

COASTAL VALLEYS CUSTOMER SERVICE COMMITTEE

**Submission to the IPART
on the
Review of the Bulk Water Pricing for
State Water Corporation
&
Department of Natural Resources**

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Submitted by:

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Submitted to:

Independent Pricing and Regulatory Tribunal
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1. INTRODUCTION

The Coastal Valleys Customer Service Committee (CVCSC) has prepared the following comments for consideration of IPART in relation to the Review of Bulk Water Prices 2005 for the State Water Corporation.

The Coastal Valleys CSC has developed this submission in a similar manner to our previous submission to IPART in that:

- This submission by the Coastal Valleys CSC represents the collective view of a committee made up of a diverse representation of consumptive users.
- There are some issues where members of the Coastal Valleys CSC have differing views. Those views are not discussed in detail as committee members can make representation independent of this submission.
- The purpose of the Coastal Valleys CSC is to represent customers in their respective coastal valleys by providing advice to State Water Corporation on the effective management and delivery of rural bulk water and asset management.

Many of the issues impacting on the coastal valleys are common to other customer service areas across NSW but there are a significant number of issues that are unique to the coastal valleys. The health of our river systems and the factors that impact on it are quite different to western fall river systems.

For example:

- Urbanisation and industry are largely confined to the coast - with substantial impacts.
- The proportion of total river flows that end up as estuary inflows on the coastal valleys is high in comparison to the inland systems. (at least 95% of total flows go to sea)
- There is principally only one agricultural / irrigation enterprise, dairying, on the regulated rivers and this is under external pricing pressures

The newly corporatised State Water Corporation's primary business is supplying bulk water to regulated customers. Historically the Coastal Valleys CSC has represented regulated, unregulated and groundwater customers. While this submission does focus primarily on the regulated customers of SW it also aims to represent unregulated customers on a number of issues. In the Coastal area most of the licensed water users are on unregulated streams.

The new CVCSC (Appendix 1) does have two unregulated representatives on its committee to represent those issues common to regulated water users. SW has been responsive to our CSC's concerns for unregulated and groundwater water users and has facilitated the formation of an Advisory Committee (Appendix 2) to the CSC to specifically deal with unregulated and groundwater issues. This committee will have its own chair the chair will be a member of the CSC. It has met once at this stage, 14th Nov, and so is in its infancy to be able to provide detailed input.

Never the less a number of recommendations have been made that apply to this IPART review and these will be made by the CSC on the committees behalf.

Historically there has been a confidence amongst regulated customers that State Water Corporation will provide a good service at an acceptable cost. However, there is a great deal of dismay in what appears to be outrageous claims as a result of the corporatisation process and the NWI by both SW and DNR. SW does have a good relationship with its customers on the coast and our CSC considers common sense and the reality of understanding what drives their business on the coast will result in both a realistic price and price path. Historically there is mixed experience about both the service and the cost of the service provided by what was Department of Land and Water Conservation (DLWC).

There are examples of excellent service, as well as, examples of poor service. While State Water Corporation has been accountable and transparent with the costs of running the business, the same cannot be said for the natural resource management component of costs that were until recently administered by the Department of Infrastructure, Planning and Natural Resources. Now with yet another name change they are administered by DNR. DNR appears to see licensed water users as the proverbial milking cow with no sense of fair and just charges to water users.

This a two-part submission with the first part covering State Water Corporation Submission and the second part covering Department of Natural Resources submission

2. PART 1 - COMMENTS ON STATE WATER CORPORATION SUBMISSION:

2.1 Establishing Efficient Costs

2.1.1 Operating Expenditure:

The Coastal Valleys Customer Service Committee (CVCSC) supported the corporatisation of State Water (SWC) on 1 July 2005 on the basis of expected efficiency gains that would include cost savings. The speed with which corporatisation occurred may be a reason for the large increase in costs but this was not offered as a risk during the corporatisation process and the sole responsibility should not be borne by the customers in this determination.

The CVCSC are disappointed that the submission is primarily about cost recoveries and, it would appear, that corporatisation has been used to build an empire and transfer government costs to identifiable consumptive users.

It has ranged from difficult, to almost impossible, to identify the levels of service that are being delivered by the Department of Natural Resources (DNR) and, therefore, it is difficult to assess the reasons why there has been a significant increase in costs by both SWC and the DNR.

If a Service Agreement exists between SWC and DNR it should be transparent to enable cross-referencing of income against costs in various areas. e.g. SWC and DNR both charge for data collection and share data from monitoring equipment. We are concerned there may be double dipping.

As a committee we have also struggled for time to assess the impact of the additional capital expenditure on operating costs. We would expect that the significant increase in capital costs should result in lower operating costs. This is not demonstrated in the submission.

There is no demonstration in documents of reductions in operating costs such as labour costs as a result of the capital expenditure although in principle we support the capital expenditure to improve operating efficiencies. It would appear the business structure is encouraging capital

expenditure because it guarantees a rate of return to produce a dividend not primarily a better service.

State Water (and DNR) does not show income streams for other activities that are directly related to the water delivery business. These activities such as hydro power station royalties and rents would not exist without the core business and should be considered in Imparts determination. State Water and (DNR) are using this income purely as profit at the identifiable consumptive users expense.

Neither SW nor DNR showed an income stream and on the whole we do question their operating costs under the new business structure. It is difficult to know or understand the allocation of costs such as environmental flows, operating dam foreshores and delivery to basic right users and what proportion customers should pay.

The operating expenditure 04/05 was 25.7 million. The proposed operating expenditure 06/07 shows a net increase of 8.2 million, a **32% increase** (table 8.6 SWC Submission). However it is our understanding only \$172,000 of this increase actually incurred in the Coastal Area. Corporatisation of State Water was supposed to deliver customers cost savings not an increase in operating costs due to excessive increases in overheads. Corporatisation was sold to the Customers on the basis of an improved efficiency and cost effectiveness, this has not been reflected in State Waters submission.

The timing of the IPART hearings and the formation of the new CSC has not allowed us adequate time to consider these huge increases. In all the increased costs there is no demonstration of improved service delivery or water delivery. It was a request of the Coastal Valleys area that no improvement in service be sought if it was going to increase costs. We have always been a high cost operation to delivery water and customers, particularly irrigators, cannot afford the proposed increased costs. In the past we have been extremely satisfied with the service levels provided by State Water and the changes made up to the corporatisation of State Water. We do not understand the justification for such large cost increases but more significantly we cannot afford these increases.

It is reasonable to assume as a newly corporatised body straight out of the public service State Water still hasn't had time to introduce efficiencies that will be reflected in a most cost effective and efficient organisation. The CVCSC acknowledge that State Water is implementing a structure that will hopefully result in a more efficient and responsive organisation. The costs associated with setting up the new organisation are still only estimates as State Water has only existed for such a short time and there are no historical costs to base a submission on let alone for IPART to determine if they are effective or efficient costs. In this climate the CVCSC cannot understand how State Water can fully justify the proposed costs and associated water charges.

2.1.2 Capital Expenditure:

We support in principal the Regulatory Asset Base (RAB) approach but are not confident about the reasoning of the base figure of \$302 million. We also consider that the comparative graphs provided by State Water between the RAB and the annuity based approach were quite misleading in projecting the sustainability of State Water as the profit is only achieved by what must be huge increases in water charges.

The State Water submission has assumed there is an unlimited ability to pay. In the Coastal Valleys area this is untrue. Attached (Appendix 3) is an assessment of the impact on the Hunter and the North Coast of the proposed increases in SWC charges only. SWC won't have a business if it prices users out of existence. On the coast there hasn't been any stand performers who will take the increased available water. SWC projections of a profit won't occur if they can't sell water.

The CVCSC questions the break up of the RAB between valleys for example why is Toonumbar's RAB substantially higher than Brogo Dam when each dam is similar in size and construction yet Toonumbar delivers less water. The CVCSC would also like to see from State Water the effect of splitting the RAB for the Hunter and Paterson valleys. While the Paterson river is a tributary to the Hunter River they are separate water sources with no connectivity between them and will have separate water sharing plans that may have different rules.

Specific concerns were raised regarding the proposed purchase of plant and vehicles. We would like a comparison for the purchase of plant and vehicles versus leasing as this impacts on State Water financial performance and this results in a further impact on the pricing to customers. The CVCSC queries if the purchase of plant and vehicles (and the ability to receive a rate of return on the sale of vehicles) would increase the customers water charges in comparison to leasing and the associated tax advantages to State Water. We are in favour of the cost pathway that has the lowest impact on our charges not the pathway that maximises SWC profit.

The CVCSC support any process to reduce costs associated with the delivery of water to customers such as the costs associated with the implementation of SCADA equipment. The current SW submission undertakes the capital works but there does not appear to be any reduced operating costs as a result of the capital expenditure.

We are concerned about the replacement of houses. With implementation of SCADA it would seem reasonable there could a reduction in the need for new houses. We would like CVCSC to examine the potential of renting the existing houses.

Corporatisation cannot be used as an excuse for catching up on the historical inefficiencies of the old business structure. It also demands accurate accounting because consumptive users don't require equipment to maintain recreational areas. Surely these costs are community costs. Coastal irrigators cannot afford the luxury of paying what are effectively community service obligations.

2.1.3 Payment of a Dividend by State Water:

The CVCSC consider that it is absurd to be discussing payment of dividends when the pricing path will kill large sections of the coastal irrigation industry. The CVCSC feel that the government cannot expect water users to pay a dividend to subsidise other government departments such as City Transport and this very dividend be the straw that breaks the back of customers. Again we refer you to the DPI assessment of the impact on these increased water charges on general security users in Appendix 3

The CVCSC asks IPART to undertake a socio-economic study on the increase in prices on the dairy industry and its communities. The dairy industry is the principal agricultural / irrigation agribusiness on the Coast and dairy farmers are under pressure with prices that are approaching cost or below cost to produce milk. IPART needs to consider the ability to pay issues for the dairy industry on the proposed price path suggested by State Water and DNR.

State Water is essentially a fixed cost business irrespective of the amount of water sold and if its proposed charges result in the dairy farmers going out of business very little of the water used for dairying will be sold to other consumptive users especially at the proposed prices. Approximately 90% of all water used from the Brogo, Toonumbar and Lostock dams is used by dairy farmers. All these valleys have large sleeper components and there is no market/ buyers for licences. Other industries such as sugar cane, horticulture, beef, cropping, haymaking and the equine industry will all be impacted and on the coast water use has to be at least maintained to keep the **whole** irrigation industry viable.

What would State Water do if these licences are cancelled because the price of water is unsustainable?

The CVCSC believes State Waters proposal is in contravention of the objectives and functions of State Water Corporation as defined in the State Water Corporation Act 2004.

State Water appears to be operating to its principal objective and not considering its other objectives in particular its objectives 2 (b) and (d)

2.1.4 Rate of Return:

The rate of return should be adequate to keep the business functional and not used to fund poor performance in other state agencies. It is our understanding that even if water infrastructure was considered similar to a private sector investment, the nature of the assets mean that is a long term capital growth style investment that would generate no more than 3.5 % - 5% annual dividend if it was performing well.

2.1.5 Setting Prices:

2.1.5.1 Two Part Tariff:

The CVCSC has a number of specific comments that have a differing view to other user groups including the NSW Irrigators Council (NSW IC). We agree, in principle, with the NSW IC that SW should be sent signals to be cost efficient in water delivery. The CVCSC consider that the whole industry, including users, be sent the correct signals to be cost efficient not waste water and use the water stored as efficiently as possible.

The implications include:

The cost of water stored but not used needs to be accounted for and charged to those licence holders. Sleepers need to pay their share of costs. The problem on the Hunter and Paterson is there is only small water trade market. There is not the demand for temporary transfer as occurs on western fall rivers.

User pumping costs are relatively high compared to Murray and Murrumbidgee irrigators. The current signals to irrigators are to improve both water and cost efficiency as evidenced by the large number of centre pivots that have been installed over the last three (3) years. There are more than enough signals to the irrigator to be both cost efficient and miserly with water without the government using price to further reduce use.

On the coastal valleys the dairy industry has a major impact on the total water used. There is no question that if the dairy industry fails a significant reduction in irrigation will occur. If the correct signals from the two-part tariff are not conveyed clearly the cost per megalitre of delivered water will increase. The reality is less water in total will be used and the high fixed cost nature of water delivery on the coast will result in the remaining users having to pay an increasing share of costs. The report by DPI demonstrates the extremely severe impact on farm profitability of rising water cost.

There has been a suggestion that the proposed increases at Bega could devastate Bega Cheese even though only approximately 35% of dairy farmers irrigate from the regulated system. A reduction in water use will lead to a reduction in milk production which in turn affects the viability of the factories the farmer's supply which has detrimental economic flow on effects in the community.

South coast members of the CSC consider beef farmers have not a hope in the hot place to continue using water to produce beef if the proposed unconstrained prices are put in place.

In the Coastal Valleys State Water has a high operating cost infrastructure whether water is used or not. Whilst we acknowledge NWI requirement for a 40% Fixed 60% Usage tariff, the CVCSC consider that a 60% Fixed 40% Usage tariff sends the best mix of signals to all stakeholders on the North Coast, Paterson and Hunter. To send the signal to SW they cannot rest on their laurels with a high fixed charge component of the two part tariff and to cater for the lower security of supply we consider the fixed charge should be on **available water only**. This is important to customers on the South coast as in most years they commence the season with less than a full allocation. Our proposed tariff is sending signals to all customer stakeholders with the aim of all trying to be more efficient at the same time as being fair and just to all.

2.1.5.2 High Security General Security Ratios

The CVCSC support the recommendation of State Water on HS/GS ratios being on a valley basis and that the differences in charges reflect the increased security as determined by the water sharing process.

The CVCSC note that in comments earlier this year Macquarie Generation in their submission to IPART accepted the need for a much more realistic high security premium.

Specifically the Hunter area has a large amount of High Security (HS) entitlement and there is a need to store this water for future years in accordance with the Hunter WSP. The Hunter Water Sharing Plan rules have been designed to get HS users through the drought on record ie 1 in 100 years and subsequently the GS entitlement holders have restrictions imposed on them when the combined storage levels are dropped below 50%. If there is no High Security premium over General Security base on the entitlement charge and a high fixed to variable charge ratio then the irrigation (general security) users are subsidising the towns and industries. With full transferability between different security levels of water (subject to water sharing plan rules) it is possible for State Water to loose income. The reserving of water in the storages for future seasons impacts on State Waters financial viability at the bottom line as water is lost through increased transmission and evaporation losses leaving less water for sale. In the Hunter there is a real lost opportunity cost to State Water due to the amount of high security water stored in the system.

The CVCSC could not understand the Toonumbar billing % increase on high security (3972.9%) and general security (196.7%). If those figures are correct it puts all other figure in doubt. The CVCSC would request IPART to ask SW/DNR to provide a recalculation and justification of figures.

2.1.5.3 Wholesale discounts:

The CVCSC strongly opposes wholesale discounts. State Water charging should be equitable and transparent and any services provided by wholesale customers to State Water should be by way of a contract not a discount on the price of water.

2.1.6 Level and Rate of Charge:

The SW submission provides detail on unconstrained prices. The adoption of the unconstrained prices would be unsustainable for coastal irrigators. Local water utilities have the ability to pass on charges. The average SW coastal irrigator customer is a price taker. It is considered the majority of regulated coastal irrigator water use is by the dairy industry. The dairy industry is still under going rationalisation since deregulation with a continuing exodus from the industry. SW on the coast needs increased water use not a reduction in water use. If the rate of price increase is beyond the capability of the dairy farmer to cope with it will have a significant impact on SW viability on the coast.

If the North Coast, South Coast and the Paterson customers were separated from the Hunter they could never pay unconstrained price charges. The Paterson does need to be considered separately to the Hunter as our CSC has supported valley by valley accounting at a State level and so we do recognise that the true Hunter user has been subsidising the Paterson. There needs to be a mechanism that recognises the high cost infrastructure and acknowledges the need for a Community Service Obligation to allow transparency of the true costs. The long term options for the Paterson have to be considered and so the asset maintained. While existing customers could never pay the true cost it is important there be full transparency recognising the CSO. In light of the push to build a desalination plant in Sydney it is imperative that the Paterson be considered for the long term and that should include operating as efficiently as possible in the short term so at least the current asset is maintained

Any price increase needs to be introduced and phased in at a rate that does not threaten the current customer base because in the short term there is no alternative demand to support the existing business.

The CVCSC is also concerned that the State Water business is still in its infancy and the business has not had time to stabilise. The transition has occurred extremely quickly, particularly when compared to the corporatisation of other state owned corporations. The irrigator customer cannot pay what now appears to be a much more expensive transition to corporatisation than we initially led to believe. Industry use on hunter recognised the need for higher costs to achieve the service levels they desired and yet the last determination appeared to devalue high security water relative to customer expectation. State Water should not be seeking full cost recovery from coastal general security customers.

SWC appears to have used this freedom of operating on a commercial basis to have some catch up. It would appear the period under MEU was particularly inhibitive of commercial practices. SW needs to recognise that coastal customers cannot afford the catch up as a result of poor historical practice. Either SW is provided some leniency to meet its cost recovery targets or many customers will cease to use the water producing a cost spiral for those remaining customers reconsider the level of service.

For example it is our understanding that maintenance schedules at Toonumbar are of 1970 vintage. Upgrade schedules in line with capital upgrades cannot be absorbed by customers at too rapid a rate.

The CVCSC is concerned that State Water assumptions for determining their base charges are very conservative and aim to provide SWC low business risk. While we acknowledge our request for a higher fixed charge ratio than other stakeholders it is important SWC are commercially challenged to deliver a cost efficient service.

2.1.6.1 Usage Charges:

In the Hunter water use is not generally resource constrained except in a drought of record of about 10 years as the two major users the dairy and power industry have constant requirements.

State Water has assumed a usage of 105,752 ML (table 10.4) whereas for the last 12 years the average usage has been 126,747 ML (source State Water)

2.1.6.2 Entitlement charges:

State Water states in table 10.2 that the entitlement levels in the Hunter Valley at 1 July was 70,383 ML High Security and 128,562 ML General Security. In water sharing plans for the Hunter and Paterson Valleys the volume of General Security and High Security water is 71,043 and 127, 556 Megalitres respectively. These anomalies gives State Water approximately \$400,000 of profit at the proposed unconstrained price levels. The CVCSC asks IPART to have State Water recalculate their proposed prices on this basis

2.1.6.3 Proposed Cost Sharing Ratios

The CVCSC object to State Water proposed changes to the following cost sharing ratios.

To understand who has access to the water in the dams and so we include the attached Table 1.

The proposed change to fully 100% user share as against State Waters 80% in its April submission for all operating costs is objectionable as it can be seen from table 1 in the Hunter and Paterson Valleys that approximately 40% of the water is used for non consumptive purposes. Other community benefits such as recreational are not considered and the CSC recommends that the government user share go from 80% user 20% government to 60% user 40% government on this basis. If IPART does not agree it must consider whether the Environmental Contingency Allowance provision should be attached to a chargeable water licence.

The proposed change from 100% government to 100% users for dam safety upgrade cost for post 1997 works does not take into account that the Bureau of Meteorology appear to be continually changing their methodology of calculating their maximum rainfall events resulting in changes to flood levels. Until these standards are stable it should not be up to the user to pay for the work when the primary benefit will be the community.

3. PART 2 – COMMENTS ON DEPARTMENT OF NATURAL RESOURCES (DNR) SUBMISSION:

The basic problem assessing DNR's submission is the lack of transparency with their costs. DNR have always been reluctant to be transparent with their costs. There is a very real possibility they are double dipping as well as using the NWI as an excuse to charge for services we don't need or charge for services duplicated by SWC or Local water utilities.

In past years DLWC appears to have been subsidising State Water for some services. If that is correct, and SW are now paying their share then it should be reflected by a decrease in DNR costs.

3.1 *Water Sharing Plans:*

At present most of the unregulated river valleys have not been informed on the content of their water sharing plans which have been prepared without any input from the stakeholders. It appears that DNR have fast tracked the process in order that the next round of payments to NSW and the National Water Initiative can be made. We are concerned about the expectation from DNR that licensed users have to pay yet there is no transparency of the costs being attributed to WSPs.

3.1.1 Capital Costs:

The CVCSC has addressed this issue looking at a water utilities role in the process. Hydrometric stations play an important part in the collection of environment flow data. Has DNR taken into account the contribution made by MidCoast Water for the operation of five (5) hydrometric stations on the Manning and Landsdowne Rivers or are DNR charging twice for these stations and has the income from Midcoast Water been taken into account in DNR's existing revenue stream?

3.1.2 Metering:

All councils for town water use in the Coastal Valleys have and maintain their own metering systems that record unregulated rivers and groundwater system extractions. These costs should not be included in DNR operating costs.

3.1.3 Groundwater Monitoring Bores:

Many council's have extensive groundwater bores. This information is easily accessible to DNR and it is not appropriate that DNR charge for costs of information collated by Councils.

3.1.4 DNR submission - Appendix 1

Insufficient information has been provided to the CVCSC. A break up of costs is needed for each river.

DNR appear to be transferring all costs for water resource management to licence holders and double dipping for services provided to more than one organisation. Work undertaken by other organisations could also be charged to licence holders but without sufficient information the CVCSC cannot make an informed submission

Surface Water Code C01-01 - Majority of council's can provide this information without DNR duplicating the service.

Hydrometric gauging stations Code C01-06 - DNR in the Hunter Region provides services on a contract basis and receives Income for these services from State Water, Midcoast Water, Hunter Water Corporation, Gosford/Wyong Council and Hunter River Salinity Trading Scheme for hydrometric stations. Some of these stations serve more than one customer. The CVCSC would like this matter addressed, as it appears that the DNR are double dipping and duplicating costs.

Groundwater Modelling (GIS) - Some Councils have implemented Groundwater Modelling systems at their own expense. Groundwater Modelling is a core business function of the DNR.

The CVCSC recommends that until there is more transparency that:

- DNR be granted a water price increase no greater than the current CPI.
- DNR clarify cost structure and services to customers particularly on groundwater and unregulated streams.
- DNR to consult with Councils to eliminate duplication of services.

3.1.5 Unregulated users:

There are 8583 unregulated licences on the coast accounting for 64% of the States unreg licences. While the new CSC doesn't have the same representation as the previous CSC for unregulated customers we have set up an advisory committee to provide a better representation of both unregulated and groundwater issues. This new advisory committee has had only one meeting, 14th November 2005, and so is in its infancy to provide full representation of issues. What was obvious was those members not previously a part of the CSC process just did not understand the seriousness of the implications of DNR's submission. SW has used the CSC process to develop confidence between customers and SW. DIPNR and now DNR have not used the opportunity of the process to develop the same level of confidence and so many members are distrustful of DNR. Specifically for the this IPART hearing the advisory committee has made a number of recommendations.

Recommendation 1:

- DNR should ideally have a consultative process for licensed users along similar lines to the SWC CSC process.

The SW CSC process has worked because SW people have been committed to the process. SW staff in the old organisation have always had a customer focus. If DNR can make a commitment to the process and genuinely consult potentially many of constraints to achieving DNR's goals may be overcome. It should be a more effective process than the Advisory committee as most unregulated and groundwater issues relate directly to DNR. In the mean time unregulated and groundwater users appreciate the opportunity provided by SW and financially supported by DNR.

Recommendation 2:

- Users share of WRM costs for unregulated rivers without a WSP should be a fixed charge based on volume allocated to each licence.

The advisory committee was not prepared to make a recommendation for streams with a WSP. The full implications of metering and shares ratios could not be understood without knowing the detail of each WSP. What share of user versus CSO was not resolved, as there is again a severe lack of detail provided by DNR? It was considered there will probably be a need for a two part tariff but in light of the slow process to get detail on the WSP there was a general distrust of DNR with the decision the committee will have to wait and see.

It was pointed out that some water user associations have been operational since the 1960's and these associations consider they have shared the water effectively at no cost to the government and as such have difficulty understanding all the fuss as well as the unnecessary cost.

Recommendation 3:

- The advisory committee recommends that the metering standards adopted by the WSP account for the large number of small users. The process to better manage the water resource should not cause people to cease irrigating because of unreasonable and unfair costs imposed by the government without any net community gain.

Recommendation 4

- The user share of costs on the unregulated streams should lower than that submitted by DNR

In the DNR submission a figure of \$17.264 million is given for WRM for 2006/07. Of this \$15.320 million (some 88%) is to be funded by license holders. Most DNR activities occur as a result of Government regulations and community demands despite what table A3.1 says about security of supply to users. Unregulated users security is only as secure as the rainfall in their catchment area and extraction for irrigation in coastal systems is less than 5% of total flows through river systems. As this is the case it would seem reasonable that government and community contribute a higher percentage of WRM costs.

In the unregulated systems irrigators see very little direct benefit from DNR activities, as most management of river flows is implemented by water user groups in each sub-catchment according to available water and historical knowledge.

Recommendation 5:

- Farm dams should **not** be lumped in with unregulated streams. There is a difference between dams filled from streams during high flows to those filled directly from their catchment.

DNR provide no service in the operation of farm dams where there is currently no metering. A separate policy needs to be determined.

Recommendation 6:

- Licence cleansing should not be charged to customers. It is unreasonable to expect customers to pay for what is effectively incompetent bureaucracy. There should be minimal cost if licences were effectively processed from the outset.

4. CONCLUSION

The major concern of this price review is the proposed increase in costs that were suggested in the unconstrained price projections. If these increases cannot be constrained by what ever means the coastal irrigation industry will cease to exist. The CVCS have supported both the separation of SW from the regulatory role under DLWC and corporatisation of SW. We were led to understand the new structure would deliver desired service levels at a cost our businesses can support. At worst where customers ability to pay cannot occur the process is transparent enough to allow all stakeholders the opportunity to see and understand any subsidy. On the coast high security users are also dependent on a viable irrigation industry to share both operating and capital costs of running a water delivery business.

The unconstrained prices sought will kill the coastal dairy industry. On the coast for regulated and unregulated river irrigation industry to survive there can be no decrease in water use. The irrigation industry already suffers from poor economies of scale and so all sectors of the customer base must remain viable.

The impact licensed customers make to local economies is not well documented. Deregulation of the dairy industry has already had a severe impact on local communities. The State government has a responsibility to protect the basic integrity of our local communities and not use the NWI and other changes to water management to destroy what have been sustainable businesses. IPART must recognise there is an element of divide and conquer by DNR with the planned WSP process. The reluctance by DNR to be accountable is of grave concern to customers and for this to be added what has been a misleading outcome from the corporatisation of SW does not give customers confidence for a viable irrigation industry in the future.

Sustainability of our communities requires a commitment from all stakeholders. For licensed customers to be viable into the future we all have to make changes. The irrigation industry is constantly aiming to improve its efficiencies and minimise any negative impacts. SWC have consulted through this process and we compliment them on their commitment. DNR must become committed to consultation, accountability and transparency. If that occurs we have some chance of cooperatively minimising the negative impacts of the proposed water management changes and maximising the benefits to all stakeholders.

Can you review the issues raised by our CSC and the newly formed Advisory Committee? Members of our CSC can be available to discuss any issue either through workshops or direct contact. All members and their contact details are provided in the Appendices.

APPENDIX 2

Title	Surname	Christian Name	Nominating Organisation/Status
Mr	Lawrence	Peter	President: Peter Lawrence Secretary: M Addison Allyn River Water Users Association Allyn River Road ALLYNBROOK VIA GRESFORD NSW 2311
Mr	Cochrane	Robert	Member: Narelle Cochrane Kangaroo Valley Water Users Association 95 Upper Kangaroo River Road KANGAROO VAL3. LEY NSW 2577 PH: (02) 4465 1243 FAX: (02) 4467 1825
Mr	Robinson	Jock	President: J D Robertson Kingdom Ponds & Tributaries Water Users Association Cressfield Road TURANVILLE NSW 2337 PH: (02) 6545 1557 FAX: (02) 6545 3124
<i>Mr</i>	<i>Dutton ALTERNATE</i>	<i>Darryl</i>	<i>President: J D Robertson Kingdom Ponds & Tributaries Water Users Association Cressfield Road TURANVILLE NSW 2337 PH: (02) 6545 1557 FAX: (02) 6545 3124</i>
Mr	Greenhalgh	Paul	Deputy Chair: Leon Andrews Manning Water Users Association "Kimbuki" VIA WINGHAM NSW 2429 PH: (02) 6550 6231 FAX: (02) 6550 6231
<i>Mr</i>	<i>Andrews ALTERNATE</i>	<i>Leon</i>	<i>Deputy Chair: Leon Andrews Manning Water Users Association "Kimbuki VIA WINGHAM NSW 2429 PH: (02) 6550 6231 FAX: (02) 6550 6231</i>
Mrs	Reed	Janine	President: Barry Kerr Nambucca Water Users & Management Group Taylors Arm Road MACKSVILLE NSW 2447 PH: (02) 6569 6114 FAX: (02) 6569 6323
<i>Mr</i>	<i>Schenken ALTERNATE</i>	<i>Nicholas</i>	<i>President: Barry Kerr Nambucca Water Users & Management Group Taylors Arm Road MACKSVILLE NSW 2447 PH: (02) 6569 6114 FAX: (02) 6569 6323</i>
Mr	Bennetto	Peter	President: Peter Bennetto Hon Sec: Ms Jayne Crawford Pages River & Tributaries Water Users Association PO Box 447 SCONE NSW 2337 PH: (02) 9362 0822
Mr	Magner	Chris	Chairperson: Chris Magner Richmond Wilsons Combined Water Users Association Inc. PO Box 173 CASINO NSW 2470 PH: (02) 6663 1412 FAX: (02) 6663 1201
Cr	Kerr	Jack	General Manager: Russell Pig Shoalhaven City Council PO Box 42 NOWRA NSW 2540 PH: (02) 4429 3260 FAX: (02) 4429 3170
<i>Cr</i>	<i>Anderson ALTERNATE</i>	<i>John</i>	<i>General Manager: Russell Pig Shoalhaven City Council PO Box 42 NOWRA NSW 2540 PH: (02) 4429 3260 FAX: (02) 4429 3170</i>
Mr	Duckworth	Geoff	Chairperson: C J McGrath Swan Creek Water User Association 443 Gillette Ridge Road ULMARRA NSW 2462 PH: (02) 6655 8280
<i>Mr</i>	<i>Carlton ALTERNATE</i>	<i>James</i>	<i>Chairperson: C J McGrath Swan Creek Water User Association 443 Gillette Ridge Road ULMARRA NSW 2462 PH: (02) 6655 8280</i>
Mr	Hamdorf	Ian	Secretary: Ian Hamdorf Towamba Valley Water Management Committee "Banksia" Log Farm Road TOWAMBA NSW 2550 PH: (02) 6496 7066 FAX: (02) 6496 7066
<i>Mr</i>	<i>Lewis ALTERNATE</i>	<i>Derek</i>	<i>Secretary: Ian Hamdorf Towamba Valley Water Management Committee "Banksia" Log Farm Road TOWAMBA NSW 2550 PH: (02) 6496 7066 FAX: (02) 6496 7066</i>

Title	Surname	Christian Name	Nominating Organisation/Status
Mr	Lavis	Phil	Chairperson: Mark Bice Tuross Valley Water User Association 382 Eurobodalla Road BODALLA NSW 2545 PH: (02) 4473 5635 FAX: (02) 4473 5635
<i>Mr</i>	<i>Bice ALTERNATE</i>	<i>Mark</i>	<i>Chairperson: Mark Bice Tuross Valley Water User Association 382 Eurobodalla Road BODALLA NSW 2545 PH: (02) 4473 5635 FAX: (02) 4473 5635</i>
Mrs	Lawson	Wendy	Secretary: Mrs Wendy Lawson Wollombi Catchment Water Users Association Inc. 656 Milbrodale Road BULGA NSW 2330 PH: (02) 6579 1334 FAX: (02) 6579 1334

APPENDIX 3

The Impact of Water Pricing Policy on farmers in the Hunter and the North Coast.

The Impact in the Hunter

Recent trends have seen the rapid introduction of centre pivot irrigation systems as a means of reducing labour requirements and enabling the ability of farmers to apply smaller quantities of water more often. Data produced from the NSW DPI crop calculator indicated that for the Upper Hunter, lucerne would require on average 7.43ML/ha of supplementary irrigation compared to pasture at 9.4 ML/ha. Despite increased water requirements there has been a trend away from a lucerne based pasture systems to perennial rye based pasture mix because of higher pasture production throughout the year especially during winter when feed growth has traditionally been low. Stocking rates under centre pivot irrigation systems range from 2.5 to 4 cows per hectare. A decade ago stocking rates under conventional irrigation systems would range from 1 to 2 cows per hectare.

To assess the impact of additional irrigation, data was drawn from a survey of irrigators (mainly centre pivot) in the Upper Hunter. These irrigators (30 farms) used an average of 540 ML per year and 10.26 ML/ha for 2004. Table 1 indicates the additional impact that indicative water charges would have on the irrigated dairies involved in the survey. The final cost of \$32.44 per ML is the cost of water using the 2008/09 projection of a fixed cost of \$4.43 per ML and a usage cost of \$28.01 per ML. If Department of Natural Resources costs are additional to the above the percentage increase would be even more.

Table 1: Impact of water charges on irrigated dairies in the Upper Hunter^a

Fixed plus usage charges per ML	Cost per 584 ML	Percentage increase in cost on 2005/06
Current for 2005/06 \$9.42	\$5,501	
\$15.00	\$8,760	59%
\$20.00	\$11,680	112%
\$25.00	\$14,600	165%
\$30.00	\$17,520	218%
\$32.42	\$18,945	244%

^aBased on survey of dairy farmer irrigators by Anthea Young, NSW DPI of Upper Hunter Dairies 2005.

From Table 1, the average impact of these charges if applied in full is an additional cost of \$13,444 for water. (\$18,845 - \$5,501). With current earnings before interest and tax of around \$50,000¹ per farm and net profits of around \$10,000 per farm a severely limited ability for farms to absorb additional costs is indicated.

The likely impact is that some farms would go out of business and the water would only be taken up by other potential users if the marginal value product is greater than the marginal cost.

¹ Source. DPI Milk Business survey data

Other users would attempt to reduce their water usage, especially in years when purchased fodder prices are low. Purchased fodder is an alternative feed source to irrigated pasture production and should the cost of producing fodder from pasture become higher than the cost of purchasing the same feed value, farmers will make management decisions to purchase fodder. This will mean that water demand is likely to reduce at high prices and will especially reduce when grain prices are low.

The Impact on the North Coast

Water requirements on the North Coast are lower than for the Hunter because of higher rainfall and higher humidity. The NSW DRI crop calculator estimated that the average irrigation requirements are 7.6ML/ha.

The situation for irrigators on the only regulated stream on the North Coast is rather alarming. Irrigators who had access to water for most of 2004/05 (only one of nine on regulated stream) had an average EBIT only \$21,000 and a net profit of -\$10,000 in 2004/05². This compares an EBIT of -\$19,000 and a net profit of -\$47,000 for other farmers who have irrigation facilities but experienced considerable disruption to irrigation supplies. Current profitability levels would indicate that dairy farmers have no capacity to absorb any increase in water charges let alone the indicative state water increases of more than 1,000%. A small portion of the more profitable dairies with efficient low power cost irrigating systems would choose to use water if the price of producing feed is below the price of purchased feed, but as irrigation systems needed replacement further evaluation would be necessary. A decision to continue irrigating when additional capital investment is required can only be made if the overheads plus the running cost of new irrigation equipment can be justified.

² Source: Department of Primary Industries, Milk Business Survey of Dairy Farmers 2004/05

TABLE 1

COASTAL AREA - VOLUMES HELD BY VARIOUS CATEGORIES IN EACH DAM at 100% FULL

	Hunter without flood Mitigation	2nd Year requirements	Percentage	Hunter with flood Mitigation	2nd Year requirements	Percentage	Paterson	Percentage	Toonumbar	Percentage	Brogo	Percentage
Environmental Health Water	19223	38446	3.72	19223	38446	3.31	3861	16.35		0.00		0.00
Adaptive Environmental	20000	40000	3.87	20000	40000	3.45	2000	8.47				
Basic Landholder Rights	5515	11030	1.07	5515	11030	0.95	687	2.91	700	4.73	500	4.98
Domestic & Stock	1738	3476	0.34	1738	3476	0.30	49	0.21	11	0.07	50	0.50
Major Water Utility	36000	72000	6.97	36000	72000	6.21						
Local Water Utility	10832	21664	2.10	10832	21664	1.87	75	0.32			700	6.97
High Security	22159	44318	4.29	22159	44318	3.82	190	0.80	113	0.76	237	2.36
General Security	128163	128163	12.40	128163	128163	11.05	9393	39.78	9868	66.73	6360	63.33
Volume set aside for future seasons		457143	44.24		457143	39.40						
Flood Storage				126930	126930	10.94						
Transmission Loss - Non Payers	27016	54032	5.23	27016	54032	4.66	2851	12.08				
Transmission loss - Payers	81469	162938	15.77	81469	162938	14.04	4504	19.08	4097	27.70	2196	21.87
Total		1033210			1160140		23610		14789		10043	
Supplementary Dam Capacity	49000	1,033,210 ML			1,160,140 ML		20,230 ML		11,000 ML		8,980 ML	