

DARLING RIVER



FOOD & FIBRE

18 April 2005

Mr Nigel Rajaratnam  
IPART  
PO Box Q290  
QVB Post Office NSW 1230

Dear Mr Rajaratnam,

**Submission to the IPART Review of Bulk Water Prices from 2005/06**

Attached is a submission to the IPART Review for of Bulk Water Prices from 2005/06 from Darling River Food and Fibre.

This submission relates only to the unregulated section of the Barwon-Darling River, with reference to the State Water Corporation submission of October 2004 and the Department of Infrastructure, Planning and Natural Resources submission of February 2005 for the Far West Region.

Darling River Food and Fibre is a voluntary association of farmers, business & local government on the Barwon-Darling River who, among other objectives, are seeking to promote job growth and prosperity in our region through sustainable farming and wise use of natural resources.

Our members are all water users, most of which could be considered customers or DIPNR and State Water Corporation. Our submission has been prepared in the interests of all of our members.

We feel that the level of detail in the DIPNR submission, in particular, is inadequate and our members require further clarification of what water prices they face constitute. I hope that the members of IPART will seriously consider the views expressed in this submission – possibly one of the few submissions focusing on unregulated rivers that IPART is likely to receive.

Yours sincerely

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Executive Officer

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# REVIEW OF BULK WATER PRICES FROM 2005/06

## SUBMISSION TO IPART

April 2005

DARLING RIVER



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## 1 INTRODUCTION

Darling River Food and Fibre agrees that water users should contribute to the costs associated with water operations on the unregulated section of the Barwon-Darling River. Extractive water users however, such as irrigators and industry, are not the only “water users” who should be responsible for cost recovery of water resource management. Other legitimate water users may include passive and active recreationists, domestic and stock water users and the environment in general. Where these other water users are beneficiaries of the Department of Infrastructure, Planning and Natural Resources’ (DIPNR’s) water resource management, cost recovery for expenditure should be spread across all user groups.

DIPNR’s submission to the IPART Review of Bulk Water Prices from 2005/06 is disappointing in that it is incomplete and proposes to continue its current pricing regime for an additional water year. The indicative costing information lacks detail and accountability for its financial operations. It is hoped that the proposed “medium term submission” is provided in a timely manner, clarifying exactly where every dollar is spent and how the Department plans to recover these costs.

Darling River Food and Fibre is principally concerned with water pricing on the unregulated section of the Barwon-Darling River, however, some of the issues may apply to unregulated rivers in general. The submission by State Water Corporation (SWC), who will only be responsible for meter reading and billing under contract to DIPNR, is not particularly relevant to this submission. It would be anticipated, though, that DIPNR fully detail the costs associated with SWC’s contracted services in their medium term pricing submission.

## 2 IPART WATER PRICE REVIEW

SWC will contract to DIPNR for meter reading and billing services for unregulated rivers such as the Barwon-Darling River. They have no other responsibilities in water delivery or water resource management. Therefore, DIPNR must detail these contracting costs in their cost estimates.

DIPNR’s submission to the IPART Review of Bulk Water Prices from 2005/06 is incomplete, lacking transparency and accountability and uses the recent changes in water management as an excuse for their lack of compliance with IPART requirements. The submission promises a medium term pricing proposal in the second half of 2005 to take effect by 1 July 2006. This seems to be a weak attempt to

further delay issues that IPART specifically requested a response from DIPNR to in its 2001 water price determination. Industry has also been awaiting clarification of these issues since the 2001 determination.

In its submission, DIPNR appears to be attributing most of the Department's costs in the Far West to water users. The level of detailed costings provided by the Department is insufficient to be adequately transparent to water users, as was the case in their submission (DLWC at the time) to the previous bulk water pricing review.

Specific comments are presented below.

### 3 WATER RESOURCE MANAGEMENT (WRM) COSTS

#### 3.1 WRM Operating Costs

*In the 2001 determination, IPART raised the issue of changes in the former DLWC's operating costs, as follows:*

*'Given the probability of significant developments within the industry IPART is likely to review in detail the operating costs of DLWC at the next Determination. It notes that the costs used for this Determination should not be regarded as the benchmark efficient costs'*

In its submission, DIPNR provided "indicative estimates of WRM operating costs from 2003/04 to 2005/06" (page 4), however, a detailed review of costing information was not undertaken. DIPNR suggested that this detail will be completed for the medium term pricing proposal.

Instead, for the current water year, DIPNR propose to charge existing prices adjusted for CPI.

#### Recommendation

**In the absence of detailed costing analysis, DIPNR should be limited to charging a maximum of existing prices, without adjustment for CPI.**

On page 4, the DIPNR submission states that:

*"...it should be noted that only costs relating to recurrent WRM activities, rather than one off water planning and reform costs, have been included in the costing estimates.*

*The increase in unregulated river WRM costs in part reflects the additional costs of the metering and billing SLA with SWC to take effect from 2004/05 onwards. It also*



*reflects increased WRM costs associated with implementation of the planning provisions of the WMA”*

On page 15, DIPNR acknowledged the National Water Initiative (NWI) commitment to, among other things, achieve pricing transparency (pages 12 & 13). This is a positive step forward, however this pricing transparency is yet to be achieved.

**Recommendation:**

**Ensure that full pricing transparency, including fully itemized WRM costs, are included in the medium term pricing proposal.**

### **3.2 WRM Capital Expenditure**

The DIPNR submission states that:

*“Capex is incurred in maintaining unregulated river infrastructure, such as weirs and regulators. In addition, compliance capex (largely for environmental works such as fish passage) is incurred on these structures.*

*Annualised WRM costs for minor items of capex and capex on unregulated river structures were included as water delivery rather than WRM costs in the 2001 determination, and have not been included in the WRM cost estimates in this submission. These items of capex, in addition to capital projects capex, will be reviewed for recovery through WRM charges in the medium term submission.”*  
(Page 5).

The Barwon-Darling River, between Mungindi and Menindee, has no dams and the weirs that exist were built for a variety of broad community purposes. These purposes include early river navigation, town and railway water supplies, stock and domestic use and recreational purposes. They were not installed for irrigation purposes and water is not available for extraction for irrigation purposes once the river has ceased to flow. Irrigators have invested in and maintain their own off-river storages along the Barwon-Darling River and therefore, have no dependence on these weirs except as ordinary citizens of the relevant communities.

Clearly, the costs associated with these weirs should be a community responsibility paid by the State. It is unclear, in the DIPNR submission, which user groups are attributed to these costs.

**Recommendation:**

**That the review of cost recovery of these capex items in the medium term submission consider the lack of dependence of irrigators on weirs along the Barwon-Darling River and ensure that irrigators are not held responsible for these works.**

## **4 COST SHARING ARRANGEMENTS**

### **4.1 Cost sharing principles**

In the 2001 determination, IPART moved to a predominantly ‘impacts pays’ approach to cost sharing (from a mix of impactor pays and beneficiary pays in the 1998 determination). This approach was consistent with ACIL’s recommendations.

DIPNR committed to reviewing this approach in the medium term submission.

Many problems on the Barwon-Darling River are inherited from general human occupation and upstream development, on the tributaries. These upstream impacts need to be taken into account when looking at the impact of irrigation on the River, and the nature and cost of any remedial processes.

Therefore, many of the perceived problems on the Barwon-Darling River which require expenditure by DIPNR are broader community concerns, which can and should be addressed by all sections of the community.

It seems grossly unfair to single out one easily-identifiable group and ask them to carry the cost for problems created by the broader community.

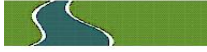
Also, services provided by DIPNR such as water quality monitoring and reporting would still be undertaken if irrigation was never introduced on the Barwon-Darling. That is, this is a service that would be required by the broader community, regardless of whether or not irrigation existed.

**Recommendation:**

**Some cost share between the different stakeholders needs to be determined and made specific in the DIPNR costings for their medium term submission.**

### **4.2 Legacy Costs**

The interpretation of “legacy costs” is also an issue to be reviewed for the DIPNR medium term submission. In a similar vein to poor maintenance of water infrastructure, water license over-allocation on the Barwon-Darling River and other



unregulated (and regulated) rivers was created largely as a product of pre-1997 Departmental decisions in light of poor information. Therefore, this problem should be rectified using Government resources rather than cost recovery from water users. It is unclear (Page 4) whether DIPNR costs associated with amending the over-allocation of water licenses are being allocated to water users. The additional costs associated with implementation of the planning, however, are a legitimate cost to license holders.

**Recommendation:**

**Costs associated with bringing water licensed volumes within Cap be the responsibility of DIPNR and made transparent in their medium term submission.**

## **5 TARIFF STRUCTURE**

DIPNR's proposal to retain, in the short term, an "access charge" per megalitre of entitlement in non WSP areas, rather than move to a two-part pricing tariff, seems reasonable while DIPNR are yet to implement a Cap on diversions on the Barwon-Darling River. A two-part pricing tariff should be set to recover fixed annual costs through an entitlement charge and usage dependent costs recovered through the usage charge.

The problem with unregulated rivers is that costs to DIPNR and State Water do not vary much with water use. Water monitoring may be a source of additional costs with increasing water use, but meter reading would be no more arduous and WRM is unlikely to differ much. Therefore, it would be expected that a two-part water pricing tariff, once introduced, would have an entitlement charge set to recover relatively fixed costs and a much smaller usage charge for the variable costs.

**Recommendation:**

**Move to a two-part pricing tariff in the year following Cap implementation on the Barwon-Darling River that reflects the cost patterns of State Water and DIPNR.**