

Gwydir Valley Irrigators Association Inc

Submission to the

Independent Pricing and Regulatory Tribunal

Review of Bulk Water Prices
from 2006/07

November 2005

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Gwydir Valley Irrigators Association Inc (GVIA)

The GVIA represents in excess of 190 irrigators in the Gwydir Valley of NSW, centred on the town of Moree.

The organisation is voluntary, funded by a cents/ megalitre levy on regulated unregulated and groundwater irrigation entitlement. In 2004/05 the levy was paid on in excess of 93% of the entitlement.

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant.

All members of the GVIA are customers of State Water, and a number of GVIA members sit on State Water's Gwydir Customer Service Committee.

GVIA is a member of the NSW Irrigators Council, and as well as providing this submission, the Association fully endorses the submission made by NSW Irrigators Council.

The GVIA welcomes the opportunity to provide input into the Review of Bulk Water Prices from 2006/07, through the NSW Independent Pricing and Regulatory Tribunal process.

The Association reserves the right to make supplementary submissions during the Determination, in particular with regards to Annuity vs. Building Block Capital funding, and in response to the IPART commissioned report into Efficient Capital and Operating Costs.

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Executive Summary

The Gwydir Valley Irrigators Association (GVIA) which is a voluntary association located in North-West NSW welcomes the opportunity to participate in the 2006/07 IPART Bulk Water Pricing Determination.

The Association is very concerned by the submissions lodged by both State Water and the Department of Natural Resources (DNR).

It believes that if State Water's unconstrained prices were applied to irrigators it would prove to be commercially unsustainable. Just as importantly, GVIA is convinced many of State Water's costs are neither efficient nor prudent.

With regards to the DNR submission GVIA is very concerned by what it sees as an unjustifiable attempt to shift Water Resource Management Charges from Government to Users. In all DNR is looking to shift an extra \$14 million per year onto users.

A theme apparent in both submissions, and of great concern to the GVIA is a tendency to try to justify cost increases on meeting the requirements of the National Water Initiative (NWI). GVIA believes the NWI was not designed to increase costs but to introduce overall industry efficiency, and if it is to be seen as the reason behind massive water price hikes, then it will lose the support of irrigators.

GVIA believes that 16 months into corporatisation State Water has failed to adopt a truly commercial focus. It is disappointed that its submission virtually failed to consider efficiency gains, and solely focussed on increasing revenue by increasing costs and reducing the size of its delivery planning base.

GVIA presents the case that there is much State Water could do to increase its revenue simply by focusing on maximising the delivery of water to its paying customers within the constraints of Water Sharing Plans.

GVIA strongly argues that State Water's paying customer base must be widened to include the charging for the delivery of environmental, Domestic and Stock and replenishment flow water, and that charges must be introduced, or Community Service Obligation Payments made, to cover the recreational use of State Water Assets.

Dam upgrades passed certain limits must be 100% cost to government, as should environmental upgrades.

The water delivery planning base for State Water charges must remain at long-term extraction level, not one standard deviation below average.

GVIA maintains serious concerns about the acceptability of adopting the "Building Block" approach over the annuity charge, and sees it as largely an attempt by State Water's shareholders to extract a substantial dividend. GVIA rejects any attempt by NSW Treasury to extract dividends from State Water.

GVIA welcomes IPART's decision to appoint independent consultants to determine the efficient operating and capital costs of both State Water and DNR, and reserves its right to comment on that report on its release.

GVIA believes many of DNR's new cost 'shares are totally unacceptable and urges IPART to carefully assess each proposal.

GVIA has prepared an extensive list of recommendations for IPART's consideration.

Recommendations:

State Water

1. *IPART should determine exactly what the shareholders expectations regarding dividends from State Water are.*
2. *IPART should not provide any allowance for dividends in its price determination.*
3. *IPART should conduct an immediate audit and reconciliation of all funding allowed for under Determination since the commencement of the 2001-04 Determination period.*
4. *That IPART commission an independent study as to the most appropriate form of capital raising for an organisation like State Water, taking into account both the interests of the organisation and its customers.*
5. *That the costs of dam upgrades remains a 100% government cost, as the driver for the upgrades is not the mitigation of commercial risk, but a demand from the community.*
6. *Environmental compliance costs should be a 100% cost of government.*
7. *IPART should thoroughly examine the service agreement between State Water and DNR for the provision of hydrometric services, to ensure it represents efficient and prudent expenditure.*
8. *The provision of hydrometric services to State Water should be made fully contestable as soon as possible.*
9. *As the quality of water in State Water's storages is outside State Water's control, the cost of the Water Quality program should be a 100% government cost.*
10. *IPART should apply a recreational user charge, or determine a transparent Community Service Obligation payment that recognises the benefit recreational users receive in being able to access State Water's assets.*
11. *That IPART match the old product codes and cost shares with State Water's new codes and proposed costs shares to allow valid comparison.*
12. *That IPART develop a pricing mechanism that identifies and charges all users of State Water's services.*
13. *That IPART ensures that State Water continues to move towards a greater and greater reliance on variable charges.*
14. *That IPART require State Water to prepare valley-by-valley justifications for its proposed high security premiums, and these be presented to the Customer Service Committees for approval or amendment prior to IPART making its price determination.*
15. *IPART should maintain the average use figures as the basis for making State Water's pricing determination.*
16. *That IPART instruct State Water to look at alternative arrangements that ensure efficient cost recovery from the administration of temporary transfers.*
17. *IPART should determine that the government be charged as a user for the Environmental Contingency Allowance and the replenishment flows stored in Copeton Dam.*

18. *IPART should determine that an appropriate pricing and metering structure should be developed for delivered domestic and stock supplies, and the charges met by a transparent Community Service Obligation payment.*
19. *Bulk water discounts to the corporations should be reviewed, and discounts only be applied to customers where State Water can demonstrate savings resulting from the scale of the customer.*
20. *Any service provided by a customer to State Water should be costed and charged at commercial rates.*
21. *IPART should carefully scrutinise State Waters claim of additional cost associated with corporatisation, and determine whether the costs are genuine and efficient.*
22. *As a Community Consultative Committee is a requirement of State Water's operating licence, and will add no commercial benefit, it should be funded through a transparent CSO payment.*
23. *IPART must request State Water to provide a full banded range of impacts its proposed prices will have on its customers.*
24. *IPART take in account Gwydir Valley irrigation farmers' reduced capacity to pay when setting the bulk water price determination.*
25. *IPART reject any attempt to apply a scarcity tax to rural bulk water.*
26. *That IPART conduct a thorough order and reconciliation of all IPART Determined WRM charges since the commencement of the 2001-04 Determination period.*
27. *That IPART explicitly rule out any return on capital charge for WRM activities.*
28. *That IPART thoroughly and independently examine each of DNR's new proposed activities and cost shares, to ensure the share accurately identifies whom the beneficiary of the activity is.*
29. *That valley based accounting and charging be retained.*
30. *That two-part tariffs be retained, with at least 50% of charges being variable.*
31. *That no security premium be applied to WRM charges.*
32. *Bulk water discounts to the corporations should be reviewed, and discounts only applied to customers where DNR can demonstrate savings resulting from the scale of the customer.*
33. *Any service provided by a customer to DNR Water should be costed and charged at commercial rates.*
34. *That post WMA transition consents be costed on a fee for service basis but the service should be full contestable.*

Introduction

The Gwydir Valley Irrigators Association is very concerned about the water pricing submissions lodged with IPART's Bulk Water Pricing Determination by both State Water and the Department of Natural Resources (DNR).

State Water's submission focuses on what it calls its "unconstrained prices", and if accepted by IPART would result in massive price hikes that are completely commercially unsustainable (According to State Water's own Submission) for its customers, while DNR's seeks recognition of what appears at first to be a more modest increase in costs, but calls for a massive shift in the government/user cost shares, that again will lead to unsustainable increases in user charges, and a completely unjustifiable shift from public expenditure for public good to private expenditure for public good. .

Disturbingly, both submissions focus entirely on costs, do not in anyway address efficiency gains, and maintain a "monopolistic" arrogance that simply assumes that any desired increase in expenditure can be passed straight through to the users with out any of the protection that is afforded by "market forces".

Of great concern is that both submissions rely heavily on arguments that the introduction of the National Water Initiative has imposed significant extra reporting and monitoring function on their organisations, yet closer analysis shows that in reality they have to provide little in the way of truly new reporting.

They cite the National Water Initiative as compelling them to achieve "Upper Bound" pricing immediately, yet the Initiative initially calls for the achievement of "Lower Bound" pricing, and acknowledges the legitimacy of Community Obligation payments and sets no specific guidelines as to when cost recovery levels need to be achieved. State Water's Corporate Objective (2)(d) – "to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates" appears to have very little influence on the submission.

It appears that both State Water and DNR are selectively using the NWI in an attempt to justify massive price shocks, which is an outcome not intended by the National Water Initiative.

In a similar vein the DNR submission has taken the opportunity of the introduction of the new Water Sharing Plans over 12 months ago, to argue that new responsibilities imposed by the plans should lead to an overall shift in government/user responsibilities. Again, closer analysis shows that these so called new responsibilities are largely old responsibilities that may have been slightly re-badged.

The GVIA is very aware that NSW Bulk Water Pricing is now a two-part process, with the setting of DNR and State Water being separate issues. With this in mind, the GVIA submission will respond to both parties' submissions in turn.

State Water

State Water has functioned as a State owned corporation for over 12 months, and for a number of years previously was supposedly a “commercially” focussed organisation “ring fenced” within the then Department of Infrastructure, Planning and Natural Resources and its predecessors.

Despite this history the organisation has failed to adopt basic and commercial principals, and relies heavily on it’s monopoly position as the only bulk rural water supplier in NSW.

This submission will deal with numerous issues in turn, but the following are a number of examples that emphasize State Water’s failure to adopt a commercial focus.

GVIA has analysed the revenue that State Water asked for in its 2004 submission, the revenue IPART offered in it’s 2005/06 determination and the revenue sought by State Water in it’s current submission for the Gwydir Valley.

Assuming average extractions of 309,164 megalitres and current entitlement levels, State Water is seeking a revenue increase from approximately \$2.4 million to \$6.4 million.

Table 1: State Water’s Revenue

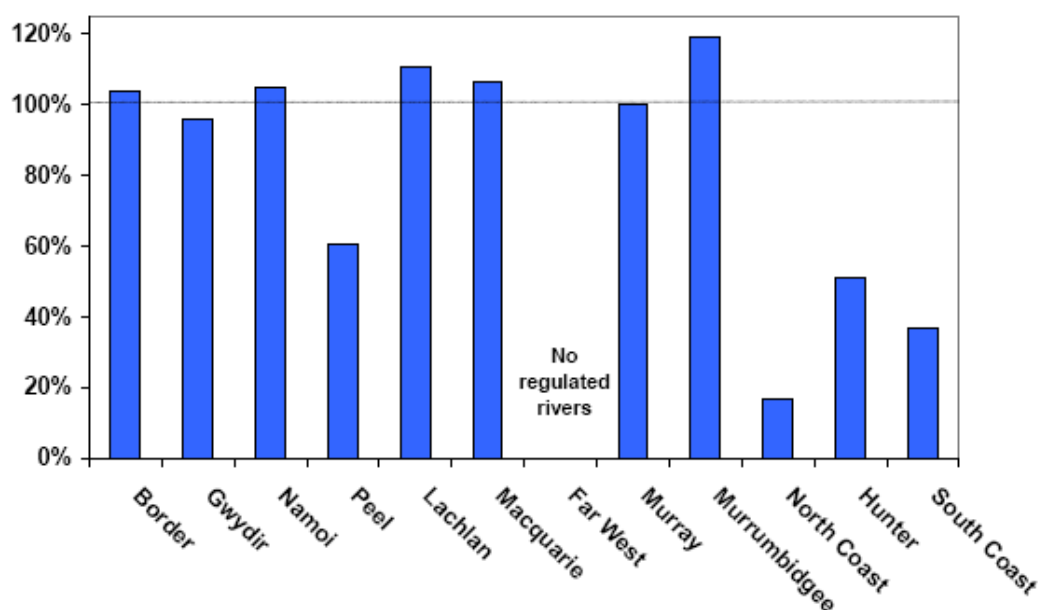
IPART’S 2005/06	State Water’s submitted Prices for 2005/06	State Water’s Submitted Prices 2006/07
\$2,546,232	\$2,939,261	\$6,459,812

This represents an increase in revenue of 253%.

What makes State Water’s request even more outrageous is this is for a valley that in its 2005/06 Determination IPART judged to be at 95% of full cost recovery (IPART, 2005 p14).

Even when using State Water’s own budget figures in their submission, the user’s share of costs (including return on assets and return of assets) comes to an average yearly cost of \$4,864,333, which is \$1.6M/annum less than what is likely to be charged to users under this proposal. To put it another way, given average flows users would be paying 132% of the budgeted costs (including return on assets).

Figure 3.1 State Water regulated rivers estimated cost recovery levels 2004/05



Having considered the IPART commissioned Marsden Jacob/Cardno report into State Water's efficient cost levels for the last determination, GVIA strongly believes that the current levels of water pricing more than adequately meets State Water's requirements, and GVIA endorses many of the concerns and criticisms expressed in the report.

GVIA is aware the Marsden report was prepared for the 2005/06 Determination, but in light of the absence of a similar report for the current Determination (At the time of writing) GVIA believes its comments hold substantially true.

The Marsden report will be referred to in more detail later in this submission but GVIA draws IPART attention to the following quote: *"Nor did State Water's submission adequately explain why forecast costs should rise substantially compared to outcomes of the current regulatory period when there was no equivalent substantial change in obligation or service standard"*.

GVIA strongly believes that IPART should keep that statement in mind when considering State Water's arguments aimed at justifying its proposed 20% hike in staffing levels.

State Water's lack of commercial focus is best highlighted by the fact that State Water, since its corporatisation some 16-months ago has only just issued its first set of bills to Gwydir customers for either fixed or usage charges, despite a pre-corporatisation history of quarterly billing. This represents uncollected debts of approximately \$2,000,000 for the 2004/05 financial year alone, a situation which no efficient "comparable business" could stand.

GVIA believes it is a telling indictment of State Water's approach that it has managed at considerable expense to acquire new office accommodation in both Moree and Dubbo during its first 16-months of operation, but failed to bill its customers.

Not only had members of the GVIA not received bills, they have had great difficulty in accessing from State Water creditable and timely information on the status of their water accounts. This situation only appears to have been rectified this month.

One avenue for increasing State Water's revenue in the Gwydir Valley is the maximisation of delivery of supplementary flows within the rules of the Gwydir Regulated River Plan.

State Water's submission is completely silent on opportunities it has to increase revenue, by maximising deliveries in the Gwydir Valley.

Despite numerous requests by the Gwydir Valley Irrigators Association it has failed to both develop and implement protocols to ensure deliveries are maximised, in particular the delivery of small supplementary flows.

GVIA remains very concerned about the proposed impact of the Regulatory Asset Base approach to capital funding. It reserves its right to either support or reject the principle when more information on its merits or otherwise is available.

However, its initial reaction is that the RAB is simply an attempt to raise dividend payments for the State Government.

GVIA urges IPART to clearly determine the shareholder instructions to State Water regarding the raising and paying of dividends.

GVIA totally rejects any requirement by government to pay dividends, and believes any surplus revenue should be retained by State Water in the form of reserves, to fund operational and capital requirements during low water availability years.

GVIA believes the NSW Government should reject as policy the payment of dividends by State Water to the NSW Government.

IPART should also undertake an immediate audit and reconciliation of all IPART determined charges since the 2001 Determination. GVIA has serious concerns that the NSW Government has failed to provide State Water with a significant amount of funding allowed for under the Determination.

Any shortfall in funding payments needs to be identified and rectified before serious consideration can be given to the State Water submission.

Recommendations:

1. ***IPART should determine exactly what the shareholders expectations regarding dividends from State Water are.***
2. ***IPART should not provide any allowance for dividends in its price determination.***
3. ***IPART should conduct an immediate audit and reconciliation of all funding allowed for under Determination since the commencement of the 2001-04 Determination period.***

Business Efficiencies

- **No cost/benefit analysis** - All too often State Water embarks on major capital programme without/ or inadequate cost/benefit analysis. This is symptomatic of an organisation with a monopolistic government culture that fully expects all expenditure simply to be passed through to its paying customers. A specific example of this in the Gwydir is the decision by State Water to fully automate the Gundare Regulator for in excess of \$150,000. This regulator is only used a handful of times each year, but no study was done to determine whether the upgrade could be justified or not.
- **New office set-up** - For example at Moree State Water has moved out of its previous accommodation within the DNR (formerly DIPNR) office, and has spent a considerable sum on fit-out of a new office suite. Meanwhile much of the equipment left behind is not going to be utilised by DNR. The expectation that users will fund this sort of government inefficiency is clearly at odds with the expectations of COAG and National Competition Policy. GVIA fully appreciates that any organisation must be able to determine its operating conditions, but the actions of both State Water and DNR in this instance show no consideration for the users, or recognition that a large part of the original purchase costs of that equipment had been paid for by customers.
- **New computer network** – although State Water has been happily co-existing on the DIPNR system, they have now been told they must leave that system and purchase/operate their own network. As well as being another example of doubling up costs rather than seeking efficiencies, there already appear to be problems with getting the two systems to communicate (leading to further delays in billing).
- **New OH&S system** – another example of doubling up – whereas one OH&S system (including professional staff) has supported both departments up until recently, we now have to fund two systems and staffs – one for DNR, one for State Water.
- **No attempt to maximise water sales or minimise costs** - Any efficient comparable business would attempt to deliver and invoice as much product (ie water) as early as possible in the year to maximise their earnings. To date State Water staff have shown little commitment to this basic business principle, to the point where customers have to alert the staff to the availability of product (supplementary water) available for sale. Until the corporation is delivering and billing as much product as possible there is little justification for increasing prices as a method of increasing revenue. Please refer to the following case study.

The GVIA has long been concerned that State Water's lack of commercial focus has resulted in it failing to make available to irrigators supplementary water in the volumes that irrigators are entitled to and therefore have failed to maximise its own revenue opportunities.

A recent example occurred in November 2004 when supplementary flows were generated by inflows into the regulated Carole Creek from the unregulated Marshall Ponds.

The Gwydir River Regulated Water Sharing Plan allows for the sharing of these supplementary flows to be 50/50 between the environment and irrigators.

Irrigators concerns were raised early in the event when despite significant Carole Creek flows State Water made only very small supplementary water access announcements.

While announcements varied from section to section along the Carole Creek, access was generally limited to 2-4% of general security licences on the Tuesday and Wednesday. Then on the Thursday, when the flow was in significant decline, an announcement of 10% access was made. As the flow volume was in decline, irrigators were not physically able to access anywhere near the amount the announcement theoretically allowed.

Post event analysis by State Water determined the volume that passed by the downstream gauge at Garah during the event was 4195 megalitres, and extractions upstream were 4816 megalitres, so 50/50 sharing was approximately achieved.

However, an independent flow assessment commissioned by the Gwydir Valley Irrigators Association Inc, and carried out by SMK Consultants (copy of report attached – Appendix A), assessed the total flow at approximately 24,840 megalitres, which should of allowed irrigators to access approximately 12,500 megalitres. If announcements had been made to allow irrigators to take their full entitlement, irrigators could have accessed an additional 7684 megalitres, increasing State Water/DIPNR's revenue by \$32,733.

In State Water's defence the flows were assessed correctly under Water Sharing Plan rules, which require the downstream gauge to be used, when an upstream one does not exist. However, measuring using the downstream gauge does not account for the considerable amount of flow that leaves the system through creeks and flood-runners.

If State Water were commercially focussed it would have installed an upstream gauge a long time ago, with the lost revenue from this event alone more than paying for the cost of installation.

- **Risk minimisation** – State Water key business driver appears to be to reduce its exposure to risk to zero and pass all onto its customers. Its proposal to shift it's planning base to one standard deviation below average for extractions, it's maintenance of a substantial fixed price component, and it's revenue smoothing proposal are all simply attempts to pass normal business risks onto customers. In a non-monopolistic environment State Water would have to accept those business risks.
- **Staff increases** – In State Water submission it shows a net increase (excluding Fish River staff) of 43 from 2004 to 2006. This is during a period of time, by State Water's own admission, of below average water deliveries. No other commercial business could justify a

20% increase in staffing numbers during a period of low product demand. It is simply not good enough to say that the extra staff were required now the organisation is corporatised. One of the key drivers for corporatisation was to make State Water more efficient, not less.

- **Forecasted Costs** – On page 9 of State Water’s current submission it estimates that for 2006 it needs to recover from users and government a total of \$90 million, yet only 12 months ago in its submission it estimated its costs for 2006/07 would be \$75.7 million. How can any organisation justify a \$15 million increase in costs over a 12-month period? IPART needs to bear in mind that during that period there has been no significant change in State Water’s operating environment (NWI was a reality 12 months ago, State Water was corporatised 12 months ago). Either State Water is completely incompetent at forecasting costs, or NSW Treasury has demanded a massive dividend. Either reason is unacceptable.

Specific Response to Marsden Jacob / Cardno Report

The GVIA endorses the comments of Marsden Jacob re the quality of the State Water’s 2004 submission party, and contends that the 2005 is still lacking in critical cost data. Historical financial performance has not been included, and because of changes in product codes it is extremely difficult to compare line item costs between submissions.

GVIA shares the report concerns about what is the level of prudent efficient costs, and agrees with the report that there is no compelling evidence to suggest the efficient base line costs should be any more than \$21.7 million.

GVIA recommends IPART takes particular note of the report’s response to State Water’s claim’s for extras costs of corporatisation and draws its attention to the following quote: *“experiences of other Government business enterprises that demonstrate it is possible to achieve significantly, and even dramatically, improved business outcomes from corporatisation and privatisation”*.

GVIA also believes that State Water needs to adopt into it corporate philosophy the concept of “prudent” expenditure in regards to both its operational and capital expenditure.

IPART needs to pay careful attention to the reports comments regarding capital expenditure, especially where the report questions whether there is any actual requirement for, or commercial gain from a large number of Capex projects.

GVIA looks forward to reviewing the 2005 report commissioned by IPART to Review the OPEX and CAPEX costs of both State Water and the Department of Natural Resources.

Overview of Water Resources and Reforms

The State Water submission spends a lot of time focusing on what it considers to be major changes in it operational and regulatory environment, and therefore claims significant extra costs in meeting these requirements. In most cases these claims are simply “window-dressing” by State Water, and very little new activity is required.

- **COAG** – The requirements of COAG to adopt pricing strategies to move towards full-cost recovery, and to report on water use have been in place since 1994, so little new expenditure has been incurred through meeting those requirements.
- **NWI**- The costs of operating a performance benchmarking system should be more than recovered by the efficiency such studies identify. If benchmarking does not result in real efficiency gains, then there is no point in carrying them out.

The need for new infrastructure to be economically sustainable has been a feature of the water industry for at least the past decade, and has been a seen in recent IPART pricing Determinations.

The development of a better trading environment will actually enhance State Water's revenue opportunities, by maximising the use of the available water pool.

If government policy results in a decrease in the available pool, then State Water's revenue should be supported by transparent government payments, and not by increased charges on users.

The maintenance of water account balances as always been core business for State Water.

- **Water Sharing Plans** – The argument that the Water Sharing Plans now require State Water to operate 24/7, compared to a less intensive regime prior to the Plans is completely false. State Water has always had to have the capability on hand to distribute supplementary or off-allocation flows. While GVIA has been critical of State Water's past performance in managing these flows in a timely manner, GVIA strongly believes that if extra staffing is required during these times, the cost will be more than compensated for by the extra revenue achieved through the additional timely sales.

Debt Funding or Regulatory Asset Base

Building Block vs Annuity Charge

The GVIA does not believe sufficient information has been provided to accurately assess the advantages and disadvantages of the Building Block approach compared with retaining the annuity charge.

The GVIA urges the Tribunal to commission an independent study of the most appropriate way to meet State Water's capital requirements, taking regard of both State Water and its customers positions.

Despite the limited information available from State Water's submission, GVIA would like to raise the following serious concerns it has with the 'Building Block' approach.

1. The Annuity approach was accepted by IPART, after much consultation during previous determinations, as the most appropriate method for funding State Water's capital requirements. State Water's submission does not make it clear what factors have significantly changed with corporatisation, which would justify a move away from the annuity approach.
2. The GVIA is concerned with the manner State Water appear to have determined its Regulatory Asset Base. Given the "Line In the sand", which saw all capital expenditure, which occurred before 1997 as a "sunk" cost, the RAB shouldn't equal any more than expenditure on capital, less depreciation since 1997, which would result in a RAB estimated at \$75 million, instead of the \$300 million proposed by State Water. The RAB appears to have been determined to fit State Water's requirements, rather than the asset-based principles determined by IPART.
3. GVIA is very concerned how adopting the Building Block Approach could lead to a rapid increase in prices. Examination of Tables 7.8 and 7.9 shows the RAB blowing out dramatically from a Total Govt/User RAB of \$302 million in 2004 to over \$800 million in 2010/11.
4. If the same return of 7% is applied the RAB charge will increase from some \$21 million to in excess of \$56 million in that period. Yet State Water argues the RAB is to replace an annuity charge of \$18 million.

GVIA strongly believes that the RAB is more about generating a revenue stream for government than meeting the future capital needs of State Water. So at this stage it has no choice but the reject the concept of a RAB unless the above concerns and other can be satisfactorily answered.

Recommendation:

- 4. That IPART commission an independent study as to the most appropriate form of capital raising for an organisation like State Water, taking into account both the interests of the organisation and its customers.***

Capital Expenditure

Dam Upgrades

GVIA strongly argues that the cost of dam upgrades must remain a 100% government cost. It rejects the State Water proposal to move to a 50/50 share for flood mitigation dams such as Copeton once 1997 standards are met.

GVIA understands that Copeton Dam is now at a level where it could withstand a 1:2200 year flood. GVIA strongly argues that this level of asset protection more than meets a prudent businesses' commercial risk exposure.

GVIA also understands that the community may wish to exercise a higher level of risk protection, and this is reflected in the recommendations of the Dam Safety Committee. However, it is entirely unreasonable for the community to expect users to pay for this higher level of protection.

When these dams were built there was an entirely different expectation as to user /government cost sharing. Therefore continued Dam Safety upgrades, to meet higher and higher community expectations must always be regarded as a legacy cost, and therefore met entirely by government on behalf of the wider community.

Recommendation:

- 5. That the costs of dam upgrades remains a 100% government cost, as the driver for the upgrades is not the mitigation of commercial risk, but a demand from the community.***

Environmental Compliance Costs

GVIA completely rejects the argument that environmental compliance upgrades should be shared 50/50.

Environmental compliance should be considered a legacy cost and therefore borne 100% by government. For example, the installation of a multi-level off-take or other works to mitigate cold water pollution will be a multi-million dollar cost, but it is one that should have been expended when the dam was built. It is entirely unreasonable to attempt to transfer that cost to the private sector.

In a similar way that communities seem to expect higher and higher levels of dam safety, they will expect higher and higher levels of environmental compliance. Unless the community meets the cost of that compliance, there will be no economic check on their expectations.

Recommendation:

- 6. Environmental compliance costs should be a 100% cost of government.***

General Capital Works

GVIA believes IPART needs to consider thoroughly whether State Water's proposed works are efficient and prudent, and that they have been subjected to a reasonable cost/benefit analysis process.

GVIA is concerned that State Water always adopts the "rolled gold" engineering solution, and while this maybe professionally satisfying, it may not be appropriate for a commercially focussed organisation.

Having said that, GVIA acknowledges that it is very important that State Water maintain too a high standards long-life assets, and poor expenditure decisions in this area may prove extremely costly in the long-term.

Operational Expenditure

GVIA finds it extremely difficult to accept that State Water's operating costs in the Gwydir Valley have increased from an average performance of \$1.9 million during the 2001-04 Determination period to a projected expenditure in 2006/07 of \$3.3 million.

With this in mind GVIA urges IPART to pay a great deal of attention to State Water's historical performance and closely scrutinise its projections.

GVIA wishes to point out that a change in product codes has made it very difficult to analyse the movement in the cost of specific line items, and it hopes the IPART commissioned study on costs will pay particular attention to this matter.

GVIA has particular concerns about the following:

Hydrometric Services

The State Water submission contains a blow-out in the cost of hydrometric services charges to users from \$2.2 million on 2003/04 to \$5.5 million in 2006/07. This doubling in cost has occurred despite State Water arguing that users should now pay 100% of the cost on roughly 40% of the gauging network, rather than 70% of the cost on 100% of the network. This blow-out in charges is completely unacceptable. In the Gwydir, over the same period the cost has blown out from \$304,000 to \$87,000.

GVIA strongly believes that the provision of gauging services to State Water should not be a responsibility of DNR, but should be a fully contestable service, which would be provided by a public or private operating at the lowest cost with the highest level of accuracy.

Water Quality Monitoring

This cost has blown out from a state-wide total of \$173,000 in 2003/04 to \$1.5 million on 2006/07. GVIA understands that this is in part due to a shift in responsibility from DNR to State Water, and a shift in cost shares from 50/50 to 100% user.

Given that State Water can do nothing to influence the quality of the water it captures, as it has no control over the catchment, and it can do little to influence the quality of the water it releases, this charge should be a 100% government charge, and the service should be provided through a contested market.

Given the change in responsibility GVIA urges IPART to ensure there is no "double-dipping" on this expenditure in the DNR submission.

Impact of Water Sharing Plans

As mentioned earlier in the submission IPART should treat with extreme caution any argument by State Water that the implementation of the Water Sharing plans has led to any significant changes to State Water's operational cost environment.

Increased Staffing Requirements

GVIA is astounded that during by State Water's own admission revenue has been severely impacted by the drought effect on sales, that it has significantly increased its staffing levels by approximately 20% and adding an additional \$5.4 million onto its proposed cost base. This not only demonstrates that State Water is out of touch with its customer base, its own business strategy is not linked to commercial realities.

Foreshore maintenance

Users will be expected to pay costs associated with maintenance of dam foreshores that have now been transferred to State Water ownership. We are not confident that these will be managed efficiently by the Corporation, and are also aggrieved that there appears to be no likelihood that there will be any contribution from recreational users such as campers, water-skiers and fishermen.

OH&S Upgrades

The GVIA acknowledges the excellent work undertaken by State Water in improving the OH&S standards of its assets in the Gwydir Valley.

However, the GVIA believes Government should be 100% responsible for OH&S costs associated with bringing all assets up to 2005 standards.

The GVIA recognises that once the above is achieved, OH&S is a normal cost of doing business. However, to protect against an abuse of monopoly powers IPART must ensure these, and all other State Water costs, are constantly monitored to ensure they are efficient, and equal to world's best practice.

State Water should take note of the Government's own message to business that OH&S should not be a financial burden on industry, but should actually lead to greater efficiencies and cost savings.

The GVIA would be very concerned if it cannot be shown by State Water that OH&S expenditure has reduced total costs.

While GVIA accepts OH&S is a normal cost of doing business, it does not accept that 100% of these cost. As a commercially focused business State Water must show that it is being prudent in its OH&S, and accept that it is neither economically feasible, nor desirable to eliminate all workplace risk.

The efficient costs should then be shared in the same Government/User proportion as total government/user costs. This would reflect the fact that OH&S expenditure is used by all who operate within State Water whether they are carrying out duties paid for by users or government.

Recommendations:

- 7. IPART should thoroughly examine the service agreement between State Water and DNR for the provision of hydrometric services, to ensure it represents efficient and prudent expenditure.***
- 8. The provision of hydrometric services to State Water should be made fully contestable as soon as possible.***
- 9. As the quality of water in State Water's storages is outside State Water's control, the cost of the Water Quality program should be a 100% government cost.***
- 10. IPART should apply a recreational user charge, or determine a transparent Community Service Obligation payment that recognises the benefit recreational users receive in being able to access State Water's assets.***

Cost Shares

GVIA is very concerned about the gradual erosion of agreed Cost Shares in favour of the government. State Water has proposed 100% of operational costs be met by the users, where in the past many of these costs have been shared between government and users.

Changes in State Water's product codes have made it very difficult to identify exactly which shares it is proposing to change.

IPART clearly needs to identify and match existing product codes and cost shares with those now being proposed by State Water.

While the GVIA accepts that it is fair and reasonable that users meet the prudent and efficient operating cost of State Water, it has long held the belief that the definition of User has been far too restrictive.

In view of the transparent pricing requirements of the National Water Initiative all users should be identified, and charged accordingly, or afford by government a Community Obligation Payment.

In the Gwydir, other users apart from irrigators and town water supplies should include the State Government as managers of the Environmental Contingency Allowance, Domestic and Stock licence holders, beneficiaries of replenishment flow and recreational users.

An alternative cost sharing mechanism would be to apportion all operating costs on the basis of dam airspace. In the Gwydir, irrigators have access to approximately 77% of the airspace in the dam, and therefore the irrigators' share of operating costs should not exceed 77%.

Recommendations:

- 11. That IPART match the old product codes and cost shares with State Water's new codes and proposed costs shares to allow valid comparison.***
- 12. That IPART develop a pricing mechanism that identifies and charges all users of State Water's services.***

Ratio of Fixed Costs/Variable Costs

GVIA supports the requirement in the State Water Operating Licence requiring State Water to move towards a minimum 60% variable 40% fixed cost structure.

GVIA believes State Water should be required to continue to move towards the requirement of 100% variable charges, as it learns to manage its business in a more efficient and commercial manner.

Recommendations:

- 13. That IPART ensures that State Water continues to move towards a greater and greater reliance on variable charges.***

General Security/High Security Charges

The GVIA supports State Water's proposal that it is equitable for the fixed proportion of State Waters charges to accurately reflect the relative costs of storing High Security and General Security water provided that any changes made are revenue neutral.

However, the GVIA believes State Water has failed to develop the correct ratio for general security and high security water in the Gwydir Valley, because of two wrong assumptions.

Firstly, State Water has assumed a High Security Access Premium of 1.75, yet the Gwydir Regulated River Water Sharing Plan has not yet determined a premium. Secondly State Water has claimed a two-year reserve of high security water, yet the Gwydir Resource Assessment criteria currently allows for a 18 month reserve for essential supplies, including high security water.

In addition it needs to be recognised in the calculation of true storage costs, that State Water must maintain airspace of 150% of entitlement for a general security irrigator, regardless of the amount of water stored in the dam.

IPART should require State Water to prepare a valley-by-valley justification for proposed high security premiums, and present them to the Customer Service Committee for consideration, amendment and approval.

Recommendation:

14. That IPART require State Water to prepare valley-by-valley justifications for its proposed high security premiums, and these be presented to the Customer Service Committees for approval or amendment prior to IPART making its price determination.

Average Use Data

The GVIA is very concerned about State Water’s proposal to base pricing not on average use data, but on average use data less one standard deviation.

According to State Water the long-term average diversion in the Gwydir Valley is 309GL, and the standard deviation is 124GL.

If State Water’s proposal was adopted the new average use figure would be 185GL, and would result in a considerably higher usage charge being set.

However, using usage figures supplied by DNR and State Water average annual regulated river extractions in the Gwydir over the past 20 years has been 299,000 megalitres.

Even during the period 02/03 – 04/05, when the drought was at its absolute peak, diversions in the Gwydir Valley average 199,000 megalitres, well in excess of the 185,000 megalitre average planning base being proposed by State Water.

The following table shows State Water’s projected revenue based on either average extractions or an extractions one standard deviation less than average, using State Water’s unconstrained prices.

Projected user revenue based on average usage (309,164 megalitres)	Projected user revenue based on average usage less one standard deviation (185,581 megalitres)
\$4,845,609	\$6, 459,812

What this table clearly shows that the adoption of one standard deviation less than average State Water would be creating a windfall profit of \$1,614, 2003.

The GVIA would see any attempt by State Water to adjust the average use figure by one standard deviation in the Gwydir Valley as nothing more than an attempt to adopt a zero risk business plan, which would be completely unacceptable in a real commercial environment.

State Water’s financial risk is already very well protected by it’s licence conditions that provide for a 50:50 fixed/variable cost share, a move that already places it out of economic step with its customers who are provided no similar protection in the commercial world.

State Water’s justification for moving away from average to one standard deviation less also defies logic. In it’s submission it state’s that changes to the water sharing plans have applied a maximum cap on extractions, and this will result in a reduction in extractions.

This only shows that State Water has very little understanding of the water sharing plans that it administers.

In the Gwydir case the Water Sharing Plan has two major impacts on extractions:

1. The increase in the size of the Environmental Contingency Allowance has seen a transfer of approximately 4% of extractions from irrigators to the environment, yet no net effect on total

dam releases. To compensate itself for any delivery loss associated with this, State Water should be seeking to extract Water User Charges from the government to offset the cost of storing and delivering on demand this environmental water.

2. Changes to the Gwydir plan now make it possible for State Water to deliver more water in any one year, than it did in the past. Supplementary water licences have been issued equal to the highest ever history of use (so there has been no reduction there in potential deliveries), and annual extraction limits have been increased from 100% of general security entitlement to 125% in any one year, as long as the three year average does not exceed 300%.

This is just another case where water reform and the National Water Initiative is being corrupted by State Water in an attempt to justify higher water charges.

Recommendation:

- 15. IPART should maintain the average use figures as the basis for making State Water's pricing determination.***

Temporary Transfer Fees

The GVIA supports State Water's fee structure recovering the full cost of administering temporary transfers. However, it believes in reality there is little difference in the administration of a large temporary transfer and a small one.

An alternative, may be to set a minimum fee, with several volume bands, or address the issue from the point of view of the degree of difficulty involved in a transfer i.e.: transfers on the same stream may be cheaper than across stream transfers that may require an additional degree of assessment.

Buyers lodging multiple applications at the same time, that apply to same licences and works, should be able to "bundle" the applications and benefit from a discount that reflects the reduced costs.

- 16. That IPART instruct State Water to look at alternative arrangements that ensure efficient cost recovery from the administration of temporary transfers.***

Environmental Water/Loss of Irrigator Access

The GVIA strongly believes that all water users should be subjected to IPART determined charges, not just irrigators and town water users.

In particular, it is concerned that there still is no charging mechanism for water that has been stored and put aside for the environment.

The Gwydir Environmental Contingency Allowance (ECA) is a significant volume of water, and though technically it is not an entitlement, it does have many of the characteristics of an entitlement, including:

- It holds an account (airspace) in Copeton Dam.
- Available Water Determinations (AWDs) accrue to it at the same rate as general security increments.
- Its release can be ordered from the dam, and State Water must manage its releases.
- Its volume helps determine the volume of the delivery loss account.
- It has a 200% storage component.
- State Water must manage the integrity of the account.

The only significant difference between the ECA and a general security water access licence is the ECA cannot be traded.

In fairness to all water users IPART must impose a transparent charge onto the Government comparable to the charges borne by irrigators. These charges should also apply to water stored in Copeton Dam to meet replenishment flow provisions of the Gwydir River Water Sharing Plan.

It is totally unacceptable for government decisions to erode by the reliability of supply to irrigators by increasing environmental allocations, and at the same time allow State Water to recover costs associated with the environmental allocations from irrigators.

The GVIA recognises the need for State Water to maintain its revenue base, but this must be done by the community (government) paying charges for the environmental water, and not by increasing charges to other users.

It is essential that all that can be possibly done, be done by the community, to identify and pay for the true cost of environmental water.

Case Study 2 – The Gwydir ECA

The Gwydir Valley Environmental Contingency Allowance has grown in a two-stage process.

Prior to 1996 there was no Allowance, but in 1996 a 25,000 megalitre allowance was created, with irrigator support. This allowance had a 150% storage component, giving the ECA a 37,500 megalitres share in Copeton Dam's airspace. Increments to the ECA accrued at the same rate as general security entitlements.

The creation of the ECA effectively issued the equivalent of 25,000 megalitres of extra general security entitlement, while clearly not increasing the total amount of run-off captured by the dam.

Given a total general security entitlement of 509,500 megalitres, the addition of an extra 25,000 megalitres had a 5% negative impact on the amount of water accruing to general security accounts.

This would of resulted in a 5% drop in the usage metered and charged for by State Water and DNR, but their policy to date has been to increase the charges to irrigators to make up for the loss, rather than charging government an entitlement and usage charge for the ECA.

With the implementation of the Gwydir Regulated River Water Sharing Plan last year, the ECA was increased to 45,000 megalitres, with a 200% storage component.

This has had a further 4% impact on irrigator supply, and again State Water and DNR are planning on recovering lost revenue from irrigators.

This is unacceptable. The ECA now accounts for 9% of the Valley's regulated water supply, yet it makes no contribution to the costs of State Water and the WRM charges of DNR.

Recommendation:

- 17. IPART should determine that the government be charged as a user for the Environmental Contingency Allowance and the replenishment flows stored in Copeton Dam.***

Domestic and Stock Supplies

The NWI calls for “full cost recovery of all rural surface and groundwater based systems” and calls for CSO payments to be reported, and steps taken to remove the need for a CSO over time.

Given these two requirements the GVIA believes State Water needs to develop a pricing structure that reflects the true cost of storing and delivering domestic and stock water.

This transparent structure needs to be funded by Government as a CSO, until Government moves to charge domestic and stock users directly.

Recommendation:

- 18. IPART should determine that an appropriate pricing and metering structure should be developed for delivered domestic and stock supplies, and the charges met by a transparent Community Service Obligation payment.***

Bulk Water Discounts

No bulk water discounts currently apply in the Gwydir Valley. However, the GVIA does not see any justification for discounts to apply to water corporations, but not to large private diverters.

The GVIA believes any exchange of service between State Water and its customers should be commercially costed, and charged for.

Bulk water discounts should only be applied if it can be shown that the servicing of particular customer, because of scale, offers genuine and transparent savings.

For example should a large customer in the Gwydir Valley be able to demonstrate that its operation provides State Water with costs savings concerning ordering, metering, or billing, then these saving should be able to be past onto the customer.

The discounts should reflect these savings.

Recommendation:

- 19. Bulk water discounts to the corporations should be reviewed, and discounts only applied to customers where State Water can demonstrate savings resulting from the scale of the customer.***
- 20. Any service provided by a customer to State Water should be costed and charged at commercial rates.***

Cost of Corporatisation

The GVIA is very concerned that State Water is trying to abuse its monopoly powers by attempting to pass what it has identified as extra costs associated with corporatisation.

It beggars belief that only last year State Water could of estimated its costs of corporatisation as \$2.7 million, a figure considered inflated by GVIA, and then find in this submission the cost has blown out \$8.2 million. Corporatisation was meant to provide efficiency, not further inefficiency.

Recommendation:

- 21. IPART should carefully scrutinise State Waters claim of additional cost associated with corporatisation, and determine whether the costs are genuine and efficient.***

Community Consultative Committee

The GVIA made it clear in its submission to IPART regarding State Water's Operating Licence that it saw no value for customers in the operation of the Community Consultative Committee (CCC).

AS the CCC is now part of the operating licence, then it must be deemed a Community Service Obligation and funded by government accordingly.

It greatly concerns the GVIA, that according to the 2005 Marsden report, each State Water region must contribute \$45,000 to the running of this unnecessary committee. The GVIA does not see the committee adding value to its members, and therefore strongly argues as the government insisted on the creation of this committee then it must fund it through a transparent Community Service Obligation payment.

Recommendation:

22. As a Community Consultative Committee is a requirement of State Water's operating licence, and will provide no commercial benefit it should be funded through a transparent CSO payment.

Customer Bill Implications

GVIA believes the chapter outlining the customer bill implications is a statistical joke. Given that the level of entitlement and use individual irrigators within a valley and a source holds vary enormously little is gained by looking at the "average" impact.

IPART needs to ensure an analysis is completed showing the impact on irrigators within a range of bands of entitlement and use.

Recommendation:

23. IPART must request State Water to provide a full banded range of impacts its proposed prices will have on its customers.

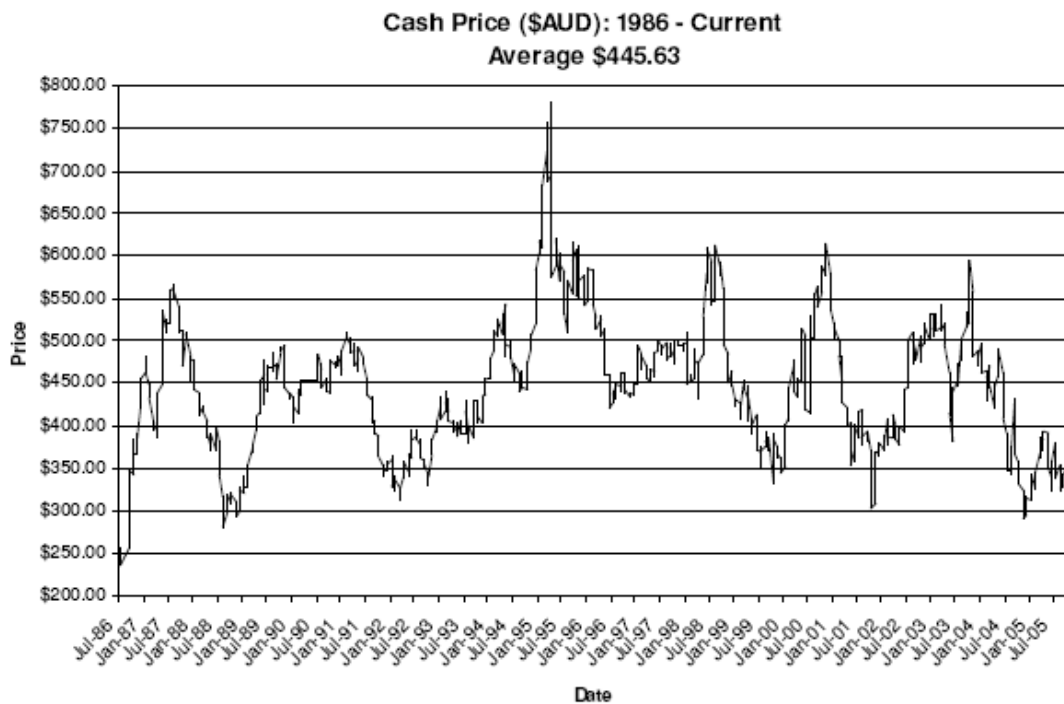
Capacity to Pay

The State Water submission makes much of the current drought's impact on its revenue stream, yet it is silent on the effect it has had on its customers.

In the Gwydir Valley low water availability saw the 2003/04 crop reduced to 20% of full valley production, and the 2004/05 crop reduced to 50% of full valley production.

This has been coupled with historically low cotton prices (see graph 1).

Graph 1 – Cotton Price



With the cotton price trading in the order of \$350 per bale and cottonseed at \$100 per tonne, it can be seen from the NSW Department of Primary Industry Cotton Gross Margin figures (next page) that there is no or very little return to irrigators.

Using current prices, but maintaining the rest of the DPI's figures the gross margin per hectare drops to \$599.

It needs to be noted the DPI figures make no allowance for labour costs, and as they are gross margin budgets they do not allow for overhead costs or provide any return on capital, or interest payments for the land and water investment.

When these costs are taken into account, most cotton growers are struggling to break-even at best, and there are no higher profit alternative crops that at this stage present a realistic option for most growers.

In making its determination IPART needs to bear in mind the "price taker" nature of agriculture, and also consider the primary irrigated product of the Gwydir Valley cotton, is almost completely sold on the world market in a heavily subsidised climate.

Australian growers, who are effectively unsubsidised, can only survive by constantly striving to maximise output and minimise costs.

Cotton Gross Margin Summary



NSW DEPARTMENT OF PRIMARY INDUSTRIES

SURFACE IRRIGATED COTTON (Bollgard II®)

Farm Enterprise Budget Series - Northern Zone

Summer 2005-2006

1. GROSS MARGIN BUDGET:

INCOME:

			Sample Budget \$/ha	Your Budget \$/ha
Lint -	7.00 bales/ha at	\$400 /bale (at gin).....	\$2,800.00	
Seed -	2.52 tonnes/ha at	\$175 /tonne (at gin).....	\$441.00	
A. TOTAL INCOME \$/ha:			\$3,241	

VARIABLE COSTS:

see following pages(s) for details

	Bollgard II®	Your budget
Cultivation.....	\$217.90	
Sowing.....	\$9.32	
Crop insurance.....	\$55.00	
Fertilizer & application.....	\$131.46	
Herbicide & application.....	\$238.07	
Insecticide & application.....	\$74.75	
Irrigation.....	\$187.81	
Contract harvesting.....	\$440.59	
Cartage to gin.....	\$68.97	
Ginning charges.....	\$420.00	
CA and Research Levy.....	\$29.75	
Bollgard II® licence fee.....	\$300.00	
Other (eg consultant).....	\$45.00	
Pigeon pea refuge crop, 5% of cotton area.....	\$23.31	
B. TOTAL VARIABLE COSTS \$/ha:		2,241.93

C. GROSS MARGIN (A-B) \$/ha:	\$999	
D. GROSS MARGIN (A-B) \$/MI:	\$143	

SENSITIVITY TABLES

2. EFFECT OF YIELD AND PRICE ON GROSS MARGIN PER HECTARE:

Lint bales/ha	Seed t/ha	\$300 /bale \$135 /t	\$350 /bale \$155 /t	\$400 /bale \$175 /t	\$425 /bale \$185 /t	\$450 /bale \$195 /t	Lint price Seed price
4.00	1.44	-\$616	-\$388	-\$159	-\$44	\$70	
6.00	2.16	-\$73	\$270	\$613	\$785	\$956	
7.00	2.52	\$198	\$599	\$999	\$1,199	\$1,399	Gross Margin (\$/ha)
8.00	2.88	\$470	\$927	\$1,385	\$1,614	\$1,843	
10.00	3.60	\$1,013	\$1,585	\$2,157	\$2,443	\$2,729	
12.00	4.32	\$1,556	\$2,242	\$2,929	\$3,272	\$3,615	

3. EFFECT OF YIELD AND PRICE ON GROSS MARGIN PER MEGALITRE:

Lint bales/ha	Seed t/ha	\$300 /bale \$135 /t	\$350 /bale \$155 /t	\$400 /bale \$175 /t	\$425 /bale \$185 /t	\$450 /bale \$195 /t	Gross Margin (\$/MI)
4.00	1.44	-\$88	-\$55	-\$23	-\$6	\$10	
6.00	2.16	-\$10	\$39	\$88	\$112	\$137	
7.00	2.52	\$28	\$86	\$143	\$171	\$200	Gross Margin (\$/MI)
8.00	2.88	\$67	\$132	\$198	\$231	\$263	
10.00	3.60	\$145	\$226	\$308	\$349	\$390	
12.00	4.32	\$222	\$320	\$418	\$467	\$516	

This budget should be used as a GUIDE ONLY and should be changed by the grower to take account of movements in crop and input prices, changes in seasonal conditions and individual farm characteristics. Estimated prices are GST-exclusive.

Case Study 3 – The True Cost of Water

Many people fall into the trap of considering the only cost of water is the price paid to DNR and State Water. In reality this only a small part of the cost of water, and ignores its capital cost and the cost of developing the on-farm infrastructure to access it.

In the Gwydir Valley water access entitlements, providing access to both supplementary and regulated water, have been trading for \$2500 a megalitre of regulated entitlement.

Given the average yield from these licences is approximately 60%, 1.66 megalitres of entitlement is required for each megalitre of water actually applied.

If a cotton crop requires irrigation applications of 7 megalitres per hectare, then a Gwydir Valley irrigator requires approximately 11.66 megalitres of entitlement for each hectare of crop.

Therefore the capital cost of water entitlement per hectare (disregarding infrastructure, land development, machinery and other capital costs) is \$29, 166.

If you assume a required return on capital (or interest payment) of 6%, then the cost of holding the require water entitlement is \$1750/ha or \$250 per megalitre applied.

Another criticism often levelled at irrigation farmers is that the licences were originally issued for a minimal cost, and that irrigation farmers have made large windfall gains.

It needs to be recognised that irrigators have always paid the market price, and if they have been fortunate enough to capitalise on a rising market, it has only been because they were prepared in the first place to take risk.

Through the 1950, 60's, 70's and in some valley's even into the 80's government was actively promoting the taking up of licences, and they were available to those who were prepared to take the risk.

While the time scale is different, there is little difference between the principles of what has happened with the value of water licences, than with what occurred with the granting of land of the past two centuries.

The third myth that needs to be considered and rejected is that rural water should be subjected to a scarcity tax, to promote efficient use. The taxing of petrol by the federal Government is often cited as an example of a scarcity tax.

However, there is a fundamental difference between a petrol and rural water. With petrol there is no restriction on how much an individual can access, and so there maybe some argument supporting the application of a scarcity tax.

However, with water entitlements and shares of the consumptive pool, an individual can take no more than his/or her licence entitlement no matter what the price, so there can be no justification in artificially inflating the price to purposely limit use.

By setting the shares, government has decided just how much use is acceptable.

Recommendation:

24. IPART take in account Gwydir Valley irrigation farmers' reduced capacity to pay when setting the bulk water price determination.

Scarcity Pricing

The GVIA completely rejects any attempt to introduce a scarcity tax on bulk water deliveries.

The NSW Water Sharing plans have determined maximum long-term usage limits on water sources, and the application of a scarcity tax on top of these would be no more than an application of a revenue raising tax.

It should be noted that one of the key objectives of the National Water Initiative is to maximize the return from the available water pool, not artificially minimise consumption through the application of scarcity pricing.

Recommendation:

25. IPART must reject any attempt to apply a scarcity tax to rural bulk water.

Department of Natural Resources

The Gwydir Valley Irrigators Association (GVIA) has very real concerns about the Department of Natural Resources IPART submission.

By its own admission previous IPART Determinations have over estimated actual Water Resource Management Costs significantly.

The first question that must be asked is “Where has this extra revenue collected from irrigators gone?”

IPART must conduct a thorough audit and reconciliation of expenditure and Determined revenue, and prior to making any Determination it must ensure that all funds paid for by irrigators have been applied correctly.

NSW irrigators over the past decade have gone through substantial reform, and the Department, and its various predecessors, has been the primary manager of this reform. Now that much of the reform has been completed (over 30 Water Sharing plans were implemented on July 1, 2004) it is hard to fathom how DNR can argue its work load is about to increase rather than decrease.

DNR has rightly unloaded most of its operational responsibilities on to State Water (although further improvements could be made in that area), it has unloaded most of its community consultation role on the Catchment Management Authorities (CMAs), and its water plan assessment roles has been unloaded onto the CMA's and the Natural Resources Commission and some of its licence management role has been transferred to Land and Property Information.

It is extremely disturbing that in light of the above, and considering the fact that less than 18-months ago the then Department of Infrastructure, Planning and Natural Resources embarked on a major efficiency driven restructure that included the realisation that a large number of staff were surplus to requirement, that DNR is now looking to employ an additional 71 full-time staff, or 48 more than when the restructure commenced.

The DNR submission makes much of what it perceives of the extra duties it now faces under the implementation of the National Water Initiative.

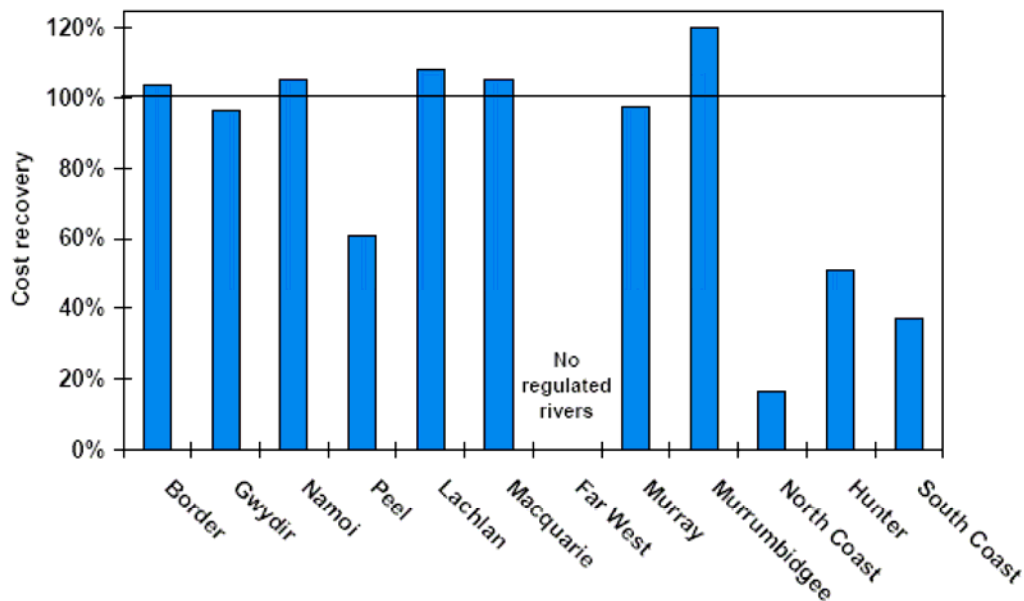
While it true that there maybe some additional duties, they are only transitional in nature, and provide the opportunity to put new systems in place that should provide long-term efficiency gains.

For example while new licences had to be issued and databases developed, those licences are now largely issued in perpetuity, rather than subject to renewal every 5-years.

The submission points to the 1994 COAG water reforms, which required movement to full-cost recovery. GVIA points IPART's attention to the following graph, which formed part of IPART's

2005/06 Determination report that shows the very high level of cost recovery or over recovery currently being achieved in the major irrigation valleys.

Figure 3.2 DIPNR regulated rivers estimated cost recovery levels 2004/05



While the GVIA is well aware that irrigators have been paying a significant share of WRM costs through their water charges for a number of years, it remains the case that the membership of GVIA strongly believe that WRM is a cost of good government and should be borne by the whole community. Therefore it is very concerned by DNR's attempt in this submission to further shift cost shares from Government to users. In total DNR appears to want to shift an additional \$14 million per annum onto users.

Recommendation:

26. That IPART conduct a thorough order and reconciliation of all IPART Determined WRM charges since the commencement of the 2001-04 Determination period.

Historical & Future WRM Costs

GVIA does not intend at this stage to comment extensively on either DNR's historical or future WRM costs. GVIA reserves the right to submit further responses on the matter of costs after it has had the opportunity to review the independent report commissioned by IPART to review the Operational and Capital Costs of the Department.

However, GVIA would like to make a number of general comments at this stage:

- Service Level Agreements - DNR and State Water have entered into, or are in the process of entering into, a number of agreements concerning the transfer of services, such as groundwater and unregulated meter reading and billing and hydrometric services. Unfortunately, customers have not had an opportunity to be consulted on the level of service required and therefore have had no say as to the level of cost involved. In particular GVIA is very concerned about the massive blow-out in hydrometric costs.
- In considering DNR's Table A1 GVIA is very concerned about what appears to be a massive increase in costs associated with the Management of both unregulated rivers and groundwater, and this concern is only raised further when Table B3 showing Total Forecasted WRM costs is considered. IPART must really asked what extra value will these additional

costs deliver, given that the total resource being managed has not grown in either size or complexity.

- DNR's attempt to point to new activities that now need to be funded to meet National Water Initiative requirements or duties imposed by the implementation of Water Sharing Plans. What the submission fails to point out is that many of those activities are already being carried out, maybe under a slightly different title, and that as new jobs come on, others are completed. For example environmental flow reference groups existed before the establishment of Water Sharing Plans, and therefore DNR has been providing advice to the Minister on them for a number of years. Much of the data that is required to monitor the Water Sharing Plans was required to monitor NSW's performance against Cap. The conversion of licences from the WA to the WMA is a one-off transition that should provide long term efficiency savings, regulation of floodplain harvesting has been a requirement since the introduction of the Cap, developing a framework to facilitate Water Management Act consents should be a one-off expense that again should provide long-term efficiencies. Costs associated with any increased water trading activity should be recovered by licence transaction costs that must in themselves be efficient and prudent.
- GVIA believes the attempt by DNR to justify huge cost increases by attributing them to National Water Initiative requirements, will undermine irrigator support for the NWI.
- Staffing Levels – It is hard to comprehend that total required staffing levels to regulate bulk water in NSW at 311 EFTs (proposed by DNR for 2006/07) can possibly equal the number of staff required by State Water to deliver the water (310 EFT proposed for 2006/07).
- Return on Assets – GVIA notes that in its submission DNR states that return on assets has not be included in its WRM costs. GVIA believes the notion that a return on assets could ever be applied to WRM costs should be rejected outright.

Recommendation:

27. That IPART explicitly rule out any return on capital charge for WRM activities.

Cost Sharing

GVIA believes there as been no fundamental shifts in the responsibilities of users and government since the 2001 Determination when the ACIL cost shares were extensively debated.

As mentioned earlier, it is the GVIA's position that Government should meet all WRM charges, as they are the cost of good governance. It is hard to find many other examples in government where the users are charged the cost of resource management.

Nothing in the DNR's submission supports an argument to greater user cost share. IPART needs to closely examine each activity code and suggested changes to the cost shares independently, and test them as to who receives the benefit from the activity.

GVIA would like to highlight a number of activities that warrant careful consideration (the list is not exhaustive):

- C01-05 – Surface Water Quality Database – It is the community that wishes to be satisfied that the environmental provisions of the water sharing plans are being met, therefore it should be a 100% government cost.
- C02-03 – Groundwater Quality Monitoring – This should be a shared cost as the quantity information is at least as important to the wider community as the users. If it were up to the users a risk base approach would be adopted that would significantly reduce costs.
- C02-01 – Groundwater Quantity Monitoring - This information is vital for the community to have confidence in the Water Sharing process and therefore should be a shared cost.
- C06 Activities – A whole range of activities here that apply to the implementation and amendment of Water Sharing Plans. These plans were initiated by the community and

principally provide a community benefit when compared to the situation immediately prior to the introduction of the plans, therefore they should be 100% government costs on behalf of the community.

- C07-05 – While Floodplain harvesting licencing may improve an individual’s security of access in the long-term, it will also almost certainly reduce irrigator access to this resources, so this activity can in no way be seen as a 100% user benefit.
- C07-11 – NRC WSP reviews – The Water Sharing Plans were put in place to benefit the entire community, not just those users that are subject to charges.

Recommendation:

28. ***That IPART thoroughly and independently examine each of DNR’s new proposed activities and cost shares, to ensure the share accurately identifies whom the beneficiary of the activity is.***

Tariff Structures

The GVIA supports the retention of a valley-based tariff system, with the associated valley-based accounting.

GVIA sees there is little to be gained by moving towards valley groupings, and that groupings would inevitably lead to cross-valley subsidisation, something the irrigation industry has been vigorously opposed to over the years.

In those valleys with prohibitively high management costs GVIA believes transparent Community Obligation Payments should be made.

In terms of fixed and variable charges GVIA believes WRM charges should retain fixed and variable components, so that DNR’s cashflow is relatively closely aligned to the cashflow of its clients. GVIA believes a 50/50 split is appropriate.

Recommendations:

29. ***That valley based accounting and charging be retained.***

30. ***That two-part tariffs be retained, with at least 50% of charges being variable.***

Security Premiums

The GVIA position on security premium is that they should be commensurate with the additional costs associated with providing that premium. In regards to a security premium for Water Resource Management charges GVIA agrees with DNR’s position that they cannot be justified by any additional costs.

Recommendation:

31. ***That no security premium be applied to WRM charges.***

Wholesale Discounts

The GVIA position on wholesale discounts is that they should not be seen as a way for paying for information exchanged between DNR and the water corporations.

Any services provided by the corporations to DNR should be transparently costed and paid for. Wholesale discounts should be available to all licence holders who can demonstrate saving to DNR by the nature of the scale of their operation. Such scale related saving are probably harder to achieve in a WRM framework compared with State Water’s delivery framework.

Recommendations:

32. ***Bulk water discounts to the corporations should be reviewed, and discounts only applied to customers where DNR can demonstrate savings resulting from the scale of the customer.***
33. ***Any service provided by a customer to DNR Water should be costed and charged at commercial rates.***

Transaction Fees on WMA consents

In general GVIA supports a fee for service type approach to WMA consents. However it strongly believes that any costs directly associated with the roll-over from 1912 Water Act licences and approvals to Water Management Act 2000 licences and approvals should be a 100% cost of government.

GVIA also believes that WMA consents could be a fully contestable service, much in the same way that some local government councils contract out development application approvals.

GVIA welcomes the recognition in the DNR submission that there is room for efficiency gains within the arena of WMA consents.

A number of GVIA members have expressed concerned that when they have presented multiple identical licence for identical WMA consent they have been charged based on the number of individual licences involved. This fails to recognise that there is little or no extra work involved in processing a bundle of licences, compared with processing one.

For example members have sought to redirect supplementary licences from one works approval to another of same ownership. The have been charged for amending both works approvals, multiplied by the number of licences involved. Clearly, in these circumstances, the amount of work involved in amending the works approval when four licences are involved is not four times greater than the work involved in amending the works approvals if only one licence were involved.

Recommendations:

34. ***That post WMA transition consents be costed on a fee for service basis but the service should be full contestable.***

Conclusion

The GVIA would like to thank IPART for receiving this submission and it looks forward to further involvement in the 2006/07 Price Determination through attendance and participation in the Sydney and Moree hearings, as well as an opportunity to respond to the consultants report on efficient costs and the draft Determination of IPART.

Appendix A

SMK CONSULTANTS

surveying – irrigation - environmental
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Moree NSW 2400
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20-Nov 2003

Mr M. Murray
Gwydir Valley Irrigators Association
PO Box 1451
Moree 2400

Dear Mr Murray

Re : Storm Runoff Flows in Carole Creek From Marshall Ponds Creek.

The following is a brief investigation of the quantity of water that entered Carole Creek from Marshall Ponds Creek on or about the 22-23rd Nov 2004. The flow entered Carole Creek near Midkin (Ashley) from rain in Marshall Ponds Creek catchment on or about the 21st Nov 2004. No flow was recorded in Carole creek upstream of its junction with Marshall Ponds Creek on the 23rd Nov 2004 (see sheet 1 attached). The flow was recorded at the Carole Creek gauge at Garah on the 25th Nov 2004 at a discharge of about 1750ML /day. With a total flow past the Garah gauge of 3060ML approximately (see sheet 2). Between where Marshall Ponds joins Carole Creek and the Garah gauge a number of floodways leave Carole Creek on its western side along with possible floodway infiltration and pondage will cause the flow at the Garah gauge to be significantly less than the flow at the start of Carole Creek or at its junction with Marshall Ponds (see Sheet 3). Previous work done by me on Carole Creek has shown that a flow of approximately 20,000ML/day at the Carole Creek offtake will result in a flow at the Garah gauge of approximately 8000ML/day. The purpose of this report is to determine the flow rate in Carole Creek at Midkin just downstream of its junction with Marshall ponds for the 23rd Nov 2004 runoff event.

The method used to determine the flow from Marshall Ponds on the 23rd Nov 2004 was to use the recorded flood level at Midkin crossing for the 11th Dec 2004 flood event and the recorded water level at the Carole Offtake. These water levels were used to determine the Manning's N value for this section of the stream. Mr H. Gaynor and Mr T Haynes of Auscott observed the flow in Marshall Ponds at Ashley to be the same for both events. Therefore the November flow is only from Marshall Ponds and the December flow is a combination of the same flow from Marshall Ponds plus the flow from the Carole offtake. The gauge readings for the November and December events are on the attached sheets 4 and 5.

Estimated peak discharge for the December event at Carole offtake was 19,000ML/day or 218cumecs. To match the recorded flood level at Midkin Crossing a Manning's N value of 0.035 is required with both a flow from Carole Creek and Marshall Ponds. If the flow from both events was equal then to obtain the recorded flood level for the November event with the Manning's N value set at 0.035 a flow of 115cumecs (9,936ML/day) would be needed from Marshall Ponds for both events.

**Irrigation Consultants, Land, Water &
Environmental Assessment**
Associated Company: M.F-G Shaw & Associate Pty Ltd
Registered Surveyors & Town Planners

The HECRAS computer model was used to calculate the effect of the existing crossing at Midkin and to arrive at the above answers. It was observed that the flow from Marshall Ponds maintained this flow for a period of about 2.5 days. Therefore the total flow from Marshall Ponds to pass Midkin crossing would have been $2.5 \times 9,936\text{ML/day} = 24,840\text{Megalitres}$.

The above calculation is approximate only. An estimate for the accuracy of the results could be plus or minus 20%.

If more information is required please do not hesitate to contact me.

Yours Faithfully,

A handwritten signature in cursive script, appearing to read 'P. Covell'.

Paul Covell