.

5 SUMMARY

As an industry group we are gravely concerned about this IPART process. What has been demonstrated is two government entities who wish to raise revenue off a group in the community and then do not want to be accountable for the way the money is spent or the outcomes which will be delivered. There is nowhere in either submission any discussion of how they might become more efficient and effective, how they might use technology to better deliver services, how they might become more accountable, how they might enable a greater input from users. What the submissions show is a lack of intellectual rigour and a further grab of money with no thought to accountability for the way that money is used to deliver goods and services.

As irrigators, IPART is the only mechanism whereby we are able to ensure that our voice is heard. IPART have a significant role to play in the businesses that our members own and operate and we expect that they will take this role seriously. We are hopeful that IPART will demand as part of this process a greater accountability by State Water and DIPNR and that it is no longer an option to allow monopoly suppliers to charge what they want for the services they provide.