

“Glenara”

Nevertire NSW 2831

18th November 2005

Mr Jim Cox

Chief Executive Officer

Independent Pricing and Regulatory Tribunal

Level 2, 44 Market St

SYDNEY NSW 2000

Fax: 02 9290 2061

Email: ipart@ipart.nsw.gov.au

Re: Macquarie Valley Water Price Increases

Dear Mr Cox,

We are water users in the Macquarie Valley.

We write to emphasise several issues in addition to those raised by our peak body, Macquarie River Food & Fibre:

1. **Cost sharing arrangements:** Our entire irrigation industry uses only 26% of the flows in the Macquarie, yet we are being charged 100% of the ‘user share’ of costs. Our irrigation schemes are charged for all the water delivered, including losses, yet other users such as environment and stock and domestic incur massive losses and storage costs at a cost to us. We have had our priority access status reduced with the recent Water Sharing Plan and

Act in favour of other users and we have 1 seat on the Macquarie Customer Service Committee the same as other users yet we are the only type of user that has to pay. This is inequitable and against the principles of cost sharing outlined in the 1994 CoAG Agreement.

2. **Use estimated at 1 standard deviation below Average Use:** State Water's risk management proposal to calculate usage costs assuming use at 1 standard deviation below average use is exorbitantly expensive for customers because it is too conservative and therefore it is ineffective means of managing variations in annual use. The implications for the Macquarie are that SWC will be charging a 53% risk premium. A much more efficient alternative would be debt funding of shortfalls in income and investment of surpluses with the difference in interest rates and hence appropriate risk premium of about 1%.

3. **Treasury taking a 7% Return on Investment:** The Macquarie's bulk water infrastructure should not return 7% annually to Treasury because it is not a private sector investment with equivalent risk and short term high yielding characteristics. Even if water infrastructure was considered similar to a private sector investment, the nature of the assets mean that it is a long-term capital growth style investment that would generate no more than 3.5 – 5% annual dividend if it was performing as well as the best Australian capital growth shares.

4. **Government Policy costs:** DNR is attempting to charge customers for the bulk of its Water Resource Management expenditure. This is asking individuals to pay for the general costs of Government bureaucracy and policy; what other Government Department does this? For instance NSW Agriculture doesn't pass its costs onto farmers. DNR does not have the same accountability requirements as SWC – it doesn't have an operating licence, with annual reviews and a requirement to demonstrate transparency and cost effectiveness and customers don't have any input into decisions regarding the services it argues is it providing for our benefit.

5. **Efficient Costs:** MRFF requests that IPART requires both DNR and SWC to demonstrate cost effectiveness (via cost benefit analysis) of any costs being passed on to customers. It is not adequate for IPART to be satisfied that costs are efficient, if the nature of the expenditure is questionable. We refer specifically to the astronomical costs being proposed for groundwater and unregulated users due to the implementation of the monitoring requirements of the Water Sharing Plans. The costs are completely out of proportion with the resource base and small number of customers in the Macquarie.

6. **Service Level Agreements:** MRFF requests the details of the SLA's, in order to scrutinise the accountability mechanisms on DNR and the method of costing specific information outputs and products that DNR is being paid to provide. The services requested by SWC should have gone through a public tender process as we are not convinced that DNR can provide the required service at the lowest cost. In addition we are alarmed that DNR is proposing to charge customers for the capital costs of obtaining the groundwater monitoring network required to provide information services to SWC, which will also be charged to customers (If customers fund the capital investment customers should own the information).

We ask IPART to address these issues along with those raised by our peak bodies, MRFF and NSWIC. We also request an opportunity to attend a public hearing in Dubbo to further discuss these issues.

Yours sincerely,

KP & ML Simmons