



Attention: Chief Executive Officer

Independent Pricing and Regulatory Tribunal  
P O Box Q290  
QVB POST OFFICE NSW 1230

31 October 2005

[ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

Dear Sir,

**Subject: 2006-07 IPART Bulk Water Price Determination**

Auscott Limited is a corporate irrigated farming business with operations and corporate offices based at Moree, Narrabri, Warren, Trangie and Sydney. We have around 200 fulltime staff, 75% of whom work in rural Australia in communities highly dependent on irrigated agriculture. We employ almost that same number again in casual and seasonal jobs throughout the year. Our business depends on water. Hence we have considerable interest in the IPART process and in particular the determination of bulk water prices. The following is our submission to the 2006/07 IPART Bulk Water Price Determination process.

**Submission on behalf of Auscott Limited**

Irrigation water is a significant input in our operations. The cost of water has been rising steeply over recent years. At the same time the agencies once responsible for delivery of water have changed their focus and are largely natural resource managers rather than resource suppliers. In submissions by both the Department of Natural Resources (DNR) and State Water Corporation their emphasis seems to be on revenue generation and full cost recovery from the irrigation sector for activities that go well beyond the services they deliver to irrigators. One could almost believe their submissions were edited by Treasury. Not only are irrigators being asked to financially support water supply and infrastructure issues but as well the full cost of operating activities including management of environmental water, flood mitigation and domestic water supplies. We reject the full cost recovery of operational water management. This is not in the spirit or intention under CoAG principles.

It is also clear that under the CoAG arrangements "upper bound" cost recovery did not mean that "upper bound" recovery would occur in one year as a severe impost on industry especially an industry dealing with a significant drought situation. Moving up the costing recovery track must be at a much slower rate and one that can be sensibly absorbed by the irrigation industry.

Agricultural producers are price takers. We cannot pass cost increases on in the way most of the economy and governments do. These cost rises for water come straight off the bottom line. We note in State Water's submission that for example in the Namoi they are seeking a price rise for water from \$11.78 to \$24.07 per megalitre – assuming a 100% use of entitlement. This is an enormous increase in cost and depending on the season could see our company's costs across the board blow out by over \$1 million dollars – a cost we cannot recover by simply passing on to the markets or consumers. Consequently we categorically reject State Water's submission.

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Under the water sharing plans (WSP) the reliability of supply of water in central and northern catchments has decreased. Irrigators have carried the cost – mostly without any financial consideration – for changes in water sharing arrangements. As such we believe it is only fair that irrigators are not held accountable for the cost of administering and managing water for other purposes such as environmental water. Through the water sharing plan process the community has said it values environmental water and hence it must assume a fair burden of managing that resource. In the Namoi, for example, there are significant times of the year when irrigators’ access to supplementary flow has been cut to almost zero.

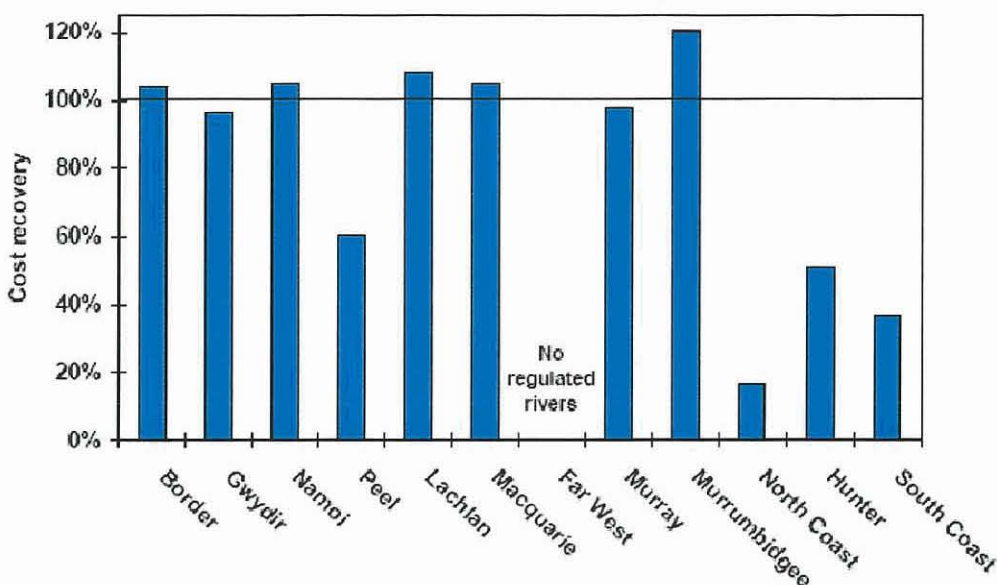
State Water has indicated it wants to act more as a professional business under a corporate model. It is alarming to us that State Water is seeking increases in water charges when at the same time it is failing in a timely manner to generate the invoices it should and subsequently deal professionally with its accounts receivable process and so has huge outstanding amounts owing to it simply because it fails to follow good business principles. State Water needs to be more transparent and business like in its dealings before it asks for increased water charges.

Our business fortunes fluctuate with the variability of Australian seasons and the extreme volatility of commodity markets. Currently many commodity markets for agriculture are at historically low levels. Water price changes do not seem to consider any socio-economic factors but rather a grab for revenue at a most inopportune time.

The numerous points on which we challenge the State Water submission include:

- a. State Water should take some shared risks in pricing if they want to operate as a business. Their approach seems to be the client takes all risk and wears all cost.
- b. Cost recovery levels by the previous agency DIPNR in the valleys where we operate are close to or above 100% already. This is shown on the following graph sourced from the Gwydir Valley Irrigators’ Association from previous IPART papers. How can further increases be justified?

DIPNR regulated rivers estimated cost recovery levels 2004/05



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- c. Costs of State Water's corporatisation process are not transparent, thus preventing true scrutiny of costs they are claiming should be worn by irrigators.
- d. There is no mention or focus in the State Water submission of their desire or willingness to review their cost structures to see where improvements can be made. There must be room for productivity gains and more efficient operating environments, but their submission is silent on these matters. That is very unreasonable and must be changed before increased charges can be considered.
- e. Increases in State Water staffing levels have little relationship to the supply of water for irrigation but are more related to other needs apart from river operations. This is an attempt to have irrigators carry the burden of added government costs.

The State Water submission lacks visibility on its community service obligations with regards to costs in its operations for flood mitigation; environmental flows; recreation such as boating, fishing and swimming; council sewerage activities.

- f. We object to State Water's attempt to use the IPART pricing process as a tool for developing "scarcity" pricing for other political agendas related to water use. This is an abuse of process and is not related to the cost recovery of State Water's activities.
- g. The move to adjust long-term diversions by one standard deviation less than average diversions for pricing purposes is unreasonable. It will unnecessarily push up the price of water required to meet State Water budgets. This will have a significant financial impact and reduces the pressure on State Water to manage its affairs efficiently thus reducing its ability to adapt to the same forces agricultural producers face on a daily basis.
- h. Extra reporting costs created by the National Water Initiative seem an exaggerated claim.
- i. Costs attributed to water sharing plans must not be considered as an irrigator only cost. There are numerous community and environmental benefits that must be carried by others.
- j. The move to recover "upper bound" costs in one gigantic grab was not part of the CoAG arrangements and thus should be rejected.
- k. State Water has been slow and inefficient with the timely invoicing of customers and subsequently collecting monies owed to them. As a result, improvements to their systems should be the first priority rather than increasing water charges to hide revenue shortfalls in their existing business. See Water Corporations Act 2004, where the corporations objectives include "operating at least as efficiently as any comparable business" – hence the need to address invoicing and accounts receivable matters.
- l. The Dam Safety Policy appears to involve expenditures on plans for 1 in 1 million year events. We believe this is unreasonably high and substantial cost savings could be achieved by lesser but still effective works.
- m. The cost sharing on many of State Water's expenses such as OH&S is unreasonable. State Water should not be subsidised for poor work safety and must be encouraged to manage to keep its OH&S costs to a minimum. Allowing irrigators to pick up the safety tab is not in the interests of good safety management nor accident prevention.

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- n. Has there been proper socio-economic consideration of the impact of the proposed price increases? It would seem that if the suggested prices are approved, there will be significant hardship to many enterprises. Some will suffer significant reductions in operating margins; all at a time when people are trying to manage a significant drought event.

As is evident from the above, we have various concerns on agency submissions to IPART. These concerns are shared by many others. During the recent WSP process many irrigators, ourselves included, felt that the government and various members of government agencies had little regard for us as customers. This seems to be continuing through the recent submissions by agencies to IPART with regard water pricing. Their submissions indicate clearly that:

- there is no drive to achieve business efficiency in government agencies
- staff of the agencies are continuing to be disassociated from the customer base with enclaves of staff in more populous regional centres often very distant from major irrigation activities.
- delivery of service is secondary to revenue raising
- irrigators utilising less than 20 to 25% of the water are being expected to pay 100% of the bill.
- too much of the public service overhead in water related agencies is being dumped on irrigators.

As you can see there are significant issues which no doubt your Tribunal will appreciate are unjust and unjustifiable in State Water's submission to IPART. I trust that this gives you an outline of our concerns on the submissions from State Water and DNR.

I would be happy to supply more details should you require them.

Yours faithfully,

David Anthony /  
CHIEF EXECUTIVE OFFICER