

12th June 2010

Review of the Water Administration Ministerial Corporation's Water Management Charges
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Sirs and Mesdames

Comments on - Review of the
Water Administration Ministerial Corporation's Water Management Charges
(with reference to the Peel Valley in particular)

Please find attached a submission on the above topic. Would you please note the following comments regarding this submission –

1. Anonymity

I request that IPART does not publish my name and address details on the internet – if it is good enough for the staff of the NSW Office of Water, Pricewaterhouse Coopers, Halcrow Pacific Pty Ltd, and IPART to contribute to this process without having their personal details on the internet for the world to see, then I request an equal level of anonymity.

2. Inability to attend Public Hearings

I am grateful for the invitation to attend one of the IPART public hearings, but I am unable to attend as I will be overseas for the month of July.

Yours faithfully

(Peel Valley based Primary Producer)

Cc Peter Draper, Trevor Khan, Kristina Keneally, Andrew Stoner, Barry O'Farrell,
Christine Robertson, Catherine Cusack,

1 Price review for bulk water – one price, not separate components

IPART is currently dealing with State Water's proposed charges for bulk water, and IPART is also in the process of receiving submissions for the NSW Office of Water's proposed charges. The important consideration for water users is the total charge that will be incurred for water, not the individual components.

It is to be hoped that in its review of each of the components of water charges, IPART focuses its attention on the impact of the total water charges that water users will have to bear. The cost of water is an input cost for farmers, and it is irrelevant how many government departments have a finger in the charging process. Splitting the cost between departments does not mask the fact that the total cost of water is the figure that is of interest to water users.

2 IPART Timeframe

- (a) It is not clear when the new charges for the NSW Office of Water will be implemented. The fact that IPART has scheduled public hearings during the month of July implies that the new charges will not be implemented until August at the earliest. It is to be hoped that the charges will not be made retrospective to 1st July, particularly as it is evident that the NSW Office of Water was at fault in not providing the required information to IPART in a timely manner.
- (b) Water users continue to wonder whether there is adequate time in IPART's schedule to properly consider the submissions from stakeholders before IPART delivers its final decision.

3 Volume of documentation

The documentation that needs to be reviewed in order to comment on the NSW Office of Water charges is more than 400 pages in total, plus a DVD with further spreadsheets full of figures. This is an excessive volume of material, and it appears that IPART is causing the NSW Office of Water to generate massive volumes of information, which in turn requires more staff in the NSW Office of Water, and more time to produce, and more cost that is then passed on to the water users. This appears to be a wasteful misuse of resources – it is of absolutely no benefit to the end customer (ie the water user), and the sheer volume of material must render it difficult for IPART to focus on the crux of the matter - which is to ensure that the NSW Office of Water does not take advantage of its monopoly position.

IPART needs to understand that this huge volume of material also makes it difficult for the average stakeholder to digest and offer a considered comment. Most water users are engaged full time in productive activities on the farm, and detest having to devote large amounts of time to analyse the masses of data outside their working hours. This unpaid and unproductive task is made extremely difficult because of the unnecessarily voluminous nature of the documentation. It is inevitable that the quality of the responses that IPART receive from stakeholders will be affected by the bulk of the information that is provided, and the need to at least look at each bit of the NSW Office of Water's documentation.

4 Comments on PricewaterhouseCoopers/Halcrow Pacific Pty Ltd Review – April 2010

- (a) Page 3 – NOW is requesting additional staff – an additional 19% by 2012/13 and 27% over the years 2014/15. These increases are “attributed to IPART-related activities” – if this is the case, is the cost of these additional staff absorbed by IPART or passed on to the end user? If IPART’s role is to moderate the charges imposed by government monopolies, then surely IPART should not be adding to the cost that the government monopoly charges the end user.
- (b) Page 5 – NOW has received \$8.3 million with a further \$3 million expected by 2012 to upgrade surface water databases – a total of \$11.3 million. This is an astonishing figure and way out of proportion to the task. It is incomprehensible how \$11.3 million could possibly be spent on compiling a database. It is further incomprehensible how IPART would allow this massive over expenditure to be passed on to the end user. If the figure had been \$50 million, would IPART simply allow NOW to pass it on to the end user? How effective is IPART in controlling charging by government monopolies if it simply rubber stamps an obvious waste of taxpayers funds?
- (c) Page 5 – “A requirement to review and remake 31 water sharing plans before 2014, prior to their 10 year expiry date”. IPART will be aware that the Murray Darling Basin Authority will take over the responsibility for water sharing plans in the Murray Darling Basin from 2014. The question has to be asked whether it is NOW’s responsibility to remake those plans which are inevitably going to be remade when the MDBA takes over – in other words, has NOW negotiated with the MDBA to determine which water sharing plans need to be remade before 2014 (in effect only 3 years away)? It seems absurd to remake a water sharing plan that may only have an effective life of one year, and force the end user to pay for the cost of an ineffectual plan. Surely IPART should ensure that NOW negotiates with the MDBA to extend the life of the existing water sharing plans and thereby avoids unnecessary expenditure and unnecessary cost to the end user.
- (d) Page 7 – There are three comments on page 7 that are really frightening –
- “evidence is lacking about tangible efficiency gains having been made over the period 2006/07 to 2008/09 in delivering services and outcomes with a constrained set of resources”
 - “In most cases, there is insufficient evidence of robust strategy or business cases underpinning the historical and forecast operating expenditures”
 - “Apart from....., there is no other clear evidence that consideration has been given to the possibility of reallocating staff resources from existing activities that are being scaled back to new areas of work that require higher priority”.

Each of these statements is a damning indictment of NOW’s operating procedures - by professional organisations that are not prone to making rash statements. Surely IPART cannot allow NOW to continue this sloppy mismanagement, and continue to simply pass on the resultant excessive costs to the end user.

If IPART is not going to pull this mismanaged state owned monopoly into line, then who will? If a truly independent consulting firm delivers these facts to IPART and IPART then fails to ensure that these malpractices are corrected, then surely IPART is negligent in failing to control the cost structure of a state owned monopoly, and tacitly approves the wastage of funds that are provided by end users.

- (e) Page 8 – In a similar mould to the previous point – “There are several inconsistencies in the accounting methodologies for determining historical and future expenditure, which make comparisons of past versus future activities and costs complicated and imprecise”. Apart from the obvious sloppiness in management systems which is evident from this statement, it is to be hoped that IPART recognises the fact that any historical comparisons or future predictions made by NOW are, by definition, suspect.
- (f) Page 10 – Can it get any worse than this statement? “Furthermore, based on the findings from a detailed audit of several activities, PwC is concerned that there are inefficiencies in NOW’s existing deployment and allocation of staff resources across activities. For example, in the case of Operational Planning, the reported outputs for this activity (one completed policy guideline on page 101 of NOW’s submission, though progress in the drafting of other is acknowledged) does not appear to be commensurate with the 20 to 25 FTEs that have been working in this area over the past four years”.

Well, according to my understanding of this statement, there were 20 to 25 people sitting on their bums for four years to produce just one policy guideline. Just take a look at this, IPART – look very hard, and look very long at this. Say there were only 20 people for four years at a salary of \$55,000 plus oncosts of 15% (super, LSL, workers comp insurance, etc) then the cost of this single policy is over \$5 million dollars – and the end user is expected to cover this cost. Put simply, this is fraudulent mismanagement of taxpayers funds.

If PwC happened to find this one example during their audit, how many other cases of woeful maladministration are there in this dysfunctional organisation?

Having been given this professional advice, what is IPART going to do with it? How can IPART allow this incredible wastage of funds provided by the end user to continue? If IPART does nothing about this situation (eg referring it to someone like the State Government Auditor), then how can IPART claim that it is having any impact whatsoever on the control of charges levied by a state government owned monopoly?

- (g) Page 27 – In commenting on NOW’s accounting system, PwC state – “We are not suggesting that there are systemic problems or inconsistencies within NOW’s financial accounting system, nor was it within our scope to assess these matters”. Based on the information provided by PwC in the previous three points, it is to be hoped that someone is actually “assessing these matters”. If there is not a current financial audit of NOW’s financial accounting system that is in IPART’s hands right now, then IPART had better ensure that there is one done - post haste.
- (h) Page 81 – “Efficiency of costs – From the information available, it is difficult to make definitive conclusions about whether NOW’s planning activities are efficient” (What a cute and polite way to say that NOW’s planning activities are totally inefficient!) “However, PwC has some concerns about the forward expenditure forecasts, and the lack of detail around the assumptions underpinning these forecasts” (Therefore, they are likely to be dodgy at best!) “Specific concerns are as follows – It is not clear why the number of FTEs for Water Sharing Plan development continue to rise after 2012/13 when most or all of the plans are scheduled for completion in the next three years.....it would be useful for NOW to publish information on the number of plans scheduled for gazettal each year, the expected complexity of these plans, and the timing

of plan reviews". It beggars belief that this basic information is not available, and it is incomprehensible how IPART could consider approving NOW's ambit claim for any increase in charges without this most fundamental information on which NOW's future expenditure is based.

On the same page, Table 5.4 indicates that over the 9 years ending in 2015, NOW has spent, or will spend \$31.5 million on water sharing plans – an average of \$3.5 million each and every year. This is a horrendous amount of money, particularly when many water sharing plans have vast sections that are common between plans and are able to be simply copied and pasted from one plan to the next.

Given the examples of mismanagement that have already been provided by PwC, IPART would need solid evidence from NOW that there is any justification for ongoing expenditure at this level on water sharing plans until 2015 before IPART permits NOW to attempt to recoup such expenditure from the end users.

- (i) Page 82 – “Now has advised that it is aiming to recover the cost of reviewing existing plans directly from the Commonwealth.....If the costs being sought for recovery through regulated pricing include some of these review costs, then there is potential for double-counting of costs through the cost claim being put to the Commonwealth”

IPART – would you please take careful note of this statement.

- (j) Also on Page 82 – “NOW has reported that there was an unavoidable delay in starting work on 18 plans during the 2005-2010 period.....If this is true, NOW should demonstrate how the resources that were initially assigned to work on these plans were reallocated to other activities. In effect, the deferral of the plans should equate to a cost saving that could be deployed elsewhere”

From this statement it would appear that PwC do not believe that there was any reallocation of resources, and NOW therefore squandered the funds that were provided by the end users without any productive output. NOW should be condemned for this mismanagement, and now that this information is in front of IPART, it is incumbent on IPART to ensure that the end users do not continue to get charged for NOW's mismanagement any longer.

- (k) Page 89 – “In the 2006 determination, IPART allowed \$2.8 million each year for consent transactions, however, NOW has subsequently incurred costs of \$4.7 million (2006/07), \$6.7 million (2007/08) and \$6.5 million (2008/09) resulting in a considerable variation between actual and allowed expenditure”

“Examination of NOW's submission reveals that, with the exception of 2006/07, the annual number of transactions recorded are just under those forecast in the 2006 Determination.”

IPART, please understand that this statement is one of the reasons why end users are disillusioned with the IPART review process.

If the entity that reviews the costs charged by a state owned monopoly sets a maximum figure that the monopoly should work within, and then that monopoly carelessly spends more than double the amount that was set by the regulator, then that monopoly has clearly failed in meeting the objective set by the regulator, and also failed the end users who may be expected to cover the deliberate and unapproved cost over-run.

It is abhorrent to the end user that this practice can occur, but it is even more abhorrent that the regulator fails to punish the monopoly for wilfully breaching the directives that were imposed by the regulator's previous determination.

What is the point of having an IPART regulatory process when this farcical situation is allowed to continue? All of the time that is taken by professional consulting firms preparing reports, all of the time that is spent by NOW providing information to IPART, all of the time that is spent by end users in preparing and lodging submissions, all of the time taken by IPART in holding public hearings – is wasted – all of the time, and all of the money is simply completely and utterly wasted.

The whole process is a charade because the monopoly is allowed to laugh in the face of the regulator by spending more than double the regulator's set amount. And it is an over-run of millions of dollars we are dealing with here – millions of dollars that NOW probably expects the end users to cover – that is, an over-run of millions of dollars on top of the millions of dollars that were originally approved by IPART.

IPART, please do one of two things – either immediately jump on NOW hard and heavily, or alternatively, give the job to someone who is capable of doing it as it should be done.

This result makes a mockery out of the IPART process, and makes a joke out of all of the members and all of the staff within IPART. Unless IPART effectively deals with this specific example of a monopoly deliberately ignoring the regulators instructions, IPART will forever lack credibility.

(l) Page 130 – “In most instances, the performance indicators and output measures proposed by NOW are clear in communication what is to be achieved....However, there are a significant number of activities where it is not clear what, exactly, is to be achieved.....It is not clear to the external reader how many surface water models are required, how many scenarios might be investigated, what is the meaning of ‘robust’ in this instance, or how the scenarios may differ. ...it is not clear to an external stakeholder what NOW is proposing to achieve.....It may be inferred that this means that the development of all water sharing plans is to be completed; however, this is not clear.....Of particular concern is that in many instances there is no mention of the cost, quantity or quality to which activities or output measures will be completed. Without this information it is impossible to accurately track and assess NOW's efficiency and performance in delivering its monopoly services and the proposed water management activities.”

In other words, the mismanagement of NOW is so bad that a firm of professional business consultants cannot work out whether NOW is efficiently delivering its monopoly services or not.

If IPART ignores this statement and allows NOW to increase charges to end users, then IPART is putting itself above the expertise of the professional business consultants, and allowing a mismanaged monopoly to continue to run riot over its customers.

(m) Also on Page 131 – “The framework developed by NOW allows for multiple outputs to be listed against each water management sub-activity. However, in most instances only one output has been chosen to be measured. For example, for financial administration three outputs are listed (water billing and payment processing; customer account queries; and annual compliance returns to IPART). However, the output measure

selected by NOW relates to the number of licences billed. There is no mention of customer satisfaction, how long it takes to process water payments, or the efficiency in preparing annual compliance returns. This example is indicative of the majority of water management activities proposed by NOW.”

IPART, this is telling you that the joint is out of control, the lackeys are reporting whatever they think makes them look good to management, and therefore the management cannot possibly know what is going on in the place, and obviously do not care.

NOW does not need any additional funding – additional funding will only perpetuate this hopeless mess. What NOW needs is a thorough purge of the demonstrably incompetent management, the introduction of new people who understand what management of a massive state owned monopoly is about, and the introduction of sound and dependable management systems that will allow professional consulting firms like PwC to determine whether NOW is performing effectively or not. Unless that happens, neither IPART nor the end users who are slugged with ever increasing charges, can have any confidence in anything that NOW produces.

- (n) Page 141 – “The performance indicators and output measures proposed by NOW in its submission to IPART do not enable the quantifiable assessment of its performance in efficiently and effectively delivering monopoly services. As such, the proposed performance indicators and output measures are of limited value to external stakeholders.

The link between performance information and timelines, cost, quantity, quality and the achievement of strategic objectives, is in many cases not clear or even provided. In many instances the performance indicators and output measures fail to provide information (either qualitative or quantitative) on the extent to which an activity is achieving its objective.

NOW has not proposed performance indicators relating to the delivery of capital works, which means that it is not possible to accurately track and assess NOW’s efficiency and performance in delivering proposed capital works.”

Oh dear, oh dear, oh dear! Does IPART need any further evidence that this organisation is simply out of control, mismanaged, using systems that are not providing the required management information, whilst continuing to ratchet up its charges to cover its hopeless inefficiencies?

IPART, it is not that hard. If you are not in a position to fix this muddle, refer this matter to someone who is in a position to put an end to all of this crap.

5 Comments on proposed metering charge – NOW letter dated 4th May 2010

- (a) Will telemetry actually work?

I know nothing about telemetry, but if the telemetry system is dependent on mobile phone coverage being available to transmit a signal, then the whole telemetry system is probably doomed to fail because in vast areas of country NSW there is no mobile phone signal. We live half an hour out of Tamworth - which is regarded as a major regional centre - yet we do not have a mobile phone signal. Goodness knows what mobile phone signal is available (or not available) in lesser populated areas.

It seems that if telemetry depends on mobile phone coverage, then IPART must insist on reliable and independent hard evidence that a very high proportion of the potential telemetry sites do have mobile phone coverage (say at least 95%), otherwise there is no point in proceeding down this path any further. If dual systems have to be retained (manual and telemetry) in order to adequately handle the metering task, what a shambles that would create for everyone concerned - including IPART.

(b) Vague and incomplete information provided by NOW

NOW's claim for the introduction of a Metering Service Charge seems premature and half-baked. On page 1 the list of exclusions includes "extraction by small diameter pumps (minimum size to be determined)" and "extraction by small volume licence holders (minimum size to be determined)". How can IPART be expected to make a ruling when such basic data is not provided? On page 4 there is a contradiction between annual meter validation inspections and two-yearly validation inspections. How can IPART be expected to make a ruling when the data provided by NOW has an error factor of 100%?

(c) Practical implications of installing new meters

To the uninitiated, the offer of a "free" meter (one that has been paid for by the Commonwealth Government with taxpayers' funds) might seem like a good deal for the water user. However, the practical implications of retro-fitting a new meter into an existing installation are a nightmare for the water user. It is inevitable that the dimensions of the new meters will be different from the existing meters, so some degree of modification to the pipe work will be necessary at each and every existing pump site. Further, due to the water pressure considerations at pump sites, many meters are embedded in blocks of concrete or are abutted by blocks of concrete to sustain the peaks in water pressures that are built up when irrigating. There is a horrific cost to all irrigators in these situations to retro-fit a "new age" meter – in breaking up the concrete, removing the existing (yet fully functional) meter, removing sufficient of the existing pipe work to enable it to be re-welded or re-made to fit the new meter, fitting the new meter, and re-establishing the concrete block with sufficient strength to withstand the water pressure after the block has been significantly weakened – all at the cost and effort of the end user. If NOW is so determined to have whiz-bang meters, they should be made to pay for the significant cost of fitting all of the upgraded meters – which are solely to the benefit of NOW. Whilst the meters are provided "free" to the end users, the cost of fitting each meter could easily be more than \$5,000 per pump site. This is nothing but a huge pain in the bottom for every end user – particularly those with more than one pump site – (of which there are many).

(d) What are the maths?

NOW is guessing at an annual metering charge of \$379 per pump site. In considering this figure, IPART needs to validate NOW's figures in each valley. For example, in a valley where there are 200 surface water licences and 200 groundwater licences, under NOW's proposed metering charges NOW would receive annual income of \$151,600 (400 x \$379). However, NOW would also save the salary (say \$60,000) and on-costs (say \$15,000 including car) of the meter reader – a total saving of conservatively \$75,000. The end result is that NOW stands to benefit by a total sum of \$226,600 for each such valley, but in practice the beneficial outcome for most valleys will be a far greater sum than that, because of the large number of licences.

IPART needs to consider whether this proposal is anything other than a pure money-grab by an incompetent and greedy state owned monopoly.

NOW's estimation of ongoing annual meter maintenance costs are absolute mythology – water meters run for decades with no need for maintenance, and it is a total absurdity for NOW to factor in an annual maintenance fee for each and every meter that is installed.

(e) What are the ethics?

IPART should take a step back and look at the principles involved with the NOW proposal to introduce a metering charge.

The NSW State Government receives income from the Commonwealth Government to help pay the salaries of all State Government employees. All taxpayers, including water users, pay various taxes which contribute towards the cost of running State Government departments. Water users also pay fees directly to NOW and separately to State Water for the entitlement to use water and the actual usage of water. On top of all that contribution which is provided from the water users, NOW are seeking the additional payment of a new metering fee. Metering is a core function of NOW's operation, which NOW should absorb into its already exorbitant fees. Otherwise, where will this madness from NOW end? In the next submission by NOW, will water users be expected to pay for the dunny paper in the loos at NOW's offices?

If IPART accepts that NOW is entitled to levy a new metering charge then NOW has every right to use exactly the same justification for recouping the cost of dunny paper and cleaning their loos from water users.

Just like dunny paper, whiz-bang meters are only of benefit to NOW staff, and no benefit to the water users. IPART needs to prevent this proposed metering charge from becoming a precedent to unstoppable and ongoing new levies being imposed by NOW.

(f) Please explain the terminology

NOW has repeatedly used the terminology “(\$09/10)”, which must mean something to somebody. But in future, for the large contingent of novices such as myself, would NOW please explain what this means if they expect the uninformed populace to offer a sensible comment on their documents.

(g) Background to Nayar Consulting

A number of references have been made to Nayar Consulting in the NOW document titled “Additional submission on metering service charge”. As this firm of consultants does not currently have an Australian website and does not appear to have any listed offices in Australia, IPART might like to investigate the credentials of this organisation. The fact that significant portions of NOW's proposed metering charging system have been prepared by this consulting group should give IPART grounds for concern.

IPART should satisfy itself that the individual consultants engaged by NOW are competent and suitably qualified for the role before IPART relies on their recommendations in the NOW document.

6 Comments on NOW's Submission – (letter dated 2.12.09)

- (a) Page 3 – “From 2010/11 to 2012/13 the Office requires an additional 47.5 staff to undertake the core new activities that will arise”. This is incredible – after having been criticised in the PwC Halcrow report for having between 20 and 25 people sitting around for 4 years doing nothing, and failing to reallocate staff from activities that were being scaled back, NOW has the nerve to demand an additional 47.5 staff, and expects the cost to be covered by taxpayers funds and increased user charges. What is IPART going to do about this? At October 2009, NOW had 619 full-time equivalent staff – is there really no scope at all to reallocate at least some of their duties to undertake the core new activities? If NOW had requested 64 or 88 or 239 additional staff to undertake the core new activities, would IPART simply acquiesce?
- (b) Page 4 – Under the “Proposed service charge for metering” there will be a total of 16,500 meters installed at a cost of \$249.6 million, and we hope that the telemetry technology will work otherwise this sum will be wasted. At an annual fee of \$426 (which is a different figure from elsewhere), this number of meters will generate an annual income stream of over \$7 million for the NSW State Government, over and above the entitlement charges and usage charges for water. IPART should consider the impact of this on the end users when reviewing NOW's proposed charges. NOW conveniently excludes the effect of this additional new charge when they quote the charges in Chapter 12 of the document. But this is a sum which is part of the total cost of water for the end users and it should be included as part of the review.
- (c) Page 6 – “At 100 per cent fixed cost prices, the increase in regulated river prices over the three years would be up to 267 per cent but in most valleys around 100 per cent. In the unregulated river valleys increases could be up to 359 per cent, but mostly around 200 per cent and similar levels for ground water. While significant in percentage terms, the price increases equate on average to between \$2 to \$4 per megalitre”

This is a dismissive statement and it confuses more than one fundamental problem.

First, in the valleys where the price increase is 267 per cent or 359 per cent, that is the figure that impacts on the end user – it is irrelevant to take an average of the total grossed up figures for the whole state. IPART needs to look at the increases of 267 per cent and 359 per cent.

Second, IPART also needs to consider that this is an astronomic price increase at a time when the NSW State Government limits local government rate increases to less than 5 per cent per annum. If IPART acts as an independent monitor of state owned monopolies, IPART would impose the same maximum percentage increase on NOW's pricing as the State Government imposes on local government in this state. If local government was permitted to increase its rate revenue by 267 or 359 percent, or if metropolitan rail fares increased by 267 or 359 per cent, the outrage around the state would be catastrophic for the state government, yet IPART is being asked to approve this level of increase in a politically insignificant sector of the food producing sector of regional NSW. This is a morally wrong approach which should not gain approval from a genuinely independent regulator of state owned monopolies. What ever happened to the concept of limiting price rises by state owned monopolies to the Consumer Price Index?

Third, NOW trivialises the increase by saying it is “on average between \$2 to \$4 per megalitre”. It is not the state wide average which is relevant – it is the actual increase in each valley that is important. In the Peel Valley, the actual increases per megalitre are \$5.68 for regulated water, \$4.98 for unregulated water, and \$7.41 for underground water – a long way from NOW’s dismissive claim of “from \$2 to \$4 per megalitre”.

Fourth, Onto these figures proposed by NOW, IPART must add the impact of State Water’s current price increases, plus the proposed new metering charges, to arrive at the real effect of the increased charges in each valley. It is wrong to treat each individual price increase in isolation from the other price increases that accumulate to a significantly different end result.

Fifth, while the NSW State Government continues to offer incentives to the building industry in the residential housing sector (including the first home owners subsidy, and the stamp duty exclusion in the June 2010 budget), the same NSW State Government continues to once again disadvantage and penalise the food producing rural sector in regional areas by imposing horrendous price increases.

IPART, it is time to stop this state owned monopoly from dictating to the regulator what the outcomes should be.

- (d) Page 65 – “IPART sets prices by first making decisions on the Offices’ user-revenue requirements, and forecast consumption over the determination period, then determining water management charges across water source types and valleys or regions and setting fixed and variable charges where these apply”.

The question is, what decisions does IPART actually make about the Office’s user-revenue requirements? How does IPART critically evaluate the Office’s user-revenue requirements with any forensic accounting approach? If IPART does not have the capacity to pull the Office’s user-revenue requirements apart and verify their accuracy, and if IPART does not make this analysis public to demonstrate the transparency of their operation, then this statement and the whole IPART review process is flawed.

- (e) Page 65 – Under the heading “Price structure” the Office is proposing the following changes –
- “A 100 per cent fixed cost regime, but with consideration of a 70/30 fixed/variable pricing structure using dry sequence forecasting in the regulated rivers” – well, what is the Office proposing – one thing, or another, or a combination of both, and on what basis does the Office propose to swap from one pricing structure to the other?
 - “Providing for the first time a charge for return on capital”. I beg your pardon? Does the NSW State Government charge users for a return on capital for the Sydney Harbour Bridge, or the metropolitan railway system infrastructure, or the Sydney Opera House? What authority does NOW have to impose a new charge for return on capital? Does IPART have the authority to prevent a state owned monopoly from penalising primary producers with a charge such as this, at a time when other state owned entities do not levy such a fee? The philosophy of a state owned monopoly introducing a charge for a return on capital is staggering – particularly when it is a return on sunk costs. And who sets the figure for what the return should be – 5 percent? 10 percent next year? This proposition surely requires the close attention of IPART.

- (f) Page 65 – it is inevitable that NOW will find a way of claiming that “the Commonwealth does not fund the Office for the full cost of their reform requirements”, so the only scenario that needs to be considered is “Scenario 2”

Under this scenario, the information in Tables 23, 24, 25 and 26 is all presented in a very misleading fashion. The percentage increases are shown as a “year on year” increment, as opposed to an increment on the base year.

For example, in Table 23 for the Peel Valley, the proposed tariffs are 266% higher, 326% higher, and 332% higher than the current charges in the years 2011, 2012, and 2013 respectively. Yet the figures in Table 23 show 266%, 17% and 1% - quite a misleading representation of the fact that in each of those years the end user is expected to pay an enormously increased charge above the current level.

It is very mischievous of NOW to imply that in 2013 irrigators in the Peel Valley will be incurring a 1% increase in charges, when they will actually be burdened with an increase in charges of 332%.

The whole of the data in all of these tables is presented in this very misleading manner, and IPART should demand that NOW re-issues the data showing the actual percentage increases before IPART considers the proposed price increases.

- (g) Page 70 – NOW is proposing an increase from \$1.80 per ML to \$7.79 per ML for the General Security Entitlement Charge on regulated water in the Peel Valley. The members of IPART need to understand that this is a charge which applies to every licence holder’s whole entitlement, whether they use water or not, and whether there is any available water in Chaffey Dam or not.

In the Peel Valley, the current water year is the first occasion in more than a decade where an allocation of 100% has been available to the irrigators for the season. Typically, the allocation has been around 50% of entitlement. It has been argued many times previously that it is immoral that a state owned monopoly can charge an entitlement fee when there is no entitlement to any water, because the water is simply not available. However, irrigators have stomached the pain on the basis that at \$1.80 per ML it was a cost of doing business.

But paying an entitlement fee of \$7.79 per ML per year for the pleasure of holding an entitlement to water which cannot be supplied is another dimension altogether.

Only a state owned monopoly could get away with charging for something which cannot be supplied. This utterly unfair charging principle has been brought to IPART’s attention previously, using the analogy of the treatment that Woolworths would receive from the ACCC if it charged customers for goods that could not be supplied, but in the past IPART has allowed this improper monopolistic behaviour to continue.

IPART should review this unfair charging philosophy, because it is based on an unjust principle. At the very least, IPART should insist that the entitlement fee is levied on the available water determination, not the total entitlement. If IPART is in favour of this massive price increase by a state owned monopoly, then it is essential that this change is implemented.

- (h) In all the proposed new tariffs, the Peel Valley's percentage increases are amongst the highest in the state. For example, General Security entitlement charge – up by 334% (or up by 369%), Regulated Water Usage Charge up by 268%, Unregulated Water entitlement charge up by 297% (or up by 139%), Groundwater charges up by 300%. IPART has not previously heeded the message that, quite apart from the unreasonable magnitude of the proposed increases, it is inequitable to penalise one valley by imposing greater price increases than in another valley.

The neighbouring Hunter Valley incredulously shows a 23% decrease in one tariff, whilst the price increases in the Peel Valley continue to be amongst the highest in the state. This is a grossly out of balance approach, and grossly unfair treatment of the Peel Valley water users, and despite the water users in the Peel Valley having complained to IPART about this inequity previously, the same pricing strategy continues to be adopted by NOW.

IPART must come to terms with the fact that it is an unreasonable approach for a state owned monopoly to charge widely divergent prices for water in adjoining valleys, or indeed around the whole of the state of NSW. This is especially the case when NOW is proposing such astronomical price increases.

- (i) In previous iterations of IPART's review of water price increases, members of IPART recommended that in order to remain in business, water users in the Peel Valley should simply increase the prices for their products to recover the increased cost of water.

What IPART was told then, and still remains the case now, is that many producers (eg dairies, fat lambs and beef producers) sell their products in markets where the price is set for them, and they have no ability to charge more than they are offered. Mostly these market prices are set on a regional or state-wide basis, so the fact that IPART has approved higher water charges in the Peel Valley puts the producers in this area at a distinct disadvantage relative to neighbouring valleys.

The same principle applies to selling a bale of hay – even though there is no formal market for hay, individual producers in neighbouring valleys can undersell producers in the Peel Valley and still remain profitable just because of the price differential in water charges. Hay co-operatives in neighbouring valleys will not touch hay from this region because of the higher cost of production. IPART has to understand that the Peel Valley and the whole of the Tamworth region has the climate to produce what has long been regarded as some of the best hay available, and through IPART's ongoing allowance of enormous and inequitable price increases this once strong industry is being phased out of existence. The whole regional economy once benefitted from the income produced by "exporting" hay to other parts of the state, but this income for the local regional economy is rapidly diminishing thanks to the rampant and inequitable pricing strategies of a state owned monopoly, which continues to be uncontrolled by the regulator whose role it is to monitor such monopoly behaviour.

Water users in the Peel Valley are getting a shabby deal, and it is impossible to believe that IPART cannot see that. How IPART can allow that situation to continue is beyond comprehension.

- (j) It is IPART's role to look at the total increases in the cost of water. The following table is merely my interpretation of what the water usage charges will be for regulated general security water in the year 2013/14 (not including entitlement charges or metering charges – which are additional)

Valley	State Water \$ per ML	NOW \$ per ML	Total \$ per ML
Murrumbidgee	3.45	2.65	6.10
Murray	4.65	3.19	7.84
Border	8.73	4.41	13.14
Gwydir	12.66	3.07	15.73
Macquarie	13.18	3.81	16.99
Hunter	14.44	9.19	23.63
Lachlan	18.39	3.96	22.35
Namoi	19.17	5.76	24.93
South Coast	16.54	12.49	29.03
Peel	37.66	7.79	45.45
North Coast	40.76	12.00	52.76

Whilst the Peel Valley is not being charged the highest water usage charges in the state, IPART should consider the following facts –

- There is a massive divergence in the charging for water, and there can be no justifiable reason that water users in the Peel Valley should pay around eight times the charges that are levied in another valley, within the same state, within the one nation, at the same point in time.
- The water users in the Peel Valley do not receive any additional service nor any additional benefit nor anything extra for the water they use compared to the water users in the Murrumbidgee Valley, yet they are charged around eight times extra. If the water users in the Peel Valley received eight times the value for their product, or if State Water or NOW provided eight times the service, or if there was some other justification for the huge differential, then there could be a case made for such a difference in charges levied by a state owned monopoly. IPART has never mounted such a case.
- Products from the Peel Valley regularly compete in regional markets with those that are produced in the neighbouring valleys (Border, Gwydir, Hunter and Namoi), whose water charges are either half as much or only one third of the charges in the Peel Valley. The price of water is set by state owned monopolies, but if they were independently owned monopolies it is difficult to believe that the ACCC would allow such a divergence in charges (look at petrol pricing in NSW for example). So why then is the regulator of state owned monopolies allowing the continuation of this grossly inequitable system of setting water charges by a state owned monopoly?
- Apart from the issues of relativity of the Peel Valley's water charges to those in other valleys, IPART needs to focus on the fact that with a usage charge of about \$45.45 per ML, the Peel Valley will be paying more than ten times the usage charge of just a few years ago. IPART has these figures on file, and the fact that the regulator of a state owned monopoly has permitted such a vast increase must raise questions about the effectiveness of the regulator in controlling the behaviour of the monopoly involved.

(k) Page 74 – Table 27 purports to provide an analysis of water management bills in 2007/08, but the method of presentation is again very misleading. The information could be interpreted as indicating that around 90% of bills are under \$1,000. Members of IPART could be forgiven for accepting that is a correct statistic, but it is out of date, and has no

relevance to the prices NOW is proposing to inflict on water users in future, and it is misleading to present historically irrelevant statistics. For a typical licence of 300 ML in the Peel Valley, the entitlement charge in 2013 will be \$2,337 and a full usage charge will be \$2,340 – a total charge by NOW of \$4,677, and when State Water's charges are added the overall water charge will be \$13,635. This is the real figure for 90% of the regulated licences in the Peel Valley – a long way from the \$1,000 implied by the figures in the NOW table on page 74. IPART really needs to do its own figures, because NOW is presenting misleading information and making misleading statements, and IPART cannot rely on this nonsense.

- (l) Page 74 - The commentary following Table 27 includes statements such as "Typically, the price rises being sought ...are... equivalent to a rise of approximately \$1-\$2 per ML". But, as has been highlighted earlier, in the Peel Valley alone, the price is increasing from \$1.80 to \$7.79 per ML – an increase of \$5.99 per ML, or just on three times the upper limit of \$2 per ML quoted by NOW. IPART really needs to do its own figures, because NOW is presenting misleading information and making misleading statements, and IPART cannot rely on this nonsense.

SUMMARY

This submission attempts to make the following points:-

- (i) The evidence in the PwC Halcrow review demonstrates that NOW is mismanaged, operates with inefficient business systems, and is in desperate need of an overhaul. If IPART does not trigger an overhaul of the entity, then who will? One outcome of the overhaul could be that there is no real need for the extra 47.5 staff requested by NOW, and no need for the proposed increase in user charges.
- (ii) IPART is obliged to consider the effect of increased water charges – those imposed by State Water, those imposed by NOW, and those that are completely new. The magnitude of the increases in total water charges is simply staggering, and in its role as the regulator of state owned monopolies IPART needs to consider the cumulative effect of the increases being proposed by these state owned monopolies.
- (iii) The effect of the strategy behind pricing water at massively different levels around NSW by the state owned monopolies needs to be considered by IPART, and the perpetuation of this strategy by continuing to lift the prices in some valleys more than in other valleys needs to be justified.
- (iv) Finally, one has to wonder whether IPART is adequately resourced and sufficiently equipped to satisfactorily discharge its responsibilities as an independent regulator of monopolies such as State Water and the NSW Office of Water. Having been given the information in the PwC Halcrow review and submissions from concerned water users, it will be interesting to see whether IPART makes any changes to the NOW proposed pricing.