



NSW IRRIGATORS' COUNCIL

Level 6, 139 Macquarie Street

SYDNEY NSW 2000

ACN: 002 650 204

ABN: 49 087 281 746

Tel: 02 9251 8466

Fax: 02 9251 8477

info@nswirrigators.org.au

www.nswirrigators.org.au

NSW IRRIGATORS' COUNCIL

SUBMISSION TO THE

IPART REVIEW OF BULK WATER PRICES

FROM 2005/06

April 2005

INDEX

EXECUTIVE SUMMARY.....	1
NEW SOUTH WALES IRRIGATORS’ COUNCIL.....	3
OBJECTIVE OF THE IPART REVIEW	3
CONDUCT OF THE REVIEW	3
TIMETABLE FOR THE REVIEW PROCESS.....	5
Timing	5
Public Workshops	7
Draft Final Report	7
Price Determination Period	7
Supplementary Submissions	7
2005 IPART PRICE REVIEW - OVERVIEW.....	8
SIGNIFICANT ISSUES IMPACTING ON THIS DETERMINATION	9
Corporatisation of State Water.....	9
Catchment Management Authorities.....	9
Natural Resources Council.....	10
Natural Resources Advisory Council.....	10
Water Innovation Council	11
National Water Initiative.....	11
NWI Benefit/Impact on State Water	11
National Water Commission.....	12
The Living Murray Initiative.....	12
NSWIC VISION FOR STATE WATER.....	14
DIPNR’s SUBMISSION.....	15
DIPNR’s accountability	20
DIPNR’s Medium- Term Review Proposal	21
DIPNR’s Response to Previous Specific IPART Directives from its 2001 Determination.....	23
STATE WATER’S OPERATING LICENCE.....	24
Consultant’s Report into State Water Corporation’s Operating and Capital Expenditure	24
STATE WATER’S RESPONSE TO THE IPART ISSUES PAPER	25
Consultation	25
Costs of Corporatisation.....	25
Board of Directors Costs.....	25
Employment Base	26
Capital Funding Options	27
Implications for customers.....	28
Risk Management.....	29
Capital Expenditure Reconciliation	29
Analysis of Costs.....	30
DIPNR Costs.....	31
Dam Safety.....	32
Environmental Issues	32

Charges for Environmental Water.....	33
Stock and Domestic.....	37
Navigation, Recreation and Tourism Activities.....	38
MDBC Costs.....	41
Price Path to Full Cost Recovery.....	42
Occupational Health and Safety (OH&S).....	43
High and Low Security Charges.....	43
Water Ordering Errors.....	44
Fish Passage.....	44
Thermal Pollution.....	44
Wholesale Discounts.....	45
Licence Fees.....	50
Scarcity Pricing.....	50
TECHNOLOGY AND INNOVATION.....	50
YANCO COLUMBO AND LAKE BREWSTER SYSTEMS.....	51
ATTACHMENT 1 – NSW IRRIGATORS’ COUNCIL MEMBERSHIP.....	52
ATTACHMENT 2 - Letter to PREMIER CARR.....	53
ATTACHMENT 3 - Letter to IPART CHAIRMAN.....	56
ATTACHMENT 4 - WATER INNOVATION COUNCIL.....	58
ATTACHMENT 5 – NATIONAL WATER COMMISSION FUNCTIONS.....	59
ATTACHMENT 6 - Extract from State Water Corporation Act 2004.....	61
ATTACHMENT 7 - MINISTERIAL Media Release.....	62
ATTACHMENT 8 - Competitive Neutrality Principles.....	63

EXECUTIVE SUMMARY

The corporatisation of State Water marks a significant milestone in the history of the storage, management and delivery of NSW bulk water supplies. For the first time in NSW, the management of bulk water operations will be separated from water resource management, policy development and regulatory affairs.

This IPART Review of Bulk Water Prices is one of the most critical IPART has undertaken, because of the need to get the separation of the operational and regulatory functions right, first time.

Industry's confidence to invest, employ and produce will be impacted by the strength and clarity of this IPART Determination.

NSW Irrigators' Council (NSWIC) is critical of the disjointed conduct of this IPART Bulk Water Price Review and seeks the immediate rescheduling of the commencement of the next IPART Determination to 1 July, 2006.

The rationale for this request is the dearth of critical data provided by both State Water and DIPNR that in NSWIC's view is critical to inform the conduct of this Review.

NSWIC expresses disappointment at the State Water submission to IPART. There is too little detail to support State Water's arguments and in many critical areas, State Water has completely avoided discussion on contentious issues. The limited and somewhat 'traditional' scope of its revenue base stands out in this regard.

It is impossible for NSWIC to fully assess the merits of many issues as there is simply too little reliable information presented upon which due diligence can be undertaken. This is a major flaw in both the State Water and DIPNR submissions.

Similarly, DIPNR's submission to this 2005 Bulk Water Pricing review is incomplete, lacking in detail and accountability and fails to respond to the issues outlined in the IPART Issues Paper, or address issues critical to the conduct of this Review.

The submission further delays presentation on issues IPART specifically sought DIPNR's response to in its 2001 determination and issues that industry also seeks clarification of.

DIPNR's incompetence is further demonstrated by the fact that it has proposed to deliver, in September 2005, a more detailed "*medium term pricing proposal*" that will examine water resource management charges to apply from 1 July 2006.

It is now conceivable that as a direct consequence of the late receipt of DIPNR's submission, when considered in the context of DIPNR's suggestion that it will be presenting a "*medium term pricing proposal*", that IPART will have to establish:

- An interim price path to apply from 1 July, 2005 until the application of its 2005 Determination;
- A price path to apply from the conclusion of this current Bulk Water review until the 30 June, 2006; and

- A further price path to apply from 1 July, 2006 to account for whatever argument that DIPNR presents in it “*medium term pricing proposal.*”

The conduct of this review is too important to NSWIC members to be undertaken in such an ad hoc manner.

A rescheduling of the conclusion of this inquiry will enable appropriate and consolidated due diligence to be undertaken on all options presented by both State Water and DIPNR.

Importantly, issues associated with future methods of capital funding and full application of cost recovery from all classes of entitlement will benefit from detailed modelling and scrutiny in an appropriate timeframe.

NSWIC and its members fully support IPART’s authority and expertise in undertaking this independent review of bulk water prices. NSWIC does not wish to see political expediency replace rigorous scrutiny and due diligence of all options and therefore commends to IPART its major recommendation outlined below.

RECOMMENDATION 1

- i. The terms of the IPART Review of Bulk Water Prices to apply from 2005/06, be revised to enable the next Determination to commence from 1 July 2006; and**
- ii That all existing State Water bulk water delivery charges and DIPNR water resource management charges for regulated, unregulated and groundwater be rolled over for a further 12 months and be subject to an adjustment to reflect Consumer Price Index movements recorded during the Financial Year 2004/05.**

NEW SOUTH WALES IRRIGATORS' COUNCIL

NSW Irrigators' Council (NSWIC) represents more than 10,000 irrigation farmers across NSW. These irrigators are on regulated, unregulated and groundwater systems. Its members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

[Attachment 1](#) records the membership details of the NSW Irrigators' Council.

In responding to the issues raised in the IPART Discussion Paper and the responses from the Department of Infrastructure, Planning and Natural Resources (DIPNR) and State Water Corporation, NSWIC is representing the views of its members. However, each member reserves the right to make independent submissions on issues that directly relate to their areas of operation or expertise or on any other issues they may deem relevant.

OBJECTIVE OF THE IPART REVIEW

Council supports the focus of the IPART Bulk Water Review to review prices for services relating to the provision of bulk water for extraction by farmers, industrial users and town water suppliers from sources managed by State Water and the Water Administration Corporation, with the objective to:

“...determine the maximum charges for these services to apply from 1 July, 2005.”

CONDUCT OF THE REVIEW

NSWIC supports the role of IPART in determining the most appropriate level of bulk water charges to be applied for the period commencing 1 July 2005.

This support is predicated on all relevant Government agencies and authorities providing detailed and timely submissions outlining every aspect of the basis for any bulk water or water resource management charges to be applied to State Water's bulk water deliveries. With respect to this current review, this has not occurred.

Since the last IPART Determination, DIPNR has been formed from the then Department of Land and Water Conservation, Catchment Management Authorities have been established to deliver a local emphasis on natural resource management, the Natural Resources Commission, the Natural Resources Advisory Council (NRAC) and the Water Innovation Council have all been established and State Water has been corporatised as a wholly State Owned Corporation. In addition, at the Federal level, COAG concluded its deliberations on water reform with the signing of the Inter Governmental Agreement on a National Water Initiative.

In isolation, each of these initiatives is significant for the future management of the State's water resources. Collectively they represent a major shift in water resource management.

The onus is now on IPART to ensure that the implications of these structural changes are fully explored across all aspects of State Water's operations, as well as the State's management of water resources and the structure of the associated water resource management charges regime. It is critical that at this juncture in the development of the State's water resource management and State Water's operating environment, that an equitable pricing regime is put in place that correctly and equitably apportions costs for the operations of each of these organisations.

Of equal importance is the need to broaden the revenue base of State Water to ensure that all sources of revenue are firstly identified and then have a user pays charge or Community Service Obligation determined for each. The 2005 Bulk Water determination must recover appropriate costs from all water users and for all classes of water.

Both State Water and DIPNR's cost and revenue streams and State Water's overall business operations must be the subject of detailed scrutiny, to ensure that responsibilities are clearly delineated between each of the organisations involved in the delivery or regulation of bulk water in NSW. There is no room for duplication of operations or the associated cost centres.

Before IPART makes its final determination of bulk water prices, NSWIC expects fully detailed and publicly available submissions to this IPART review that explore the revenue and costs basis of all charges associated with State Water's business operations impacted by the activities of the following organisations or policy areas:

- NSW Treasury fiscal parameters, such as rates of return and asset valuations;
- DIPNR, addressing issues relevant to:
 - Catchment Management Authorities;
 - Natural Resources Commission (NRC);
 - Natural Resources Advisory Council (NRAC);
 - Water Innovation Council (WIC);
 - National Water Initiative and other COAG obligations; and
 - State-wide water resource management;
 - the delivery, management and accounting of all classes of environmental water;
- Murray-Darling Basin Commission;
- River Murray Water;
- Water for Rivers; and
- Dumaresq-Barwon Border River Commission.

Submissions on these areas of water resource management and bulk water storage and delivery will ensure that stakeholders can develop a view of the totality of the charges being applied by all agencies and ensure that there are no cross-subsidies, duplicated or redundant services being included in the final IPART Bulk Water Price Determination.

State Water's revenue sources and cost centres will also become very apparent from submissions from these organisations, as will the scope and basis for all other charges that impact on State Water's Bulk Water prices.

TIMETABLE FOR THE REVIEW PROCESS

Timing

NSWIC has always been concerned at the tight timetable for the conduct of this Bulk Water review. This concern has been heightened by DIPNR's inability to meet the initial deadline of 29 October 2004 for the presentation of its submission to this inquiry.

DIPNR's contempt for the conduct of this Review has been demonstrated by the fact that its submission was finally publicly released on 11 February, 2005, 105 days after of the closing date for receipt of public submissions.

The late receipt of DIPNR's submission, when considered in the context of DIPNR's suggestion that it will be presenting a "*medium term pricing proposal*", means that IPART will have to establish:

- An interim price path to apply from 1 July, 2005 until the application of its 2005 Determination;
- A price path to apply from the conclusion of this current Bulk Water review until the 30 June, 2006; and
- A further price path to apply from 1 July, 2006 to account for whatever argument that DIPNR presents in its "*medium term pricing proposal*."

There is only one reason why such an ad hoc and disjointed process is required and that is because of DIPNR's incompetence and inability to present a complete and comprehensive submission by the due date of 29 October, 2004.

Subsequent to the receipt of DIPNR's submission, NSWIC recommended to both Premier Carr and the Chairman of IPART that the current IPART Bulk Water Price Review be rescheduled to commence on 1 July 2006. See [Attachment 2](#).

Such an approach will allow DIPNR to complete and present its "*medium-term pricing proposal*" submission and enable IPART and industry to fully consider all options that will impact on bulk water and water resource management charges prior to the commencement of the 2006/07 water year.

This extra time will enable a thorough analysis of DIPNR's proposed Water Resource Management charging regime that will take account of the current and future operations and activities of DIPNR and CMAs, NRC, NRAC and WIC.

The alternative proposition, which entails the continuation of the current review, will see industry groups and other stakeholders engage in a continuing IPART process for the next 14-16 months and result in three separate pricing regimes inside one 12 month period. That is bureaucratic madness and an intolerable waste of stakeholders' time, money and resources.

NSWIC is confident that under similar circumstances it would not have been afforded any grace or favours had its submission been 105 days late. DIPNR and through it the NSW Government, similarly deserve to be apportioned with the full impact of all costs of the delays directly attributed to the lateness of the DIPNR submission.

In the event that NSWIC’s call for this current IPART Bulk Water Review to be postponed falls on deaf ears, then NSWIC expects IPART to retain its established schedule of activities and the timing for each as originally proposed when it commenced this Bulk Water Review.

A timetable amended to give comfort to DIPNR’s incompetence will be viewed as a case of IPART’s independence being compromised and a reflection of IPART’s inability to confront DIPNR’s snub to IPART’s independent authority. NSWIC’s views were expressed to the IPART Chairman, Dr Keating by letter on 5 March, 2005. See [Attachment 3](#).

Table 1 outlines the schedule of events that NSWIC now expects IPART to implement.

Table 1 NSWIC Preferred Schedule of Activities

Review of Bulk Water Prices from 2005/2006		
Original IPART Schedule	NSWIC Revised Schedule	
Aug – 05	Dec 05	Release final determination
Jun – 05	Oct -05	Receive submissions on draft determination and consultant's report
May - 05	Sep -05	Release draft determinations
Feb/Mar – 05*	Jun/Jul	Release consultant's report into operating and capital expenditure
17 Dec - 04	4 April - 05	Receive public submissions
13 Dec - 04		DIPNR's submission to the Review of Bulk Water Prices has been delayed Stakeholders will be granted an extension of time to make their submissions The revised submission date will be announced upon receipt of DIPNR's submission
Feb/Mar – 05		Hold public hearing and workshops
Oct – 04		Start review of State Water and DIPNR capital and operating expenditure
29 Oct - 04		Receive submissions from State Water Corporation and DIPNR
17 Sept - 04		Release Issues Paper

Reviewing this Schedule reveals that bulk water users will be expected to accept the inequitable scenario of a two-part pricing regime applying in during the 2005-06 water year. This is unacceptable to NSWIC and supports the NSWIC recommendation that this current IPART review be postponed until 1 July, 2006.

The alternative that prices be backdated to 1 July, 2005 is not supported by NSWIC.

RECOMMENDATION 1

- i. The terms of the IPART Review of Bulk Water Prices to apply from 2005/06, be revised to enable the next Determination to commence from 1 July 2006; and**
- ii That all existing State Water bulk water delivery charges and DIPNR water resource management charges for regulated, unregulated and groundwater be rolled over for a further 12 months and be subject to an adjustment to reflect Consumer Price Index movements recorded during the Financial Year 2004/05.**

Public Workshops

NSWIC supports the conduct of public hearings into the issues raised in the IPART Issues Paper and in both State Water and DIPNR's submissions and the expected responses from various stakeholders and interested parties.

For equity reasons and, to facilitate wider industry involvement, NSWIC recommends that public hearings be held in regional NSW and nominates Griffith, Moree, Dubbo and Deniliquin as the most appropriate centres for these hearings.

Draft Final Report

NSWIC supports IPART's proposal to circulate an exposure draft of its final determination for public comment.

Price Determination Period

NSWIC recommends that the determination of bulk water prices be for a five (5) year period commencing 1 July, 2006.

Supplementary Submissions

NSWIC must be allowed the opportunity to present supplementary submissions in response to:

- the final terms of the State Water Operating Licence;
- the independent review of State Water's Capital and Operating expenditure; and
- any subsequent amended submissions presented by State Water, DIPNR or any other Government Department or Authority.

2005 IPART PRICE REVIEW - OVERVIEW

The corporatisation of State Water marks a significant milestone in the history of the storage, management and delivery of NSW bulk water supplies. For the first time in NSW, the management of bulk water operations will be separated from water resource management, policy development and regulatory affairs.

It is, therefore, critical that this 2005 IPART Bulk Water Price Determination explores all issues associated with both bulk water storage and delivery and water resource management in NSW.

NSWIC believes that it is necessary to adopt an innovative and enterprising approach to the circumstances now facing both State Water and its bulk water customer base. There can be no question that the landscape has forever changed. New solutions, options and processes must be considered to stimulate State Water's management of all aspects of its business.

NSWIC has adopted a vision for State Water that expresses how industry views the opportunity that is now presented. [See NSWIC Vision for State Water.](#)

NSWIC expresses disappointment at the State Water submission to IPART. There is too little detail to support State Water's arguments and in many critical areas, State Water has completely avoided discussion on contentious issues. The limited and somewhat 'traditional' scope of its revenue base stands out in this regard.

It is impossible for NSWIC to fully assess the merits of many issues as there is simply too little reliable information presented upon which due diligence can be undertaken. This is a major flaw in both the State Water and DIPNR submissions.

While NSWIC supports the commercial focus outlined in the *State Water Corporation Act 2004*, the State Water submission merely pays lip service to the implementation of this principle.

The State Water submission contains no discussion on, or identification of cost reduction programs or targets, yet there is significant exploration of avenues for revenue increases.

In support of many of its arguments for price increases, State Water conveniently stands behind the cloak of COAG and invokes various COAG water reform principles and initiatives, yet at the same time ignores other key COAG principles when it suits its preferred position, or perhaps it is merely being compliant with its shareholders wishes.

DIPNR's inability to meet the IPART deadline for submissions of 29 October, 2004, is further demonstration of the Government's actions not supporting the 'commercial approach' principle that it legislated for State Water.

Released publicly on 11 February, 2005, the DIPNR submission was 105 days overdue. This delay is inexcusable and demonstrates DIPNR's incompetence and inability to manage the State's natural resource portfolio.

It has now placed intolerable pressure on IPART to contract the period of time available for due process and detailed examination of the issues raised in the State Water and DIPNR submissions and stakeholders' responses to these submissions.

Such an approach is seen by NSWIC as an affront to the NSW irrigation industry that is striving to conduct profitable business operations, make investment and employment decisions and contribute to social, regional and economic development throughout the State.

NSWIC argues that to maintain the integrity of the process, IPART must retain the original timing allocations for each stage of the review process, to avoid the inequitable outcome of applying a new bulk water price determination mid way through a water year.

DIPNR has also indicated that it intends to make a more detailed submission to IPART in September, 2005, where it will be presenting further and supposedly more detailed argument in support of water resource management charges to apply for a three year period from 1 July 2006.

The delay caused by DIPNR will now result in an iniquitous outcome for NSW bulk water users. There will now be two distinct bulk water price regimes applied during the one water season. The NSW Government as the sole owner of State Water Corporation must bear 100 per cent of the financial consequences occasioned by the actions of DIPNR. Bulk water users must not be expected to suffer from any hastily concluded determination, made as a consequence of the inability of the State to manage its business affairs.

SIGNIFICANT ISSUES IMPACTING ON THIS DETERMINATION

During the life of the 2001 Bulk Water Determination, there were a number of major changes to the regulatory and policy environment that impact on how the State's water resources are managed and how these resources will be managed in the future:

Corporatisation of State Water

On 1 July, 2004, State Water became a State Owned Corporation, which effectively completed the separation of the State's bulk water delivery business from the regulatory arm of government.

NSWIC fully supported the corporatisation of State Water.

Catchment Management Authorities

The NSW Government has established 13 Catchment Management Authorities (CMA) to provide regional management of the State's natural resources.

It is expected that these CMAs will be:

- actively involved in the development, monitoring and review of Water Sharing Plans;
- developing catchment management plans; and
- responsible for community consultation activities relating to the Government's water resource policies.

NSWIC expects DIPNR to clearly articulate the long-term cost of the CMAs activities and demonstrate where they fit relative to the operational activities of State Water and the regulatory functions that DIPNR performs.

NSWIC seeks from DIPNR 5 year revenue details for each CMA that will clearly show how each CMA's water resource management activities will be funded, the level of funding expected to be recouped from licensed water entitlement holders and the level of user-pay recovery from other beneficiaries of CMAs activities.

Natural Resources Council

The Natural Resources Commission (NRC) is an independent body that has been established by the NSW Government to:

- recommend State-wide standards and targets for natural resource management;
- recommend the approval of catchment action plans that are consistent with State-wide standards and targets; and
- audit the effectiveness of the implementation of catchment action plans in achieving State-wide standards and targets.

The NRC may also undertake significant natural resource and conservation assessments or inquiries, assist in the reconciliation of natural resource management issues and advise the Government on priorities for research.

NSWIC seeks from DIPNR 5 year revenue details for the NRC that will clearly show how the NRC's water resource management activities will be funded, the level of funding expected to be recouped from licensed water entitlement holders and the level of user-pay recovery from other beneficiaries of NRC's activities.

Natural Resources Advisory Council

The Natural Resources Advisory Council's (NRAC) role is to provide a high level forum for stakeholder participation in natural resource management and advice to Government. The Council comprises key stakeholders currently involved in natural resource management. NSWIC Chairman, Mr Col Thomson represents NSW Irrigators' Council on NRAC. NSWIC Chief Executive is an alternate delegate.

NSWIC seeks from DIPNR 5 year revenue details for the NRAC that will clearly show how the NRAC's water resource management activities will be funded, the level of funding expected to be recouped from licensed water entitlement holders and the level of user-pay recovery from other beneficiaries of NRAC's activities.

Water Innovation Council

Beyond a Ministerial Media Release dated 8 June, 2004, little information is available on the role, structure or objectives of the Water Innovation Council. [See Attachment 4](#)

NSWIC is aware of, but did not support the transfer of the initial \$5 million in funding to establish the Water Innovation Fund from a project established to undertake a 5 year socio-economic assessment of the impact of Water Sharing Plans.

The allocation of these funds had been agreed between industry and the NSW Government during the passage of the *Water Management Act 2000*. The unilateral decision of the DIPNR Director-General to cancel this project without consultation with industry is a sad example of the duplicity of the Government and its key bureaucrats.

NSWIC has sought detail from DIPNR on the structure, objectives and role of WIC, but has, to date, not received any relevant detail.

National Water Initiative

On 29 August 2003, COAG agreed to the development of a National Water Initiative (NWI) to address a wide range of national water reforms. The NWI also refreshed previous COAG agreements on water reform.

NSWIC was actively involved in negotiations on the substance of the National Water Initiative, which culminated with the formal agreement to the National Water Initiative by COAG on 25 June, 2004.

NSWIC fully supported COAG's commitment to the National Water Initiative.

During the recent Federal Election, the Prime Minister announced the establishment of the Australian Water Fund (AWF) and committed \$2 billion over 5 years to implement the principles agreed in the National Water Initiative.

NSWIC supports the establishment of the AWF and the \$2 billion allocated to the various policies and programs outlined in the AWF.

NWI Benefit/Impact on State Water

To date, funding of \$2 billion and \$500 million has been announced to support the National Water Initiative and the Living Murray. The National Water Commission (NWC) will be responsible for the allocation and management of funds allocated to the NWI.

It is expected that over the life of these 2 initiatives, that NSW will be the recipient of funds for water infrastructure, environmental works and possibly purchase of water from willing sellers. It is possible that some of these funds may be channelled through State Water to the benefit of its asset base and other operational activities.

NSWIC seeks clarification on how any funds received are accounted for in State Water's accounts and the impact they may have on capital works forecasts and expenditure and how the flow-on benefits are equitably shared across the entire industry.

IPART must ensure that funds received by State Water for infrastructure projects are credited in such a manner that is reflected by downward pressure on bulk water prices.

NSWIC does not support the application of a rate of return on assets built or the enhanced value of assets refurbished with funds provided by the NWC.

National Water Commission

One of the key features of the NWI was the establishment of the National Water Commission (NWC). A review of the functions and objectives of the NWC reveal that this organisation will be playing a leading role in the years ahead in the management and review of the nation's water resource policies and programs.

The NWC will be managing the distribution of funds allocated to the Australian Water Fund, some of which may, over time, flow to the benefit of State Water and its bulk water customers. It will also have a major role in the assessment of States' commitment to the implementation of the NWI.

As such, State Water's operations may be influenced by decisions taken by the NWC. An outline of the General and Specific Functions as included in the *National Water Commission Bill 2004*, are provided at [Attachment 5](#).

NSWIC supported the establishment and role of the NWC as identified in the Bill presented to the Federal Parliament.

With respect to the construction or refurbishment of State Water's asset base with funds granted by the Australian Government, NSWIC seeks from IPART:

- i details on the accounting standard to be applied to assets constructed or refurbished by funds granted to State Water by the Australian Government; and
- ii an assurance that NSW bulk water users will not be expected to pay a rate of return on assets constructed or refurbished by funds granted or applied to State Water that are provided by or sourced from the Australian Government.

The Living Murray Initiative

The Living Murray initiative was an integral part of the COAG debate on water resource management in the Murray-Darling Basin. COAG agreed to the Living Murray in concert with the agreement on the National Water Initiative.

State/Territory Governments' in the Murray-Darling Basin, together with the Australian Government, collectively contributed \$500 million to the Living Murray initiative. During

negotiation of the NWI, the Australian Government linked Commonwealth funding for the Living Murray to the successful conclusion of the NWI.

NSWIC supported this stance and vigorously resisted attempts by some States to break the nexus between these two major initiatives. NSWIC also supported the identification of the 6 significant ecological assets as the basis for implementing the Living Murray initiative.

NSWIC VISION FOR STATE WATER

During the corporatisation of State Water, NSWIC supported both the commercial focus and the operational objectives that the *State Water Corporatisation Act 2004* envisaged for the corporatised entity.

Looking to the future, NSWIC believes that the following statement encapsulates its vision for State Water.

NSWIC supports State Water being the pre-eminent bulk water delivery business in the State. It must be solely focused on efficiently and effectively managing the storage, delivery and accounting of all water under its control.

State Water must be prudent with its investment in infrastructure, efficient in its asset management, a competent manager of the risks associated with its core business and innovative in the adoption of technologies that will contribute both to the management of its asset base and a real reduction in the costs of all aspects of its business.

State Water must be as committed to the task of driving down the costs of its operations as it is about broadening the base of its sources of revenues to support them. It must adopt and be allowed to adopt, a truly commercial and competitive focus for all areas of its business operations.

It must be led by a fully independent board of directors, who in turn are supported by a senior management team with appropriate expertise to manage and grow the corporation's core business activities.

[Back to document](#)

DIPNR'S SUBMISSION

DIPNR's submission to this 2005 Bulk Water Pricing review is incomplete, lacking in detail and fails to respond to the issues outlined in the IPART Issues Paper, or address issues critical to the conduct of this Review.

The submission further delays presentation on issues IPART specifically sought DIPNR's response to in its 2001 determination and issues that industry also seeks clarification of.

DIPNR's response demonstrates that it has clearly lost the ability to lead the management of water resources in this State.

NSWIC condemns the contempt that the NSW Government, through the actions of DIPNR, has exhibited by not providing the Government's justification of water resource management charges to IPART by the due date.

DIPNR's incompetence is further demonstrated by the fact that it has proposed to deliver, in September 2005, a more detailed "*medium term pricing proposal*" that will examine water resource management charges to apply from 1 July 2006.

As a consequence of DIPNR's position, NSW bulk water users are now faced with the ludicrous proposition of having a 3-5 year price path established by IPART commencing sometime after the start of the 2005/06 water year that will contain only a 12 month price path for WRM charges which, it is suggested by DIPNR, will be refreshed for a further three years from 1 July 2006.

This approach contains no certainty for the NSW irrigation industry and fails to acknowledge the commercial imperative that drives irrigation businesses.

In effect, there will need to be a second IPART process established to consider the merit of DIPNR's "*medium-term pricing*" submission sometime after September 2005.

There could be no clearer demonstration of how out of touch DIPNR and the Minister for Infrastructure, Planning and Natural Resources are, if together they think that this sort of approach is conducive to maintaining industry confidence in investment, employment and production.

It now appears that industry will be expected to accept a change to the 2005 Determination almost before it has taken effect. There will certainly need to be an interim Determination to take effect from 1 July 2005 until the commencement of the 2005 IPART determination.

DIPNR's attitude to the conduct of this hearing simply makes a mockery of the NSW Government's attempts to establish State Water as a commercial entity and to clearly delineate the water delivery business from the regulatory functions of government.

In response to DIPNR's performance, NSWIC recommends that IPART suspend the finalisation of this review until DIPNR has presented a fully argued submission outlining the basis of its proposed long-term water resource management charges. ([See Recommendation 1](#)).

NSW irrigators must not be the scapegoats for DIPNR's tardiness. Nor must their business operations be impacted by poorly structured, ill conceived or premature bulk water and water resource management charges, imposed as a direct consequence of the NSW Government failing to provide sufficient quality resources to ensure that DIPNR's input to this IPART review was completed within the timeframe required and, fully in accordance with the directives of the independent regulator.

In responding to DIPNR's submission, NSWIC has focused on the three elements outlined in DIPNR's submission, namely, the WRM pricing framework, the request to roll-over existing charges for another 12 months and the proposal by DIPNR to submit a '*medium term pricing proposal*' later in 2005.

However, it must be noted that there is a dearth of the supporting information that would enable NSWIC to undertake a comprehensive and searching review of any of DIPNR's proposals.

NSWIC does 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 and interim WRM pricing regime to apply from 1 July 2005.*"

This is a lame excuse for inaction. DIPNR has been aware of and actively involved in managing the NSW Government's response to all aspects of the water reform debate at both the State and National level. There would be no surprises in any element of the reform processes that have been implemented, to date, that would have delayed DIPNR's detailed contribution to this IPART Review.

Yet when required to inform the most important aspect of the industry's charging regime DIPNR suggests that it is too busy or snowed under to submit a detailed submission demonstrating accountability and efficient, effective management of the State's water resources.

It is simply not excusable for a Department with the available resources that DIPNR has to suggest that too much has been happening for it to be able to provide a comprehensive response to the issues of importance to this Review.

The issues of importance to this Bulk Water Review are fundamental to just about every aspect of both the day-to-day management of the State's water resources and the State's participation in the national water reform debate.

Therefore, IPART must not accept this level of obfuscation from DIPNR with regard to the provision of detailed information and argument to enable this Review to be informed by the most relevant and up to date information available.

DIPNR and previous IPART Determinations refer to the definition of WRM charges that: *“arise out of the need to manage a resource that is being consumed by a wide range of users groups...”*

When reviewing the application of that principle by DIPNR to this part of its submission, it begs the following questions :

- exactly what is the role of government;
- what are legitimate State development and government activities that accrue benefits to the wider community;
- how does industry achieve accountability of DIPNR for the quality and accuracy of data collected; and
- how is equity achieved between water users, who in this instance have no market power, and other sectors in the community who similarly access a public resource yet make little, if any, contribution for the cost of the resource being consumer, ie public health and education, or indeed other commercial users of State?

NSWIC asserts that policy development and plans and strategies to manage the State’s water resources are a genuine role of government and must be fully funded from the resources of the State. This would ensure equitable treatment of natural resource management when compared to other areas of government policy.

WRM costs are yet another area where DIPNR has failed to provide a detailed review of its costing information. This really is breathtaking arrogance, to suggest that it can seek in excess of \$45 million per year from industry yet provide no justification, to an independent review, of the basis and relevance of its WRM charges.

While it is understood that IPART does not regulate DIPNR, nonetheless, NSWIC seeks IPART’s determination on the issues of accountability, ownership, accuracy and access to data that industry has contributed significant, if not all, funds to source, maintain and develop.

How does industry ensure that DIPNR upholds its end of its contract with individuals paying for its services? The following example will serve to illustrate that there is currently no accountability, no quality of service and no delivery of expected outcomes. In short, DIPNR has been able to charge for WRM services that it has not delivered to a standard of excellence expected by industry.

Example: NSW Groundwater Reform

The NSW Government has proposed a reform package for 6 of NSW’s major groundwater systems, based on history of use.

DIPNR claims that its WRM charges are used for the: *“development and maintenance of surface water and other water databases, including ongoing data collection on water quality, quantity and usage, and the integration of existing and emerging information systems and central databases (including the Groundwater Information System and HYDSYS for hydrometric information).”*

To enable DIPNR’s methodology to be applied to each of the individual licensed groundwater entitlements that will be impacted by this policy requires detailed analysis of individual’s history of use records. This is precisely the data that DIPNR is charging for and has suggested that it is capturing and recording. Yet when asked to demonstrate a level of analysis that would draw on these historical records, industry was informed that the details are either not available or incomplete.

DIPNR’s lack of accountability is further illustrated by reference to Appendix 1 of the DIPNR submission. This Bulk Water Products information is totally lacking in any form of accountability. There is simply no information provided that would enable any informed analysis of DIPNR’s service delivery performance or the relevance to industry of the services that it is being required to fully fund. Are these services actually being delivered?

The NSWIC position can be summarised as: Government’s seeks full cost recovery, industry seeks accountability.

For there to be meaningful accountability and to provide industry with the opportunity to exhaustively scrutinise the relevance of DIPNR’s WRM charges, each of the Product and sub-product codes outlined in Appenix 1 of the DIPNR submission should have the information outlined in Table 2 published and provided to DIPNR’s clients and customers on a quarterly basis.

Table 2 NSWIC Product and sub-product codes audit and outcomes model

Sub-product Code	Sub-product Designation	Description	Valley-by-Valley Analysis						
			\$s allocated	\$s spent	Staff numbers	Support resources	Outcomes required	Audited outcomes	

To further illustrate DIPNR’s contempt for the IPART process, its IPART submission of February 2005 contains costs for the 2003/04 Financial Year that contains “estimates” only. Surely, 7 months after the conclusion of the Financial Year, DIPNR should have the ability to report actual costs for that period.

With respect to the conduct of a detailed review of costing information involving verification and reallocation of costs at a sub-product level for the purpose of applying cost shares to establish water user costs, NSWIC does not accept DIPNR's argument that:

"...recent changes in water management render a comprehensive costing approach impractical."

This simply again demonstrates no commitment to accountability to users required to pay for services supposedly provided by DIPNR.

NSWIC requests that IPART seek DIPNR's verification and reallocation of costs at a sub-product level prior to IPART finalising this 2005 Determination for each year since the introduction of the 2001 Determination and projected forward for each year of this 2005 Determination.

In seeking to roll-over its existing charging regime DIPNR has not provided a reconciliation of its service delivery against those being undertaken by State Water. NSWIC seeks clarity in this regard to ensure that there is no 'double dipping' by either State Water or DIPNR.

NSWIC understands that responsibility for a number of services have been transferred from DIPNR to State Water. Costs of services being provided under a service level agreement must not be shown as a cost for both parties. There must be clear offsets to illustrate purchaser provider relationships where they exist.

On the basis that there is too little detail, no clarity and no accountability contained in the DIPNR submission, NSWIC recommends that :

RECOMMENDATION 2

IPART not support DIPNR's suggestion that:

" the WRM costs in the 2001 determination, adjusted for the affects of inflation, are appropriate for IPART to establish WRM charges on an interim basis from 1 July 2005."

NSWIC will accept this DIPNR proposition, only on the basis that all State Water bulk water charges are also roll-over for a further 12 months with an adjustment for inflation. [See Recommendation 1 \(ii\)](#).

DIPNR's accountability

While it is understood that IPART does not regulate DIPNR, with respect to the WRM prices it sets, it must provide industry with surety that industry is receiving quality outcomes for the funds it is compelled to contribute to support DIPNR's WRM activities.

Based on the level of detail omitted from the DIPNR submission and the inability of DIPNR to contribute quality data to the NSW Groundwater Reform program, NSWIC is concerned that funds are not being applied in a manner that demonstrates DIPNR's accountability in the discharge of its obligations against WRM funds collected from licensed entitlement holders.

RECOMMENDATION 3

- i That IPART require DIPNR to develop service level agreements with industry that compel it to deliver against each of the Water Resource Management products it receives user funding for;**
- ii That IPART undertake an audit of DIPNR's WRM products to ensure that funds collected from entitlement holders for the development and maintenance of its various databases are in fact delivering an accountable set of databases of all relevant water resource records;**
- iii That IPART develop:**
 - a compliance regime that establishes a reporting and audit process to confirm DIPNR's performance against its service level agreements; and**
 - a range of sanctions to be applied if DIPNR fails to meet the conditions agreed in its service level agreements.**
- iv That IPART require DIPNR to provide, on a quarterly basis, detailed product and sub-product performance reviews based on the NSWIC Product and sub-product codes audit and outcomes model. See Table 1.**
- v That to demonstrate accountability for past funds received, IPART require DIPNR to undertake verification and reallocation of costs at a sub-product level for each year since the introduction of the 2001 Determination, as a prerequisite to IPART making its draft Determination in this Review.**

DIPNR'S MEDIUM -TERM REVIEW PROPOSAL

DIPNR's submission reveals that it:

“intends to submit a medium term pricing proposal in the second half of 2005. This proposal will provide detailed information on DIPNR's WRM costs as a basis for IPART to determine WRM charges for the period commencing 1 July 2006.”

DIPNR submission further states that:

“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, has not been undertaken for this submission. In large part, this is because the recent changes in water management render a comprehensive costing approach impractical. The medium term submission will, however, provide detailed WRM cost information for this period and subsequent years, laying the foundation for a two-four year price path to be set by IPART commencing 1 July 2006.”

It is precisely because of the nature and extensive scope of the changes to water resource management in the State that NSWIC demands full and comprehensive costings be provided to this IPART Review to fully inform this IPART review process.

The depth and scope of structural changes that have been enacted since the 2001 IPART Determination demand the widest ranging review possible. To suggest that there can be a full review of State Water's submission relating to operational charges without a simultaneous review, to the same depth, for DIPNR's WRM charges is simply not a pathway that will deliver confidence and a realistic assessment of the impact of the changes that have occurred.

Such an approach is rejected outright by NSWIC.

Industry must have confidence that the appropriate level of due diligence has been undertaken by all agencies on the impact and scope of the range of water reforms introduced since the 2001 IPART Determination.

NSWIC demands that the following key issues that DIPNR seeks to defer for elaboration in its “*medium term pricing proposal*” submission be fully explored and accounted for in this IPART Determination prior to IPART concluding its Determination:

- changes in the alignment of WRM responsibilities and activities between DIPNR, CMAs, the NRC and other NSW Government agencies;
- expansion of the WRM cost base to include a more comprehensive coverage of DIPNR’s WRM activities and WRM infrastructure capex, in addition to meeting the broader requirements of the NWI;
- revised approach to cost sharing targeted to better reflect the impactor pays principle, the contemporary profile of WRM activities and to accommodate a simpler and more transparent cost sharing methodology;
- changes in the level of cost shares, particularly where it is clearly demonstrated that water users should bear a higher proportion of costs arising from the impacts of water extraction;
- review of the valley based approach to pricing of WRM services, noting that a large share of WRM costs are for State-wide activities that are not specific to individual valleys;
- review of WRM tariff structures, with particular focus on a more cost reflective breakdown of the fixed and variable components of WRM costs from which tariffs are set;
- identification of full costs for transactions on WMA consents on which transaction fees are based, subject to availability of adequate costing data; and
- Income Received from WRM Services - Hydrometric Service Agreement

There could be no more compelling reason to suspend this Bulk Water Pricing Review than to note the depth and importance of the data that DIPNR has not provided, yet proposes to make available sometime later in 2005.

DIPNR and industry alike have been involved in the intricacies of water reform for many years. It is, therefore, a very poor excuse to now suggest that it has no idea on how the reforms implemented will impact on bulk water pricing. It begs the question: from what data, analysis and assumptions has DIPNR implemented the NSW reforms and provided input into the NWI if it now requires further time to present detailed argument to this IPART Review on the expected impact?

It is clear that DIPNR intends and is satisfied, for this IPART Review to deliver a second rate outcome for the State’s bulk water users.

DIPNR'S RESPONSE TO PREVIOUS SPECIFIC IPART DIRECTIVES FROM ITS 2001 DETERMINATION

DIPNR has suggested in its submission that specific issues raised by IPART in the 2001 determination will now be addressed in its "*medium term pricing proposal*" submission.

This approach is a totally unacceptable and deplorable position and is not accepted by NSWIC.

DIPNR's response is even more damning when it is considered that DIPNR has had an additional 12 months to comply with the conditions of IPART's 2001 Determination.

Industry has no option but to stand by and watch DIPNR flaunt key conditions of IPART's 2001 Determination.

NSWIC seeks details of:

- the measures that IPART has undertaken since the release of its 2001 Determination to seek DIPNR's compliance with the details of its determination; and
- what compliance options IPART can use to compel DIPNR to respond to each of the following issues outstanding from its 2001 Determination.

NSWIC is concerned that IPART has not progressed and resolved issues that it identified in its 2001 Determination as requiring additional clarification. IPART also appears to have not ensured that State Government agencies have completed the tasks allocated to them in the 2001 Determination. This is even more damning when it is considered that an additional 12 months has been added to the life span of the 2001 Determination

NSWIC is disappointed that the NSW Government, has failed to ensure that each of these important issues has been progressed as requested by IPART.

This stands in stark contrast to the discipline that is imposed on entitlement holders to conform to legislative changes, the introduction of Water Sharing Plans and other embargoes and constraints with limited flexibility or consultation.

This indicates that the Government has a two tiered commitment to the management of the State's natural water resources. On one level, it is only too willing to impose conditions, restrictions and reductions in entitlements on individual entitlements, yet when it is required to provide a level of justification for its own actions, DIPNR fails to deliver, or delivers to a standard that would not be tolerated from the irrigation industry and other entitlement holders.

STATE WATER'S OPERATING LICENCE

NSWIC supports the development of an Operating Licence for State Water.

NSWIC is concerned that the concurrent IPART review of State Water's Operating Licence may have implications that will impact on the cost and revenue equations of State Water's operations that will not be adequately explored during this bulk water price review.

It is not acceptable that a long-term price regime will be concluded that does not allow stakeholders to comprehensively consider the implications of the conditions placed on State Water's operations.

RECOMMENDATION 4

That IPART provide stakeholders with an opportunity to revise their submissions to this Bulk Water review to reflect the final structure of the Operating Licence.

NSWIC reserves its right to amend its position on all aspects of this bulk water submission if there are substantive issues raised in the final determination of the Operating Licence that have not been appropriately canvassed in this response.

Consultant's Report into State Water Corporation's Operating and Capital Expenditure

Timely publication of this report will be integral to industry undertaking a broader analysis of the range of assumptions and costings provided in the State Water submission.

As the consultants will have had privileged access to State Water data, it is expected that critical or contrary comment will be made on many aspects of the State Water submission that industry will require time to analyse and respond to.

NSWIC reserves the option to submit a supplementary submission that addresses any or all of the issues that might be canvassed in this consultant's final report.

As with the release of the final Operating Licence, the release of the consultant's report is yet another crucial stream of information that NSWIC will not have the ability to critically evaluate and analyse before presenting its submission to IPART.

This is simply a deplorable way to conduct an independent inquiry into such important resource management issues.

RECOMMENDATION 5

That IPART provide stakeholders with an opportunity to revise their submissions to this Bulk Water review to reflect the detail contained in the Consultant's review of State Water's Operating and Capital Expenditure assumptions.

STATE WATER'S RESPONSE TO THE IPART ISSUES PAPER

NSWIC has reviewed the State Water submission in response to the IPART Bulk Water Prices from 2005/06 Issues Paper and other related issues.

NSWIC does not support some aspects of State Water's submission and is disappointed at the scant detail on many issues and the lack of consideration of important issues such as water charges for environmental water, the narrow focus of revenue sources and the complete absence of examination of ways to continually drive down its overall cost base.

Both the State Water response and the IPART Issues Paper have identified the complexity of the issues to be addressed, in particular the need to ensure clear delineation between regulatory and operational responsibilities and, accountability and audit requirements. NSWIC supports this approach.

Consultation

In its submission to IPART, State Water stated that it:

"...undertook comprehensive consultation on the proposed submission..."

NSWIC acknowledges that it was provided with briefings that would be best described as overview by nature. As such, there should be no inference drawn that NSWIC has in any way supported or endorsed any aspect of the State Water submission, or that it supports the level of consultation provided to it as in any way satisfactory, comprehensive or conclusive, it was not

Costs of Corporatisation

Since the last IPART Determination was undertaken, State Water has been corporatised, which completes the separation of the operational functions of bulk water delivery from the regulatory, compliance and policy functions. This is in accordance with the NSW Government's obligations under National Competition Policy and is supported by NSWIC.

There are numerous costs of corporatisation, some one off, other ongoing. NSWIC believes that all costs of corporatisation are costs of ownership and must be fully apportioned to the Government as the owners of the business. Many of the ongoing costs of corporatisation are appropriately considered as legitimate operating costs of the business.

Board of Directors Costs

The *State Water Corporation Act 2004* provides for the appointment of a NSW Labour Council nominee to the State Water Board of Directors. See [Attachment 6](#).

The mere fact that the NSW Government deemed it necessary to legislate this appointment is a clear demonstration that the incumbent will be a political appointee. As such, the cost of this appointment must be fully apportioned to the Government. The cost of servicing all other Board members activities is appropriately apportioned as operating costs of the business.

Employment Base

When announcing the State Government’s decision to corporatise State Water, Minister Sartor stated:

“This move to corporatisation will see greater transparency of State Water’s costs and create a more commercially focused water delivery business.”¹

With respect to State Water’s employment base, this statement is challenged on the basis that State Government commitments to existing staff may prevent the State Water Board of Directors and management from implementing business strategies based on reducing or restructuring staffing arrangements. This is confirmed by Minister Sartor’s statement that:

“Existing staff and staff entitlements will be maintained through the move to corporatisation.”²

The Minister further stated that:

“All State Water staff as at the date of corporatisation would be transferred to the new entity. Staff would be transferred into the new entity on their existing award conditions and any accrued rights to annual leave, extended leave and sick leave. The new entity would apply the Public Sector arrangements for managing displaced employees including provisions for staff to have access to the redeployment services of the Redeployment and Relocation Services Unit (RRSU).

There would be no forced or voluntary redundancies, as all staff would be transferred into positions in the SOC.”³

See [Attachment 7](#)

NSWIC suggests that this government policy position is the sort of constraint that potentially inhibits the ability of the State Water Board of Directors and management to focus on implementing the most appropriate commercial corporate strategies to suit the business.

¹ Media Release: *State Water Corporatisation*, 18 March, 2004, Minister Sartor

² *Ibid*

³ *Proposal for Comment, State Water Corporatisation*, March 2004, NSW Government Ministerial Statement

To guarantee staff positions is inconsistent with State Water’s core Objective as outlined in the *State Water Corporation Act 2004* that states:

- (2) *the other objectives of the Corporation are as follows:*
 - a. *to be a successful business and to that end:*
 - i. *to operate at least as efficiently as any comparable business; and*
 - ii. *to maximise the net worth of the State’s investment in the Corporation*

NSWIC seeks IPART’s determination on how political objectives such as those outlined above are impacting on State Water’s ability to meet its legislated Objectives and how this translates into the apportioning of the cost of State Water’s corporatisation back to its owners with respect to these politicised aspects of State Water’s operations.

Capital Funding Options

State Water has assumed a move from the existing annuity based approach to a regulatory asset base (RAB) as the method of raising its future capital funds.

On the evidence provided, NSWIC does not support the adoption of a regulatory asset base approach to the provision of capital funding for State Water.

As State Water is now required to operate in a commercial manner, NSWIC does not believe that either of these options is consistent with commercial business operations. There has been no consideration given to the ‘normal’ commercial sources of capital funds, such as from retained earnings, the wider equity market, or by way of competitive debt financing.

State Water has simply retained an option that only a dominant monopoly business can impose.

The adoption of the RAB approach and the attendant fixed charge approach is inconsistent with commercial business practices. This critique also applies to the application of fixed charges associated with the annuity-based method.

Both of these approaches and the application of fixed charges are signs that State Water has not adopted the Government’s commitment for it to operate in a commercial manner as both of these approaches are a relic of past bureaucratic operation and ownership and do not reflect market-based solutions required of an innovative commercial business.

What business has the ability to impose a fixed charge across its customer base irrespective of the quality or level of service provided? NSWIC suggests that an enterprise with a monopoly market position is the only business that is capable of imposing such a charge.

In a competitive market environment, such premiums would be very quickly eroded by new entrants into the market. This is clearly not the case with State Water, as there is little likelihood of any new market entrants introducing competitive pressure on its market position.

NSWIC sees the current fixed charge regime as simply transferring State Water's revenue risk to the weakest market participant, its bulk water customer base. It is a case of the NSW Government using NSW irrigators as one of its prime lenders.

NSW irrigators lack market power to confront such an unconscionable strategy.

On the available data, NSWIC is not able to model the impact, benefit or suitability of the two competing options outlined in the State Water submission. Again State Water has provided scant detail to support its case and has not provided a detailed analysis of competing options for consideration.

To ensure that the most appropriate capital funding arrangement is adopted, NSWIC recommends that IPART commission a comprehensive study that critically analyses capital funding options that meet State Water's future business requirements.

It is essential that each option be placed in the context of State Water's government ownership, monopoly market dominance and requirement to operate in a commercial manner.

This study must be completed before the final Determination is made and be exposed for comment and review.

RECOMMENDATION:

That IPART commission a comprehensive study that identifies and critically analyses capital funding options suitable to meet State Water's business requirements.

Implications for customers

NSWIC is concerned that the current basis of fixed and variable charges is too inflexible during times of Exception Circumstances. A study of the Lachlan Valley illustrates that entitlement holders have received little, if any allocations during the past two years yet are still expected pay fixed charges to State Water.

In a competitive market environment, such a situation can only occur in areas of high demand where there are few, or no alternative supply options. In 2005, it is an intolerable situation and requires a sharing of this risk across both the supply and demand sides of the water delivery business.

Risk Management

State Water must be required to implement a more commercially orientated risk management approach that is more innovative than simply transferring its risk to the market participant in the weakest bargaining position. There is no evidence in its submission that it has attempted to undertake an in-depth risk management assessment of its operations.

Capital Expenditure Reconciliation

NSWIC is concerned that no reconciliation is available that demonstrates compliance with the Capital component of past IPART Determinations. Again, there is little data, publicly available, provided in either State Water or DIPNR submissions to accurately track and assess compliance with this important factor.

If the corporatisation of State Water represents a watershed in the management of the operational and WRM aspects of water resource management, then an appropriate starting point is a comprehensive audit of past Determinations to demonstrate fulfilment of all funding obligations, both capital and operating.

NSWIC seeks from IPART the detail outlined in Tables 3 & 4. It is a demonstration of accountability that is lacking across all aspects of past Determinations.

If as it is expected, that the NSW Government’s capital and operating contributions have a shortfall, IPART must require an immediate funds transfer from the Government to State Water to rectify this situation.

Table 3 Capital Expenditure Reconciliation

	97/98	98/99	99/00	00/01	01/02	02/03	03/04
IPART Determination of the relative shares to be paid by entitlement holders and by Government							
Govt contribution							
Industry Contribution							
Total							
Capital Expenditure							
Balance							
Govt. shortfall/surplus							

Table 4 Operating Expenditure Reconciliation

	97/98	98/99	99/00	00/01	01/02	02/03	03/04
IPART Determination of the relative shares to be paid by entitlement holders and by Government							
IPART Determination							
Govt contribution							
Industry Contribution							
Total							
Operating Expenditure							
Balance							
Govt. shortfall/surplus							

On completion of this reconciliation, both industry and IPART will be better placed to make critical comment on State Water’s current financial status and future requirements.

Analysis of Costs

NSWIC is disappointed that the State Water submission is silent on its approach to driving down its cost base. Such an approach is consistent with a business that knows it has the ability to extract revenues irrespective of market conditions and in a competition-free environment.

NSWIC would like IPART to review the actual level of State Water’s operating costs for each year of the past determination against the forecasts contained in its submission to the 2001 Determination. It should also analyse the reasons underpinning State Water’s performance against forecast to determine if there are systemic issues creating either under or over estimations.

A report to stakeholders prior to the conclusion of this Determination will provide valuable insight into the sustainability of State Water’s business assumptions.

If as expected State Water has inflated its operating expenditure forecasts and raised significantly more revenue than required, IPART must undertake a reconciliation to determine where the funds currently reside and offset any surplus against future funding requirements.

In determining future operating expenditure requirements NSWIC encourages IPART to critically assess and if necessary discount State Water’s future forecasts to reflect its past forecasting performance.

IPART must impose an efficiency mindset on State Water through the adoption of non-negotiable cost reduction targets for its operating expenditure.

While State Water must have the management flexibility to seek the efficiency gains from any area of its business, it must be held accountable if it fail to reach the required efficiency target. There must also be no ability to shuffle obligations from the Capital to the Operating side of the business.

NSWIC suggests that for each year of the 2005 Determination State Water be required to reduce its Operating cost base by the annual rate of the Consumer Price Index for the eight capital cities plus 2 per cent.

IPART must require State Water to report annually against this obligation. A penalty regime should be put in place that reduces its revenue stream by any shortfall in this target.

As the NSW irrigation sector is one of the primary sources of revenue for State Water, it is critical that industry has absolute confidence in the financial management of State Water. It is IPART's role to force the provision of such relevant information so as to enable a thorough and conclusive analysis of all aspects of State Water's financial performance. To date and through its submission to this review, State Water has not provided sufficient data to enable NSWIC to confidently conclude that its forecasts and assumptions are accurate, sound and reliable.

DIPNR Costs

With respect to DIPNR's NSWIC notes State Water's comment that:

“Negotiations are currently underway with DIPNR about the division of functions between the two organisations. The outcomes of these negotiations will have an impact on State water's cost base. Until the relative responsibilities are defined, the full cost of State Water's operations cannot be accurately defined.”

This is yet another example of the difficulty that NSWIC faces in trying to analyse the merit of State Water's submission. While it is acknowledged that there are many complex issues to be negotiated between State Water and DIPNR, there are simply too many gaps in the information provided for accurate and reliable analysis.

When reviewing the State Water comment above, the obvious questions that NSWIC seeks answers to are:

- what services are being negotiated;
- are these services currently included as costs in either or both of the submissions from State Water and DIPNR;
- if State Water cannot accurately define its cost base, then how is industry supposed too;
- when will these negotiations be concluded; and
- on conclusion will DIPNR's submission be changed to reflect the transfer of services to State Water, or the receipt of funds from State Water for services provided?

Dam Safety

NSWIC supports State Water’s dam safety compliance program that is based on a continual process of risk management, to minimise the total risk to the community, to State Water and to the Government.

State Water’s submission notes that:

“ dam safety standards are continually revised, based on assessment and evaluation of probability of failure and consequence. A review of catchment hydrology is undertaken every 10 years or so, which may result in an increased flood safety standard. This could lead to a further upgrade to ensure compliance.”

In support of the argument put forward by State water, NSWIC supports the continuation of the existing IPART Determination that this cost be 100% borne by Government contribution and that State Water conclude its current program of upgrades to bring all storages up to the 1997 standards under this arrangement.

Flood mitigation upgrades are a more complex equation. NSWIC would not support the proposition being promoted by State Water until a full risk assessment is undertaken for all dams in State Water’s asset portfolio.

This assessment should address the impact of dam failure as follows:

- loss of life;
- economic;
- social;
- environmental;
- cultural;
- infrastructure; and
- industry and commerce.

On completion of this upgraded risk assessment, industry would be well placed to better understand the range of beneficiaries and therefore the relative cost shares appropriate to each.

Environmental Issues

The introduction of 36 Water Sharing Plans for regulated water sources is yet another step in the sharing of the State’s water resources between the competing needs of the environment and other forms of extraction such as: commercial and industrial uses, social consumption within regional communities and productive uses by the irrigation sector.

In NSW, Water Sharing Plans effectively cap the amount of water available for all forms of extractive use and, over-time, will lead to a transfer of water from the productive sector to the environmental water account.

State Water's submission to IPART relies heavily on COAG initiatives relating to the separation of powers and functions and the application of full cost recovery and the adoption of lower and upper bond pricing principles.

At every opportunity, State Water invokes COAG principles as the basis for the rigour it is seeking to apply to its various revenue streams. Sadly, the same rigour is not applied to seeking charges that should be applied to the Government or to a detailed examination of its cost structures.

With respect to the delivery of environmental water, State Water makes no argument for a CSO charge to be applied to its environmental water operations. This is despite COAG stating that:

“Where service deliverers are required to provide water services to classes of customers at less than full cost, the cost of this should be fully disclosed and ideally paid to the service deliverer as a community service obligation”⁴

Charges for Environmental Water

The State Water submission is silent on the lack of a fully funded Community Service Order (CSO) for the cost of managing the storage and delivery of the State's environmental water allocations, although there is reference to the impact of increasing environmental allocations on its long-term revenue stream.

At the moment, environmental water delivered by State Water does not generate revenue for State Water. The cost of this delivery is borne 100 per cent by State Water's extractive bulk water customers, who are predominately NSW irrigators.

This situation is most inequitable and is challenged by NSWIC for its blatant discrimination against NSW irrigators. This principle also stands in stark contrast to the Objective as outlined in the *State Water Corporation Act 2004* that states:

- (2) *the other objectives of the Corporation are as follows:*
 - b. *to be a successful business and to that end:*
 - i. *to operate at least as efficiently as any comparable business; and*
 - ii. *to maximise the net worth of the State's investment in the Corporation*

To this end, it is critical that State Water be able to apply water delivery charges, however determined, for every megalitre of water that it delivers, irrespective of the ultimate owner or use of the entitlement.

⁴ National Competition Council, Assessment of governments' progress in implementing the National Competition Policy and related reforms: 2004, p.1.10

The distribution of water figures outlined in Table 5 have been extracted from the *State Water Annual Report, 2003-04*. It demonstrates the volume and percentage that environment water represents for each valley for the period reported. If this data could be accurately compared to revenue streams for each valley, the megalitre charges that would apply if all environmental water was charged at the same rate as its licensed entitlement equivalent would be evident.

NSWIC believes that this is the most basic analysis that State Water must provide to clearly demonstrate the CSO cost of delivering environmental water allocations across each valley.

Table 5 Distribution of Water

	Environment	End of System Environmental Flow	Licensed Water Use	Increase in Storage	Storage Net Evaporation	Total	Environment %age*
Border Rivers	400	137	191	149	8	885	45%
Gwydir Valley	142	169	159	121	14	606	23%
Namoi-Peel Valley	48	73	72	135	17	344	14%
Macquarie-Cudgegong Valley	186	4	175	0	21	385	48%
Lachlan Valley	127	11	44	0	30	211	60%
Murrumbidgee Valley	340	308	1,671	228	5	2,553	13%
Murray Valley	263	906	1,271	273	98	2,811	9%
Hunter Valley	68	236	133	0	14	451	15%
South Coast	3	3	8	0	1	15	20%
North Coast	0	26	1	6	4	37	0%
Total	1,577	1,873	3,724	912	212	8,298	19%

Source: *State Water Annual Report, 2003-04*, p.17

* calculation by NSWIC

IPART is requested to require State Water to provide the volume and delivery receipts information outlined in Table 6 to clearly place the cost of its delivery of environmental water in perspective.

Table 6 Entitlement Volumes and Delivery Prices

River System	Environment Water	General Security		High Security		Unregulated		Total ML
		ML	\$	ML	\$	ML	\$	
Border Rivers	400							885
Gwydir Valley	142							606
Namoi-Peel Valley	48							344
Macquarie-Cudgegong Valley	186							385
Lachlan Valley	127							211
Murrumbidgee Valley	340							2,553
Murray Valley	263							2,811
Hunter Valley	68							451
South Coast	3							15
North Coast	0							37
Total	1,577							8,298

The introduction of Water Sharing Plans has established a clear mechanism for an increasing share of water to be allocated to the environment, as a direct transfer from productive entitlement holders' accounts.

The National Water Initiative and the Living Murray initiative will also be allocating funds that may lead to the purchase of water for the environment from NSW entitlement holders. In each case, under present arrangements, State Water will suffer a decline in revenue, which in turn will place a greater burden on productive entitlement holders to meet State Water’s operating and capital costs.

In NSW, environmental water will be held in at least two forms of environmental accounts:

1. Fundamental water
 - this water will not be able to be traded.
2. Adaptive water
 - this water will be able to be traded.

To ensure that there is transparency and accountability in the management of all Environmental Water, records for these allocations must be further broken down to represent the provide the information identified in Table 5.

NSWIC requests IPART to acquire and consider the detail suggested in Table 7 on a valley-by-valley basis. This data is a variation on that requested in Table 6, but its provision will clearly detail the shares across all water entitlements and the extent of the inequity imposed on NSW irrigators and other bulk water entitlement holders who are required to fund 100 per cent of the water delivery charges for the delivery of environmental water allocations.

Table 7 Valley based entitlements

Entitlement	Fixed Charge \$ML	Variable Charge \$ML	Entitlement ML	Total Revenue \$
Regulated				
<i>High Security</i>				
<i>General Security</i>				
Unregulated				
Groundwater				
Environmental				
<i>Fundamental</i>				
<i>Adaptive</i>				
Other				
<i>TOTAL REVENUE</i>				

In addition to the State-owned environmental water allocations, there may be growth in other environmental allocations such as the Murray Wetlands Working Group who despite undertaking significant water trading activities do not and in fact may actually be refusing to pay State Water’s bulk water delivery charges.

A further environmental allocation that State Water’s submission is silent on is the cost of allocation of water to NSW Forestry. This is water that is allocated on an environmental basis, yet underpins economic activity that generates significant financial returns to the State. This water use must be clearly shown and attract State Water usage charges in line with all other allocations.

It is proposed that CMAs will be the Environmental Water Manager responsible for environmental water balances in their individual region.

In addition to its environmental objectives, CMAs will be able to trade Adaptive Water to generate a revenue stream from bulk water users, expected to be irrigators, seeking to gain additional entitlements during periods of water shortage or to complement other entitlements.

NSWIC supports, in-principle, the trading of adaptive environmental water. However, to date, there have been purchasing and trading protocols established that demonstrate transparency, accountability or timely market reporting of environmental water trading activities. While NSWIC believes this issue is beyond the scope of this IPART review, confirmation of this point from IPART will assist NSWIC to better target its demands to the most appropriate ‘authority’.

As CMAs water trading activities will be undertaken in a competitive environment, competitive neutrality principles will be breached if these government authorities are able to trade water that is not bearing the full range of State Water bulk water and DIPNR WRM charges. See [Attachment 8](#).

The national water access and planning framework, as articulated in the COAG NWI Inter Governmental Agreement, is designed to plan for the definition of a consumptive pool from which water users may take water and to modify that pool in line with current and future assessments of the need for water to be available to meet environmental objectives.

Where it is planned to reduce the water available to water users, the NWI assigns risk among governments and between governments and water users in cases where the amount of water set aside for the environment is increased and water for consumptive use is decreased.

Reductions in water for consumptive use will, under present charging arrangements, reduce State Water’s income from water user customers, while State Water’s costs will not decrease.

Under current arrangements, in order to ensure adequate revenue to maintain operations, State Water will require cost recovery for environmental water allocations and or increased prices from consumptive water users. If the volume of water delivered decreases by say 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.

The NWI will reduce the volumes of water available to consumptive customers in two ways. The first results from periodic increases to annual volumes of environmental water and consequent reduction to users during that year. The second is a permanent reduction of entitlements to address over-allocation of water in the Murray-Darling Basin.

The effects of the NWI will have to be carefully monitored as it is implemented, to ensure that there are no perverse impacts on State Waters operations, costs or revenues that are not appropriately accounted for.

Similarly, the operations of other authorities such as: Water for Rivers, as well as the implementation of the Living Murray Initiative must also be monitored in the same light.

NSWIC does not support State Water's position that seeks an automatic increase in prices for extractive entitlement holders within the relevant valley, as a direct and immediate response to the transfer of water to the non-chargeable environmental licence.

This is not an equitable response to this issue and seeks to place the entire burden for the wider community's environmental expectations and aspirations on other bulk water users, who are predominately NSW irrigators.

What is now very clear is that there are a number of uses of environmental water that must be transparently accounted for to ensure equity across all forms of entitlement and maximum revenue for State Water.

State Water also expressed the view that if water is actively required to be delivered using its assets, then the beneficiaries of State Water's services will be required to share the full costs. NSWIC supports this position.

State Water envisages that water available for delivery, revenue and prices may be affected significantly, if the cost of delivering environmental water is not recoverable. NSWIC supports this view also.

RECOMMENDATION 6

That IPART impose the same level of bulk water charges on each megalitre of water, irrespective of the ownership of that entitlement.

Stock and Domestic

The State Water submission states that:

“State Water releases water for stock and domestic purposes, from time to time, along streams and effluent creeks, which are not part of its river regulation or water delivery to customers. As with measures taken for the environment, the delivery of water for stock and domestic use is treated as a regulatory requirement. It is true that State Water may improve the opportunity for such non-customers users to receive water at times when it would not be available under natural conditions. State Water is required to make such releases of water in water sharing plans.

State water is required to deliver stock and domestic water without receiving specific payment for the services. In drought times, there are considerable compliance costs associated with this delivery.”

The State Government’s decision to corporatise State Water and provide it with the following objective:

- (2) *the other objectives of the Corporation are as follows:*
- c. *to be a successful business and to that end:*
 - i. *to operate at least as efficiently as any comparable business; and*
 - ii. *to maximise the net worth of the State’s investment in the Corporation*

now dictates that it must apply user-pays principles to all who benefit from the services provided by State Water or in anyway benefit from its infrastructure, or alternatively, strictly apply the COAG CSO principle:

“Where service deliverers are required to provide water services to classes of customers at less than full cost, the cost of this should be fully disclosed and ideally paid to the service deliverer as a community service obligation”⁵

With respect to stock and domestic supplies, NSWIC position is simply one of equity, with each user paying for the level of services consumed, with no user gaining any benefit at the expense of another user.

Alternatively, it is up to the State Government to recognise that the provision of stock and domestic water is a Community Service Obligation and fully fund this aspect of State Water’s operations.

RECOMMENDATION 7

That the delivery of stock and domestic water is deemed a Community Service Obligation, with the State Government meeting 100 per cent of the costs associated with this service.

Navigation, Recreation and Tourism Activities

State Water states that:

“By maintaining in-river structures, State Water provides various river-based benefits, which can include enhanced opportunities for recreation and tourism. Another benefit of some river structures is to provide pumping pools for water users who are not customers of State Water. These benefits are treated as by-products of State Water’s river operations, and not as explicit benefits for which it should receive compensation.

⁵ National Competition Council, Assessment of governments’ progress in implementing the National Competition Policy and related reforms: 2004, p.1.10

These categories of benefit are outlined in order to explain the extent to which State Water provides value to the community in general, apart from its customers. State Water considers that, of these, the flood mitigation category is the only one, which could attract specific recognition of the public benefit and therefore subsidies in the long term.”

This statement by State Water stands in stark contrast to the community and Government’s expectations of how the NSW irrigation industry should utilise the State’s water resources.

NSW irrigators are constantly being driven to seek greater efficiency of operations, to undertake investment in water efficient systems, to seek to produce higher value crops, all to achieve greater returns from each megalitre of water consumed, to pay their share of State Water’s operational and capital costs.

NSWIC has an expectation that a similar discipline be equally imposed on all other users who gain some benefit from State Water’s infrastructure. There must be no free rides. All users must be expected to pay a fair and appropriate fee for the social or commercial benefits they gain or enjoy from the utilisation of the benefits provided by State Water’s infrastructure.

This is another example of how State Water has trivialised the application of the user-pays principle and paid lip service only to the commercial operations objective outlined in the *State Water Corporation Act 2004*.

Furthermore, it highlights the lack of depth in State Water’s IPART submission as it fails to recognise the significant social and commercial economic value of river dependent industries who gain benefit from State Water’s infrastructure.

A recent study prepared by Hassall & Associates Pty Ltd and Gillespie Economics ⁶ found that:
“...the total economic value of ‘river dependent’ activities in the Southern Murray-Darling Basin is \$1.621 billion. This value is expressed as a capital value (or present value), not an annual profit or turnover value.”

The study apportioned this \$1.621 billion as follows:

- \$415 million is in South Australia;
- \$752 million is on the Murray upstream of the SA border;
- \$214 million is on the Murrumbidgee;
- \$90 million is on the Goulburn; and
- \$51 million is on the lower Darling.

⁶ *Quantifying the Economic Value of River Dependent Industries in the Southern Murray-Darling Basin*, September, 2004

The following list highlights the range of activities examined in the Hassall/Gillespie report:

- houseboat manufacture;
- commercial fishing;
- commercial boat cruises/river boats;
- houseboat hire;
- caravan and camping grounds (part value);
- other tourism accommodation on or near the river (part value);
- marinas;
- recreational fishing;
- recreational boating;
- recreational houseboats;
- swimming;
- bird watching;
- special events – skiing races, fishing competitions etc.;
- grazing on floodplains; and
- amenity value.

The data outlined above clearly demonstrates that not all of the value derived from use of the infrastructure in the Southern Murray Darling Basin can be apportioned to extractive uses. There are a multitude of users who gain social enjoyment or derive commercial benefit from the utilisation of State Water’s infrastructure. It is a complicated mixture across community, and industry, with multi-State and MDBC jurisdictional implications.

What is clearly illustrated is the range of river dependent industries that are currently deriving significant economic and social value from the use of State Water’s infrastructure, while contributing nothing to its operating and capital costs.

With respect to NSW, this is a clear cross subsidy from the NSW irrigation sector to other commercial and social interests that must be rectified. Both State Water and DIPNR submissions are silent on how this inequity will be addressed.

RECOMMENDATION 8

That IPART seek from both State Water and DIPNR a range of options that will allocate appropriate costs to river dependent industries or to the NSW Government as a Community Service Obligation for the benefit these industries and other users enjoy.

MDBC Costs

One of the outstanding issues from IPART’s 2001 Determination is the issue of MDBC cost allocation. In that Determination, IPART stated:

“To ensure that MDBC costs are appropriately assigned on an impactor pays basis for the next Determination and thus ensure that Murray Valley users do not pay more than their fair share of these costs, IPART requires DIPNR to develop a robust and transparent method of allocating MDBC costs for the next Determination.”

In DIPNR’s submission to this IPART review it stated:

“An appropriate basis for allocating MDBC WRM costs across valleys will be included in the medium term submission.”

State Water’s submission provided significant background information, with little elucidation on the complex issue of transparency of MDBC water charges, simply stating that:

“State Water will collect charges, which recover the NSW Government’s contribution to the MDBC and DBBRC.

Commencing July 2005, State Water proposes to collect charges from NSW Murray regulated water users which represent the recovery of the full cost of bulk water delivery and management. The charge is set at a level to recover the contributions of the NSW Government for infrastructure and operations undertaken through MDBC.”

In both instances, this level of accountability falls short of industry’s minimum requirements. On one hand we have DIPNR suggesting that it is all too hard and it will get to it a little later this year, while on the other hand, State Water recommends that the method for calculating Murray Valley water prices remains unchanged.

On the basis of the conflict between the positions of each agency, NSWIC recommends that no change be agreed to existing charges until full accountability for these charges is demonstrated by all agencies concerned.

RECOMMENDATION 9

That there be no change to MDBC cost recovery charges apportioned to NSW Murray regulated water users until such time as all relevant detail is presented to industry and IPART that justifies the level of charges requested.

Price Path to Full Cost Recovery

COAG and National Competition Policy has set the path firstly for a move to lower bound pricing and then to upper bound pricing.

In both instances, this policy assumes that there will be a separation of the operator and the regulator and that the operator will conduct business on a commercial basis.

While the separation of the two functions has largely been completed in NSW, there are still question marks surrounding a number of outstanding issues that must be resolved to ensure that services are undertaken by the most appropriate organisation and that enforceable service level agreements are in place for the delivery of purchaser provider relationships.

From the submission presented to this IPART review, NSWIC is convinced that State Water is struggling with the commercialisation of its operations. This is evident from any cursory review of its submission.

NSWIC believes that State Water must not be granted any tariff increases until it has demonstrated that it has applied full cost recovery and user pays charges to all users of its network, or received an appropriate level of CSO from the Government for those services deemed to be CSOs.

In the absence of a fully detailed submission from DIPNR, no increase in State Water's bulk water tariffs must be countenanced under any circumstances.

A determination of this strength from IPART is the only protection that NSW irrigators have from being easy prey in the Government's drive to reduce its funding contributions to State Water.

NSWIC also seeks IPART's leadership to commission a socio-economic impact study on any future move to both lower bound and upper bound pricing schedules.

If as expected, the commercialisation of State Water is a hybrid solution, then there will exist a clear cross subsidy from the NSW bulk water users to many of State Water's other bulk water customers. This would be an intolerable outcome and would be challenged at all times by NSWIC.

The tariff proposals that State Water presented in its IPART submission are not supported as they are not based on full cost recovery from all classes of water entitlements. State Water must be required to present the same schedule of prices across all water delivered to illustrate the benefit to bulk water users that would accrue from a uniform application of charges across all water delivered by State Water.

It is only a monopoly business that can argue for automatic fixed rate cost increases without demonstrating a significant level of accountability across all aspects of its business.

Occupational Health and Safety (OH&S)

NSWIC supports State Water's proposal to include future OH&S compliance costs in its Operating costs as expenditure that should be met 100% by water users.

There are two conditions attached to NSWIC's support:

- i that all outstanding compliance issues up to the date of this Determination taking effect are addressed, 100% at the Government's cost; and
- ii that future OH&S costs are apportioned across all water users. This will require full user pays charges being applied equally to all classes of water, with appropriate CSOs identified and fully funded by Government.

High and Low Security Charges

NSWIC supports, in-principle any move to eliminate identified cross subsidies. The proposal to adopt the Water Sharing Plan (WSP) conversion rate from general to high security as an appropriate method to reflect the increased costs associated with delivering high security water is supported.

With respect to the ratio between high security and general security, State Water offers rationale for its preferred ratios, but again it fails to provide details modelling to demonstrate the impact, across all valleys, from the implementation of the WSP ratios it proposes to adopt.

NSWIC expects to see outlined, on a valley basis, the application of State Water's model, with all changes highlighted for both high and general security entitlements. It is incumbent on State Water to be able to demonstrate the precise level of impact and benefit such a change will involve.

Water Ordering Errors

State Water's proposal to apply a charge for water ordering errors equal to the net loss of water incurred is cautiously supported by NSWIC, if it is accompanied by an appropriate education and awareness campaign that encourages water users to consider the timing and basis of their water orders.

There must be transparency and clear communication processes to instil an understanding amongst water users of the cost to State Water that accumulates from water ordering errors.

State water must be required to put in place a dispute resolutions procedure to accommodate the inevitable challenges to this proposal and have the support of all Customer Service Committees before introducing this initiative.

Fish Passage

NSWIC supports State Water's aim to identify, via a strategic framework, cost effective methods to improve fish passage. The emphasis must be on fish passages that actually work and enhance the passage of fish.

Both State Water and DPI must demonstrate that they have applied the most cost effective solution possible and that costs have been shared equitably between both State Water and Government by way of a CSO contribution.

Thermal Pollution

NSWIC supports initiatives to offset the impact of thermal pollution. In the absence of relevant detail, State Water's cold water mitigation measures are endorsed in-principle, as an appropriate medium-term strategy to address this issue.

The allocation of shares of this cost should be offset by the provision of credits for the increased environmental quality of water that is discharged.

State Water should be encouraged to discuss with industry and IPART the development of water products that recognise the environmental benefit that would be gained from the release of all water through structures specifically installed to overcome thermal pollution.

This would recognise that more than one value can be attributed to each water delivery and demonstrate that significant environmental value can be achieved without the need to purchase additional water.

Wholesale Discounts

This section has been informed by and complements submissions from NSWIC's Irrigation Corporation members.

The State Water submission is very confusing in relation to the discounts. Throughout the rest of the submission and, in the section on discounting State Water argues that its costs are largely fixed. In a situation of fixed cost, the unit cost (and therefore price) must decline with increased demand. State Water acknowledges this when it states that:

“the costs to supply a 10 ML order to a river pumper are the same as supplying 1,000 ML to a Corporation”

Source: *State Water IPART submission, 2004* pg. 38

If this was the basis for the discounts, it is likely that the discounts would be larger than they currently are. But the discount is not a return to scale of purchase. Rather, it is a return to the retailer (irrigation companies) for costs saved by the provider (State Water) in being able to switch from retail to wholesale service provision for a given set of customers.

The question that State Water should be asking is: what would its total costs be if it had to service an additional 3-6,000 retail customers? It seems to be arguing that aggregate costs would not change. That might be true if current costs of bulk water delivery included all costs (State Water costs plus private irrigation company costs). But that is not the case.

The proposal by State Water to remove the bulk discount is a device to impose a large price increase on some irrigation corporation customers and their shareholders. If successful it will automatically reduce the need for State Water to continue to improve its efficiency. Without the discount, State Water would be overpaid for the actual costs incurred. The final price paid is not really a 'discount' for a private irrigation corporation whose activities are responsible for most of the costs incurred by State Water in these valleys.

The State Water submission is mischievous to imply other water users are subsidising the large water diverters.

The creation of the private irrigation corporations combined multiple licence holders into one licence, thereby reducing government water services in the NSW, with obvious cost savings for State Water and government and the provision of WRM services.

Irrigation corporations provide State Water with some or all of the following information which greatly simplifies and reduces the operational costs for State Water:

- daily water ordering and a four day advance water order;
- access to live extraction rates, 24 hours per day;
- externally validated monthly actual diversions and escape flows;
- predicted annual diversions updated after significant events, for example allocation announcements;

- completed annual transfer forms for any shareholders transferring water to or from an irrigation licence.
- meter reading;
- billing;
- water use;
- rice hydraulic loading; and
- stormwater drainage management.

Irrigation corporations incurs significant annual costs through the fully audited reporting process required to present this and other compliance information to the relevant Government departments.

Irrigation corporations at their formation were, and still are, obliged through the terms of their operating licence and legislation to service all former customers of the State.

State Water make a valid point that bulk discounts are often applied to manufactured goods due to increased purchasing power and economies of scale that reduce the selling party's costs. In fact bulk discounts are applied to a whole suite of goods that are not necessarily manufactured such as services like internet provision, travel services, catering or dry cleaning. Water delivery is no different in that selling water in larger packages reduces per ML operational costs as outlined by State Water in its submission who suggest that its:

“...costs to supply a 10ML order to a river pumper are the same as supplying 1,000 ML to a Corporation.”

Further evidence of State Water's non-commercial focus is that they assume that somehow the above statement is an argument for removing bulk discounts. Manufacturers and other businesses give discounts based on economies of scale because the costs of supplying large quantities are proportionally less than the costs of supplying small quantities.

For example given that there were 1,000ML available for sale if:

“... costs to supply a 10ML order to a river pumper are the same as supplying 1,000 ML to a Corporation”

Source: *State Water IPART submission, 2004* pg. 38

It would therefore cost State Water 100 times more to deliver the 1000ML if State Water were to divide it into one hundred 10ML packages rather than one 1,000ML package.

If State Water's claim is accurate and given their apparent revenue deficiencies, State Water should be actively trying to reduce customer numbers and sell more water in bulk in order to reduce costs. Yet, State Water seeks to remove bulk discounts!

State Water make a nonsensical claim that no standard exists for issuing bulk discounts and point to the arbitrary nature of setting standards. State Water writes rhetorically:

“If discounts are to be provided should the threshold to qualify be 50 ML, 200 ML, 1,000 ML, 100,000 ML pa or some other figure. As well as being inequitable the discounts are illogical.”

Source: *State Water IPART submission, 2004* pg. 38

Discounts for all these levels are logical and equitable. Logical because they reflect costs of delivery and equitable because users who purchase water in bulk place less demands (costs) on the system hence should pay less per ML. State Water talks of serious deficiencies in their ability to recoup sufficient revenue to cover their costs.

Is this the mindset envisaged for a more commercially driven State Water?

The justification for discounts for bulk licences is not limited to simply reflecting the economies of scale which reduce overall costs of supply.

Indeed, the transaction that occurs between the Government and Murray Irrigation when an irrigation corporation pays its water bill is far more complex than water delivery. As can be demonstrated, only by selling water in larger packages can a range of beneficial water management procedures be justified economically and implemented efficiently.

When State Water sells a ML of water to a customer a trade has occurred. This trade is not a simplistic transaction involving only cash such as that presented by State Water. This trade involves a detailed exchange of information from irrigation corporations to DIPNR, State Water, the DEC and the CMA. When the Government sells water it expects that irrigation corporations measure the precise volume, advance estimates of water use, audit their measurements, report on regional salinity, contribute to Land and Water Management Plans (LWMP) implementation, actively monitor water quality, implement actions to mitigate water quality issues and more.

When State Water sell a ML of water to another customer such as a river pumper, the transaction includes far less of the above conditions. State Water claims that:

“there are no economies of scale in bulk water delivery to pass on to large customers as discounts”

Source: *State Water IPART submission, 2004* pg. 38

DIPNR also falsely assert that Irrigation Corporations provide them no WRM information (DIPNR 2005, pg. 9).

Furthermore, DIPNR claims that the bulk of their costs are associated with services that facilitate the provision of water to extractive users (DIPNR 2005, pg 3).

For example, if there is no WRM information in Murray Irrigation’s audited and transparent environment report then why must Murray Irrigation pay DIPNR \$75,000 per annum to read it?

This report tells DIPNR precisely how Murray Irrigation contributes to DIPNR's WRM objectives. How much water it takes, what quality and volume of water leaves the area via drains, salinity measures, what crops the water is applied to.

Irrigation Corporations are unambiguously contributing to reducing DIPNR's most significant WRM costs and private small river pumpers are not. Yet, somehow DIPNR insists that subsequent pricing adjustments resultant from abolishing bulk discounts will improve pricing transparency and equity amongst the valleys. Perhaps a fee for service arrangement would be more equitable and would help to reveal the true benefit of Irrigation Corporations scale.

However, neither DIPNR nor State Water acknowledges the actual and legitimate scale benefits Irrigation Corporations contribute to water management and WRM services. In fact they make blatant attempts to mask and discount these benefits. NSWIC supports the view that in contrast to a bulk discount, a fee for service situation would allow DIPNR and State Water to further manipulate their monopoly power.

DIPNR and State Water would be able to escape paying for current Government regulations which force Irrigation Corporations to comply with WRM standards beyond other water users' requirements. Pricing and regulatory standards go hand in hand. Imposing different standards for different users is only equitable if pricing is also relatively different. If a fee for service situation were to work equitably and efficiently the same regulatory standards would need to be applied to both Irrigation Corporations and small scale river pumpers.

Indeed, if, as DIPNR and State Water contend, all customers cost the same to deal with why does Government maintain different operational obligations between say Murray Irrigation and a small river pumper?

The existence of different operational requirements imposed by the Government for water use compliance for Murray Irrigation and not a river pumper is direct evidence of economies of scale. The costs per ML of achieving accurate and audited monitoring etc are economically efficient due to economies of scale that exist because Irrigation Corporations are a large purchasers. In contrast to a river pumper Irrigation Corporations are able to directly contribute to the operational objectives of State Water.

For example, a performance target of State Water is:

“Water delivered to the customers must be below the maximum permissible volume under the Water Sharing Plan”

Source: *State Water IPART submission, 2004* pg. 38

By reporting measured information to State Water, Irrigation Corporations ensure that a large proportion of water used is accounted for. State Water does not have such accurate reliable information for water use from other non bulk water users. DIPNR (2005, pg 12) suggest that the increased monitoring of compliance resultant of implementing the NWI will improve the security of water for all water users. Considering the status quo of intensely monitoring Irrigation Corporations future increased monitoring efforts may need to be targeted at smaller extractors.

If it costs less to deliver water in bulk and if the regulations attached to that delivery due to its large volume contribute to State Water management objectives, then Irrigation Corporations deserves a bulk discount.

State Water also refer to IPART suggestions that:

- pricing policy should encourage the best overall outcome for the community from the use of water and the other resources used to store, manage and deliver that water;
- the cost of water services should be paid by those who use the services. Those who cause more services to be required, or benefit more, should pay more; and
- pricing policy should promote ecologically sustainable use of water and of the resources used to store, manage and deliver that water.

Source: *State Water IPART submission, 2004* pg. 11

Any talk of encouraging sustainable water use must take into account the ability to achieve these goals through an efficiently run Irrigation Corporation. The commercial drivers that underpin irrigation Corporation's operations encourage them to strive to make compliance measures such as implementing LWMPs, monitoring saline water tables, water quality, drainage outflows, etc economically viable.

The current discounts are targeted specifically at bulk water users such as Irrigation Corporations who have proven track records in achieving measurable improvements in sustainable land management. This is how our water should be used and hence the bulk water discounts must remain a key tool in achieving sustainability objectives.

Discouraging water use within irrigation corporation areas via increasing relative prices is paramount to encouraging unsustainable water usage by largely unregulated users.

- What level of discount for wholesale customers is appropriate?

The current level of discounting does not fully offset the savings that the Irrigation Corporations deliver to State Water. But customers are used to them and, without comprehensive analysis the discounts recognise the role of wholesalers in keeping SW retail costs down.

The wholesale discounts for Irrigation Corporations should remain at current levels unless there is a comprehensive review conducted by an independent agency in consultation with stakeholders. NSWIC members are available to assist in such a study at any time.

Licence Fees

State Water's proposal to increase the maximum charge per transfer from \$75 to \$275 is not supported by an analysis of the additional functions required to complete a transaction for a larger quantity of water transferred.

Full cost recovery is supported if all costs are clearly and transparently identified. A cost increase that is based on nothing more than the size of the transfer being recorded is not supported.

Scarcity Pricing

NSWIC does not support the application of scarcity in NSW for either State Water's bulk water charges or for DIPNR's WRM charges.

Scarcity pricing is seen as opportunistic revenue raising measure by government, that is not related to strategic market or environmental outcomes.

The NSW Government already has a mechanism in place for extracting its scarcity premium from bulk water users and other State Water customers and that is its dividend policy from the investment it has in State Water.

If additional environmental outcomes are sought, the recently introduced valley based Water Sharing Plans are seen as a more appropriate vehicle through which accountable environmental outcomes can be achieved.

In the commercial environment that State Water now exists and will operate within, WSPs and an open, well informed water trading market will ensure that water is priced to reflect seasonal availability and the relative values of competing uses. This will always be a more preferred option to reflect scarcity of resource than a government induced or introduced scarcity pricing policies.

TECHNOLOGY AND INNOVATION

NSWIC is of the view that the separation of the operational and regulatory functions of water, when combined with the broad ranging implications and opportunities articulated in the National Water Initiative is a moment in the history of the management of water resources in NSW to establish a new vision for water resource management.

In some aspects of recent policy initiatives, the NSW Government has accepted this challenge, to varying degrees of success. Yet when analysed through this prism, both the State Water and DIPNR submissions have not accepted this challenge. Neither submission even remotely focuses on how the wide range of reforms that have been agreed in principle can aggressively and innovatively be applied to the operations of State Water and to DIPNR's WRM processes.

There are accepted technologies and practices that can drive service delivery costs down, enhance process and operational efficiency and deliver new products and services to the customers and clients of both State Water and DIPNR, yet there is no mention of these options in either the State Water or DIPNR submissions.

State Water's argument on charges for Licence Fees is a case in point. It should be possible to establish on-line facilities to fully automate that process using existing technologies such as those used in the financial sector, yet State Water has opted for a differential fee structure to seek higher revenues.

New products and services must be developed that deliver on some of the obligations of the NWI. For example, can the benefit of a multi-level discharge be used to accrue credit to bulk water users for the environmental benefit gained from the delivery of its water through such a facility? Is it any different from the production of hydro-electricity?

NSWIC sees this as just one example of multiple uses of water that may have different values at different times of the year to different end users.

NSWIC had expected both State Water and DIPNR to illustrate examples of this nature to demonstrate an awareness of the application of both new, or existing technologies and innovative solutions and product development.

YANCO COLUMBO AND LAKE BREWSTER SYSTEMS

NSWIC supports submissions presented by the Yanco Creek and Tributaries Advisory Council and the Lake Brewster Project Management Committee for specific purpose setting of prices to underwrite water management projects in each region.

NSWIC acknowledges the wide support for each of these projects and commends them to IPART for its approval.

ATTACHMENT 1 – NSW IRRIGATORS’ COUNCIL MEMBERSHIP

Border Rivers Food and Fibre
Coleambally Irrigation Limited
Cotton Australia
Darling River Food and Fibre
Gwydir Valley Irrigators Association Inc.
Hunter Valley Water Users Association
Lachlan Valley Water
Macquarie River Food and Fibre
Murray Irrigation Ltd
Murray Valley Water Diverters Advisory Association
Murray Valley Groundwater Users’ Association
Murrumbidgee Groundwater Pumpers’ Association
Murrumbidgee Horticulture Council Inc.
Murrumbidgee Irrigation Ltd
Murrumbidgee Private Irrigators’ Inc.
Namoi Valley Water Users Association
NSW Farmers’ Association Dairy Section
NSW Farmers’ Association
Ricegrowers’ Association of Australia
Richmond Wilson Combined Water Users Association
Southern Riverina Irrigators
South Western Water Users
Wine Grapes Marketing Board

[Back to introduction](#)

ATTACHMENT 2 - LETTER TO PREMIER CARR

4 February, 2005

The Hon Bob Carr MP
Premier
Level 40
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Premier

IPART - Review of Bulk Water Prices

The NSW Irrigators' Council (NSWIC) supports the role of the Independent Pricing and Regulatory Tribunal (IPART) in determining bulk water prices charged for NSW's regulated, unregulated and groundwater systems.

Council has actively represented NSW irrigators at each of IPART's previous bulk water price determinations and recognises the impartial, independent strengths of the IPART review process.

IPART is currently conducting a review under Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992*, to determine maximum prices that can be charged by State Water Corporation and the Water Administration Ministerial Corporation for the provision and supply of bulk water from 1 July 2005. The Tribunal has released an Issues Paper to provide relevant background information and key issues to assist the water businesses and other interested parties in making submissions. Submissions by the water businesses were due by 29 October 2004.

A critical part of the IPART process is the preparation of an Issues Paper by IPART and responses to the issues raised and identification of any other relevant issues by State Water and the Department of Infrastructure, Planning and Natural Resources (DIPNR). Collectively, these activities inform stakeholders' participation in the IPART review process.

Council acknowledges the support that State Water Corporation has provided IPART, NSWIC's members and other stakeholders through the timely presentation of its submission to the IPART review. State Water complied with the Review's schedule established by IPART.

IPART has also been very supportive of NSWIC's participation in this review process, with regular updates on key activities and milestones.

However, NSWIC wishes to express to you its profound dissatisfaction with the performance of the Department of Infrastructure, Planning and Natural Resources' participation in this IPART review.

On 17 December, 2004 Council wrote to Mr James Cox, Acting Chairman, IPART, as follows:

"I wish to express NSW Irrigators' Council's concern at the failure of the Department of Infrastructure, Planning and Natural Resources (DIPNR) to meet IPART's deadline for its submission to the Bulk Water Price Review.

When placed in the context of the tight timeframe for this important review, DIPNR's failure can only be seen as an abysmal performance of its public duty to water resource management in this State.

At a time when it is imperative that industry, regional communities and other stakeholders have the maximum amount of time to reflect on all options under consideration in this Review, DIPNR's arrogance and complacency in being so late with its submission is to be condemned.

I would urge you to formally report to the Premier the performance of DIPNR in this matter. One of the objectives of the State Government is to have State Water operate its business in a commercial manner. This must be assisted by the performance of its key agencies responsible for water resource management. DIPNR's incompetence in this Review does not inspire confidence for the future."

Premier, DIPNR's submission to the IPART review is now 98 days overdue. This extreme delay is viewed by the NSWIC as DIPNR treating the independence of IPART with contempt. Council understands that this week, DIPNR's submission to IPART was rejected by your Budget sub-Committee, this will necessitate a further delay in its presentation to IPART.

NSWIC wishes to advise you that it has lost confidence in DIPNR's ability to manage and represent water resource management issues in this current IPART review process.

NSW irrigators' contribution to the GDP of this State is approximately \$3 billion per year. The wider benefit to regional communities is closer to \$18 billion per year. The industry deserves better treatment than that evident in DIPNR's performance on this IPART review.

There are few more important issues that inspire confidence in the NSW irrigation industry than the conduct of the IPART bulk water price review. Setting the price path and determining the basis of delivery and water resource management charges to apply for the duration of the Determination provide the foundation for investment and employment decisions made by NSW irrigators.

DIPNR has demonstrated by its inability to conform to the standards established by IPART, that it is both incapable and incompetent in its management of this important portfolio responsibility.

Council asks:

- do you support the performance of DIPNR in its participation in this IPART review?
and
- how do you propose to demonstrate to those individuals and families whose primary business revolves around their irrigated agricultural activities, that your Government values their contribution to the social and economic well-being of this State, when clearly, DIPNR by its performance, has scant regard for the consequences of its tardiness?

Premier, NSWIC proposes the following resolution to this impasse:

- i. the terms of the IPART Review of Bulk Water Prices to apply from 2005/06, be revised to enable the next Determination to commence from 1 July 2006;
- ii. that all existing bulk water delivery charges and water resource management charges for regulated, unregulated and groundwater be rolled over for a further 12 months and be subject to an adjustment to reflect Consumer Price Index movements recorded during the Financial Year 2004/05; and
- iii. that DIPNR be removed as the agency responsible for preparing the Government's response to IPART, with responsibility for preparing the Government's response being transferred to your Department.

NSWIC calls on you to provide clear leadership to resolve the mess created by DIPNR's incompetence and to reinforce both the integrity and independence of IPART's conduct of this review.

I seek your urgent consideration of the options proposed by Council.

Yours sincerely



**COL THOMSON
CHAIRMAN**

[Back to document](#)

ATTACHMENT 3 - LETTER TO IPART CHAIRMAN

8 March 2005

Dr Michael Keating
Chairman
IPART
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Dr Keating

Bulk Water Price Review

I wish to advise you of Council's consideration of IPART's revised schedule for the conduct of its current Bulk Water Price Review.

Council considers IPART's decision to severely curtail the time allowed for the conduct of this Review as a totally unacceptable response to the action of DIPNR presenting its submission 105 days after IPART's published deadline.

IPART initially scheduled a period of approximately 10 months for this Review. This has been now reduced to approximately 8 months. Council is concerned that the quality of the review and the depth of consideration of the complex range of issues involved will suffer as a consequence. This will be further impacted by the dearth of quality information provided by both State Water and DIPNR in their respective submissions.

It is clear to Council that DIPNR is being rewarded for its incompetence and bulk water entitlement holders penalised at the same time through what will now be a hasty conduct of such an important review.

DIPNR has a well recorded history of failing to respond to IPART directives. That it should be able to interfere with and adversely impact on the conduct of this inquiry is of great concern to Council.

After reviewing DIPNR's submission, Council is disappointed that DIPNR chose to defer any consideration of just about all important issues, including many that IPART requested action on in its 2001 Determination, until its "*medium term review*".

This now creates the ludicrous situation that may well see DIPNR’s “*medium term*” submission presented to IPART before IPART has concluded its current Determination.

This in turn will create a situation where industry and other stakeholders will be expected to participate in an ongoing IPART Bulk Water Price review for most of the next 12-14 months.

While the State’s bureaucracy may have the time and resources to waste on such an extended process, for industry it is seen as simply an inefficient waste of its time and resources when a more efficient and effective approach would be to extend the duration of the current IPART process to enable DIPNR to present its “*medium term*” submission, thereby providing industry one opportunity to respond to all issues raised in all submissions.

Council’s preference for the future conduct of this Review will preserve and enhance the integrity, independence, impartiality and confidence of the IPART Bulk Water Review process. The table below illustrates Council’s revised timetable for the conduct of this inquiry. Council recommends that it be immediately adopted.

Review of Bulk Water Prices from 2005/2006		
Original IPART Schedule	NSWIC Revised Schedule	
Aug – 05	Dec 05	Release final determination
Jun – 05	Oct -05	Receive submissions on draft determination and consultant's report
May - 05	Sep -05	Release draft determinations
Feb/Mar – 05*	March	Release consultant's report into operating and capital expenditure
17 Dec - 04	4 April - 05	Receive public submissions
13 Dec - 04		DIPNR's submission to the Review of Bulk Water Prices has been delayed Stakeholders will be granted an extension of time to make their submissions The revised submission date will be announced upon receipt of DIPNR's submission
Feb/Mar – 05		Hold public hearing and workshops
Oct – 04		Start review of State Water and DIPNR capital and operating expenditure
29 Oct - 04		Receive submissions from State Water Corporation and DIPNR
17 Sept - 04		Release Issues Paper

Yours sincerely

DOUG MIELL
CHIEF EXECUTIVE

[Back to document](#)

ATTACHMENT 4 - WATER INNOVATION COUNCIL

Media Release - Ministers Office

Sydney: 8 June 2004

MINISTER ANNOUNCES \$5 MILLION FOR WATER SAVING PROJECTS

The Minister for Natural Resources, Craig Knowles, announced the formation of a \$5 million Water Innovation Fund to kick start regional investment in water saving infrastructure.

“Irrespective of whether we live in the city or in the bush, we all have to work smarter to save this continent’s most precious natural resource – water.

“This fund will support projects which maximise the return of water to the environment, while delivering even better service to the water user.

“We also want to support projects which involve contributions from industry and from local communities.”

Mr Knowles said that water conservation projects outside the scope of the Living Murray Initiative, would be identified for funding under the program.

“Eventually this funding program will be largely managed by a three-person Water Innovation Council which we are now in the process establishing.”

Mr Knowles made the announcement today at the Water Forum h2004 in Canberra in the lead up to the next Council of Australian Governments (COAG) meeting at which the finalisation of the National Water Initiative will be a major subject of discussion.

“The NSW Government has really made huge inroads into reforming water management in this state. These achievements are crystallised in the Water Management Amendment Bill 2004 and its reforms which will be brought in on 1 July.

“This work is a significant evolution in how we manage water. It aims to create more certainty for all water resource users and establish more accountability for planning and managing water use.

“Ultimately though, water doesn’t always respect the lines we draw on maps.

“A national approach is imperative if all the water resource users – domestic, environmental, farming, irrigation, commercial – are going to get a fair share.

“I’m looking forward to the Forum to see how well we are progressing across the states, and at a national level.”

[Back to document](#)

ATTACHMENT 5 – NATIONAL WATER COMMISSION FUNCTIONS

Amongst other things, the General Functions of the NWC will be to:

- assist with the implementation of the National Water Initiative (NWI) and undertake activities that promote the objectives and outcomes of the NWI;
- if requested to do so by the Minister, to advise and make recommendations to the Commonwealth or COAG, where relevant, on matters of national significance relating to water (including the sustainable management of water resources and access to, and use of, water);
- if requested to do so by the Minister, to advise and make recommendations to the Minister on matters relating to water;
- if requested to do so by the Minister, to advise and make recommendations to the Minister in relation to:
 - (i) the Australian Water Fund; or
 - (ii) any other Commonwealth program that relates to the management and regulation of Australia's water resources;
- advise the Commonwealth or COAG, where relevant, on whether a State or Territory is implementing its commitments under any agreement (other than the NWI or the COAG Water Reform Framework) between the Commonwealth and the State or Territory relating to the management and regulation of Australia's water resources, if the agreement provides for the NWC to have this function; and
- undertake any other function prescribed by the regulations.

In addition to the General Functions, the NWC has the following Specific Functions relating to implementing the NWI:

- to undertake an initial assessment of:
 - (i) Australia's water resources; and
 - (ii) the governance, management and regulation of those resources having regard to work already carried out by parties to the NWI and, if required, undertaking further work in order to make that assessment;
- to advise COAG of the NWC's initial assessment as outlined above;
- to determine whether the plans of the parties to the NWI for implementing the NWI are consistent with the objectives, outcomes, actions and timelines stated in the NWI, and to accredit those plans in accordance with the NWI;
- to advise COAG of the NWC's determination and any accreditations given;
- to advise the Commonwealth or COAG, where relevant, on whether the parties to the NWI are implementing their commitments under the NWI;
- to monitor the impact of interstate trade in water access entitlements in the Southern Murray-Darling Basin, and to advise the relevant parties to the NWI on that impact;
- every 2 years starting in 2006-07, to assess against national benchmarks the performance of the water industry in managing and using Australia's water resources (for example, in water pricing, water management costs and irrigation efficiency), and to advise COAG of those assessments);
- for 2006-07 and 2008-09:
 - (i) to assess the progress of parties to the NWI towards achieving the objectives and outcomes stated in, and within the timelines required by, the NWI;
 - (ii) to advise COAG of those assessments; and
 - (iii) to advise and make recommendations to COAG on actions that the parties might take to better achieve those objectives and outcomes.

- 2010-11, to review the NWI comprehensively, including assessing:
 - (i) the NWI against performance indicators that are developed by the Natural Resource Management Ministerial Council in consultation with the NWC;
 - (ii) the extent to which actions taken under the NWI have improved the sustainable management of Australia's water resources and have contributed to the national interest; and
 - (iii) the impact of the implementation of the NWI on regional, rural and urban communities; and to advise COAG of the outcome of the review and the assessment.

NWC will have the following specific functions relating to implementing the COAG Water Reform Framework:

- for 2005, to assess whether the parties to the NWI have implemented their commitments under the COAG Water Reform Framework, and to advise the Commonwealth of that assessment;
- for 2005, if requested to do so by the Minister, to assess whether States or Territories that are not a party to the NWI have implemented their commitments under the COAG Water Reform Framework, and to advise the Commonwealth of that assessment;
- for subsequent years, if requested to do so by the Minister, to advise the Commonwealth on the progress of a State or Territory that has a commitment still to be implemented under the COAG Water Reform Framework towards implementing that commitment.

[Back to document](#)

ATTACHMENT 6 - EXTRACT FROM STATE WATER CORPORATION ACT 2004

Board of directors of Corporation

- (1) The board of directors of the Corporation is to consist of not fewer than 3 and not more than 8 directors appointed by the voting shareholders. The voting shareholders are to consult with the portfolio Minister on the persons recommended for appointment as directors.
- (2) The person for the time being holding office as chief executive officer of the Corporation is to be a director of the board.
- (3) Of the directors, one is to be a person who is selected from a panel of 3 persons nominated by the Labor Council of New South Wales by a selection committee consisting of 2 persons nominated by the voting shareholders and 2 persons nominated by the Labor Council of New South Wales.
- (4) The procedures for constituting the selection committee, for making nominations and for determining other matters relating to the selection process are to be determined by regulations under this Act or (subject to any such regulations) by the voting shareholders.
- (5) Schedule 8 to the State Owned Corporations Act 1989 (clause 4 excepted) and section 20J (subsections (2)–(5) and (7) excepted) of that Act apply with respect to the board.
- (6) The persons appointed as directors are, between them, to have the necessary expertise, skills and knowledge that will enable the Corporation to meet its objectives.

[Back to document](#)

ATTACHMENT 7 - MINISTERIAL MEDIA RELEASE

Media Release

Frank Sartor

**Minister for Energy and Utilities
Minister for Science and Medical Research
Minister Assisting the Minister for Health (Cancer)
Minister Assisting the Premier on the Arts**



STATE WATER CORPORATISATION

18 March 2004

Minister for Energy and Utilities Frank Sartor today announced State Water will become a stand alone corporation by July 2004.

“Currently, State Water is an arm of the Department of Energy Utilities and Sustainability. This move to corporatisation will see greater transparency of State Water’s costs and create a more commercially focused water delivery business,” Mr Sartor said.

“The new State Water will be accountable to a Board of Directors which will include directors with a background in water industries and commercial knowledge.

“State Water will continue to deliver bulk water to irrigators, farmers and industrial customers as well as environmental water, in accordance with the water sharing plans. The new corporation will have a greater focus on efficient and effective service delivery.

“The new State Owned Corporation (SOC) will be a single statewide entity with a valley based structure, maintaining its offices in Dubbo, Leeton, Moree, Muswellbrook, Warren, Forbes, Albury, Deniliquin, Tamworth, Narrabri, and Parramatta as well as in 33 other regional locations.

“State Water has a variety of core functions including:

- asset management of dams, weirs and other water infrastructure;
- water delivery operations; and
- flood mitigation.

These functions will be maintained after corporatisation.

The Independent Pricing and Regulatory Tribunal (IPART) will continue to regulate bulk water pricing in NSW. Its next determination has been deferred until July 2005, however, there will be a CPI increase from July 1 of this year.

“Existing staff and staff entitlements will be maintained through the move to corporatisation.

In the next year I propose to merge Fish River Water Supply Scheme with the new State Water to rationalise the number of bulk water delivery agencies,” said Mr Sartor.

[Back to document](#)

ATTACHMENT 8 - COMPETITIVE NEUTRALITY PRINCIPLES

The principle of competitive neutrality is that a government owned business should not enjoy advantages over privately owned competitors by virtue of public sector ownership.

In the past, many government business activities were able to obtain certain advantages over their private sector rivals as a result of their public ownership. These advantages included exemption from taxes, lower costs of finance due to government guarantees and exemption from regulations affecting private sector activity. Such advantages gave unfair advantage to government owned businesses and encouraged resources to flow to them regardless of their efficiency.

National Competition Policy (NCP) competitive neutrality principles aim to remove this unfair advantage. The principles also remove the impediment to efficient resource allocation that had arisen from the regulatory advantage of government owned businesses. They ensure these businesses face the same costs and commercial pressures that face their private sector competitors.

Clause 3 of the Competition Principles Agreement obliges all Australian governments to apply competitive neutrality principles to the business activities of significant publicly owned entities where this is in the public interest. Clause 7 extends the obligation to local government. Governments need not apply competitive neutrality principles to the non-business, not-for-profit activities of publicly owned entities.

Under the Competition Principles Agreement, governments should adopt a corporatisation model for government business enterprises and apply full taxes or tax equivalent payments, debt guarantee fees and private sector equivalent regulation. An essential element of the obligations is that government business activities, like their private sector counterparts, set prices that enable them to earn sufficient revenue to cover their costs, including the cost of capital.

Source: National Competition Council website

[Back to document](#)