

Lachlan Customer Service Committee

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

12 April, 2005

Dear Mr Cox,

Review of Bulk Water Prices from 2004/05

The Lachlan Customer Service Committee welcomes the opportunity to have input to the review of Bulk Water Prices. Submissions on behalf of customers in the Lachlan Valley have been made by Lachlan Valley Water Inc. and Jemalong Irrigation Limited and we do not intend to restate the detail covered in those submissions, but comment on some key issues from the customers' point of view.

1. Delivery of Basic Rights - Community Service Obligation

State Water's business involving delivery of water to both paying and non-paying water users. The ongoing drought has revealed that for a fixed cost business, cost recovery is a problem where only a low proportion of the water managed by State Water is delivered to paying customers. Information from State Water is that even under normal conditions it is only able to deliver around 30% of the water it stores in the Lachlan valley to paying customers. The majority of the flow down the river is environmental water, basic running of the river and supply of stock and domestic basic right to land holders.

Under drought conditions the proportion of water delivered to paying licence holders is even lower, and 80-90% of State Water's workload for Lachlan valley based staff over the last 2 years has been involved in keeping the river running for the delivery of town supplies, other high security allocations and water to basic rights holders.

Under the two part tariff 60% of costs are recovered through fixed charges, with general security licences paying 87% of the total fixed charges and high security the remaining 13%. Basic rights holders do not hold a licence and pay no charges. This is neither equitable nor cost reflective under low supply conditions. General security licences in the Lachlan received only 3% allocation in 2002/03 and nil allocation in the 2 years since then.

Lachlan CSC recommends that the delivery of stock and domestic basic rights be defined as a Community Service Obligation and funded by Government.

2. Lake Brewster Project

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Lachlan CSC was not consulted on this proposal and does not support the payment schedule of \$2.41/ML for 2 years as proposed by State Water. This time frame is unaffordable, particularly under the extreme drought conditions the Lachlan is currently suffering.

The CSC understands State Water's objective of matching the funding to the expected expenditure period but recommends debt funding be used to spread the impact over a longer period. We recommend State Water borrow the funds and amortise the loan over 10 years to recover the capital plus interest from water users.

The CSC also notes that the project cost has not yet been finalised and recommends that approval of this project as a component of water charges be conditional on the final cost being approved by the Customer Service Committee, and that cost recovery does not commence until costs are incurred.

3. Legacy Costs on Commencement of State Water Corporation

It is important that in State Water's establishment as a corporate entity the pricing arrangements enable State Water to operate as an efficient bulk water delivery business whose pricing is cost reflective and transparent, and where all legacy costs relating to prior institutional arrangements are clearly identified and accounted for.

We recommend that a reconciliation be carried out of State Water actual expenditure compared with budget since the last pricing determination to establish a 'clean slate' for the commencement of State Water Corporation. Any under funding of maintenance and infrastructure upgrades, or withholding of operating funds from State Water since the last pricing determination, should be identified and repaid or recognised in State Water's financial statements.

The establishment of State Water Corporation must not result in customers incurring higher charges or assuming liability for deferred maintenance or other expenditure as a result of State Water's previous financial arrangements with DIPNR.

4. Consultation with Stakeholders

The Terms of Reference for Customer Service Committees describes the CSC's role as including, but not limited to:

- identifying customer service requirements and service delivery standards;
- reviewing asset management priorities; reviewing State Water's financial reports at a valley basis and providing input to water pricing strategies for recommendation to IPART.

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As a key stakeholder representative body the CSC welcomes a more active role in providing input to pricing strategies, particularly in the development of new approaches to water pricing, than occurred during this pricing round.

Yours sincerely

Dennis Moxey
Chair
Lachlan Customer Services Committee