

**Hunter Valley Water Users Association Submission to IPART on Bulk Water
Prices
November 2005**

The Hunter Valley Water Users Association represents the water users of the regulated sections of the Hunter Valley as well as co-operating with water user's associations on unregulated streams and ground water systems throughout the Hunter Valley

The Association is also a full member of NSW Irrigators Council.

We have read with some dismay the submissions submitted to IPART by both State Water and DNR and are seriously concerned at the likely effect on the irrigation industry if these submissions were to be endorsed by IPART.

One of the likely effects of agreeing to the unconstrained pricing suggestions of State Water would be that many current irrigators would be unable to continue to irrigate thus decreasing the demand for water and reducing income to State Water. In order to get some handle on this effect I attach a report prepared for us by local DPI officers, including an economist, into the likely effect on dairy farmers in the Hunter and North Coast of unconstrained pricing. It is important to remember that the prices used in this report DO NOT include DNR costs and the addition of these costs would only magnify the effects. We are also pleased to note that IPART has now commissioned ABARE to carry out a more detailed survey and wait to see the results of that survey.

We are particularly concerned with the scale of claimed increased costs by both State Water & DNR and there does appear at the least to be a number of inefficiencies if not double dipping with irrigators being asked to pay twice for the same service. A classic example is the supposed costs claimed for monitoring and compliance with water sharing plans by State Water, DNR checking on State Water re water sharing plans and of course CMA's and NCR auditing. It is also interesting to note that neither DNR or State Water seem to show any income apart from the revenue stream from water users. This is despite the fact that they have numerous commercial arrangements between each other and with other parties such as dam foreshores etc. We hope that IPART will be able to determine if the suggested costs claimed are net costs and that any inefficiencies can be highlighted.

We do not feel we are in a position to comment on the relative merits of RAB v's Annuity as a basis for capitalization but the RAB does seem to have some merit but we believe the base suggested of \$302m needs to be fully examined.

We also note that the submissions are very strong on using COAG as the reasoning for full cost recovery but an examination of quotes used by state water on pps 14 and 16 of their submission would suggest that it is really a selective interpretation of COAG and NWI requirements.

“(1) the adoption of pricing regimes based on the principles of consumption based pricing, full cost recovery and desirably, the removal of cross subsidies which are not consistent with efficient and effective service, use and provision. Where cross subsidies continue to exist, they be made transparent;

(ii) where service deliverers are required to provide water services to classes of customers at less than full cost, the cost of this be fully disclosed and ideally be paid to the service deliverer as a community service obligation.

Clause 66 of the NWI clearly allows for the fact that in many cases that full cost recovery is not a practical , that lower bound pricing is the standard with a movement towards upper bound pricing where practicable.

We would submit that these grabs for money do not take into account these principals.

Cost Sharing arrangements.

We cannot support the argument by DNR to alter the cost sharing ratios as determined by IPART some time ago and even if those ratios were to be accepted the suggestion by DNR that those currently invoiced are the only users is extremely questionable. Queries could be argued on nearly the entire proposed cost share by DNR but the most glaring examples are in the WSP implementation where the rationale for 100% user is “improved security of access is a private benefit”. Of course what most water sharing plans have done has given environment the highest security, then basic rights, towns, utilities etc before any water is available for general security irrigation. WE have no argument with access priorities as laid out in the water act but to fail to recognize the place that WSP play in increasing the security to ALL users is unrealistic

The other major issue in cost sharing relates to the fact that in regulated streams by far the largest cost relates to the storage structure, their operation, maintenance and improvement. Indeed in some valleys structures and their manning could provide 80-90% of the State Water costs for that valley. We strongly believe that all sectors should pay costs in relation to the storage that is reserved for them whether they use it or not. For example the Hunter Storages, Glenbawn and Glennies, have shares of the storage capacity put aside for the following users in order of priority. Those marked with an asterisk are the ones who are currently invoiced for water.

Environmental Health	3.3%
Adaptive Environmental Water	3.45%
Basic Landholder rights	0.95%
Stock and Domestic * sometimes charged	0.3%
Major Water Utility *	6.2%
Local Water Utility *	1.87%
High Security (Industry and Agriculture)*	3.82%
General Security *	11.05%
Unallocated	39.4%
Flood Storage	10.94%
Transmission loss (Non Payers)	4.66%
Transmission Loss (Payers)	4.04%

Source: State Water Coastal manager

Analysis of these figures indicate that of the total water (storage space) allocated, 23.31% is to those uses currently not invoiced and 37.29% to those users who do receive an invoice, a ratio of approximately 40/60.

The submissions suggest that total cost recovery should be only from those who currently receive an invoice.

These figures give rise to a number of Hunter specific issues as follows:

High security Vs General Security

The above figures show that a large portion of the storages is required for security levels above general security. This additional security means that water has to be put aside to ensure secure supplies to these users, both payers and nonpayers.

Modeling carried out by DIPNR for the Hunter Water Sharing plan showed that in the worst drought on record and at full development general security would have 0 allocation for 9 consecutive years whilst high security would be eligible for 100% right through. (The plan does have a minimal reduction on high security whenever general security gets below 50%).

State Water submission contains their costings of high security water v general security and suggests a figure for the Hunter of 4.5 to 1 and we support this figure. We note that the conversion figure to change from GS to HS is 3: 1 and water has to be stored for at least 2 years. We also note that Macquarrie Generation in their submission last year objected to the proposed 4.5:1 ratio but suggested 3:1 would be acceptable to them. Unfortunately the current determination did not alter the ratio despite of their agreement and the fact we have pursued this matter over a number of years.

Fixed v Usage charges

Because of the comparatively small capacity of our dams, the high percentage of high security users and the fairly low usage of allocations in all but drought times we believe it is essential that those entitlement holders who have space in the storages put aside for them should pay for their fair share of the dam costs. The cost of applying water through pressurized systems is such that the usage charge at present is not the major price signal as energy costs are also rising far and above the prices for rural produce.

We recognize that State Water is required under COAG to move towards a 40: 60 ratio but support their suggestion that this could be over the whole of their operations rather than applying to all valleys.

We would also suggest that to make State Water more accountable and efficiency driven that the fixed charge be only on “available” allocation and the usage charge on that water actually used in any given year.

Cross Subsidies

Hunter charges include costs involved in operating the Paterson regulated system and running the Lostock Dam that supplies that system. There is no connection between the Hunter Regulated and the Paterson Regulated although both rivers have a common estuary but this is well below the end of the regulated systems.

Lostock is only a very small storage (20,230ml) and only has total irrigation allocation of 9393ml, which is less than Toonumbar we would suggest the actual costs for Lostock would be similar to those requested for Toonumbar.

As Paterson users only pay the same as Hunter it is apparent that Hunter users are heavily subsidizing the Paterson. In accord with COAG principals we believe this cross subsidy should be transparent and treated as a community service obligation.

Indeed we believe if this subsidy and the subsidy general security has consistently given to High Security users (mentioned above) had been removed last year that the Hunter would have been very close to full cost recovery at the time of the last

determination and there would not have been the need for general security to rise by 12.5%.

DNR Submission

In addition to the general comments made previously we are concerned at the cost that are proposed to be placed on identifiable Hunter water users.

The Hunter is one of the major growth centers in Australia, and is heavily urbanized and industrialised.

The DNR submission does not easily identify cost for each valley but simply states 'the Hunter has above average unit costs and therefore could warrant a separate tariff'

We would suggest that the need for the higher costs is not so much caused by extractive water use but more because of the urbanization and industrialization of the valley. Particular additional costs are as a result of extensive coal mining and power generation, which of course require much more concentrated resource monitoring.

E.g. the Hunter Salinity Trading Scheme, which costs in the order of \$500000 pa to run. This cost is indeed paid by participants but this does not show as an offset in the DNR submission.

In conclusion we are aware of and strongly support the position being taken by NSW Irrigators Council and also the Coastal Valley Customer Service Committee in their submissions except of course for the particular issues raised in this submission.

We firmly believe that to approve the unconstrained prices suggested in the DNR and State Water submissions could well mean the end of irrigated agriculture on the coast with severe social and economic affect on all of NSW.

Attachment

“ The impact of water pricing policy on farmers in the Hunter and the North Coast”.