

Hunter Valley Water Users Association

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Dear Sir

Re Bulk Water Pricing

Please find attached submission and comment for consideration in your review of prices for State Water Corporation on behalf of HVWUA.

I hope this information is of benefit to IPART when considering the various issues in this extremely important determination.

I would be pleased to provide any further information or explanations on the matters raised either privately or at your proposed public hearing in Sydney.

Yours Sincerely
Arthur Burns
President
22nd October 2009

Hunter Valley Water Users Association Submission to IPART Review of Prices for State Water Corporation from July 2010

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 and strongly represented on the State Water Coastal Valleys CSC.

In preparing this submission HVWUA has studied the IPART Issues Paper, State Water submission and have had input into the submission by NSW Irrigators Council. We are very supportive of the issues raised by NSWIC in their submission except for points raised in this submission which contains some variances.

We have been pleased with the way in which State Water has performed over the last determination period despite the fact that we have indeed lost some services in the name of efficiency. However we don't believe that the full benefits of the restructure have yet shown through and are concerned that cost estimates in SW submission do not fully reflect the probable savings made over the next period.

Coastal issues

This submission attempts to draw attention to differences between coastal and particularly Hunter Valley issues to be treated separately to inland water management due to the very different climate, hydrology and water demands. These differences impact on costs and investments to coastal water users in various ways including:

- The average size of irrigation enterprises is comparatively small but still forms an essential part of the whole farm and regional economy.

- Nearly all enterprises rely on pressurized systems resulting in higher operating costs but usually more efficient water use.

- State Water's storages are generally smaller resulting in higher costs per ML.

- Usage patterns and water availability appear much more stable.

- Urbanisation and industrial pressures mean comparatively higher %age of storages reserved for non chargeable and higher security users.

- MDBA and BRC issues do not apply to the coastal areas.

- The Commonwealth Water Act 2007 does not automatically apply to coastal valleys but many of those policies may affect coastal costs with to this stage none of the benefits. For example the proposed metering program has not been funded by the Commonwealth for Coastal Valleys and interstate tagging does not apply on the coast.

User/Government Shares

HVWUA notes NSWIC and State Water's comments on sharing of costs for full cost recovery and believe these always should be kept under review. Whilst most of those costs attributed to Govt shares appear to be community required issues, the issue of who users the storages does not appear to be fully addressed.

User/government shares need to be adjusted so that **ALL users** of storages pay their share of costs e.g. In the Hunter water users that are billed have total allocations of 197,000 ML (excluding supplementary water which is not stored water) whilst other users who are not billed have allocations of 52,000 ML. The other uses include basic rights, end of system environmental flows and ECA. As such **20.8% of entitlement**

in the Hunter (Glenbawn & Glennies Creek) is held by users who do not pay for their water. We submit that this water should be paid for at the High Security rate as it has first call on water above all billed users. This money should be a government responsibility and is separate and additional to that currently recognised as a government share.

Consideration also needs to be given to determining shares on a valley basis.

Costs of Lostock Dam

Consideration should be given to removal of Paterson costs from Hunter as the two regulated streams are not connected. (Additional costs to Paterson users should be recognised as a community service obligation in the same way as Toonambar and Brogo) it is estimated removal of the Paterson from the Hunter would reduce costs by about \$350,000 in the Hunter regulated river. The question needs to be asked why Hunter Irrigators are asked to subsidise others

Storage of Barnard River Water

Currently Macquarie Generation are licenced to pump water from the Barnard River and store it in Glenbawn dam until needed for electricity generation. There are a number of rules for accounting for that water but it is our understanding that State Water does not receive any payment for the use of this facility,

Consideration should be given to charging Macquarie Generation for water storage, release and accounting of Barnard Reserve Account water in Glenbawn dam.

Estimated additional income would be about \$240,000.

Accounting for non IPART revenue.

The method of accounting for non-IPART items, particularly income needs to be examined to ensure costs involved are not being absorbed by water users and where IPART assets are used an appropriate adjustment be credited to IPART users.

State Water Overhead Costs

The method of apportioning State Water overheads between valleys needs to be examined. We understand costs currently are apportioned on an EFT basis, perhaps alternatives such as per ml could be fairer when determining valley costs.

Thematic Costs

It is noted that most of the thematic costs included in State Water submission are either discretionary or the result of additional government regulation. We believe that they should either be postponed till normal state wide water availability is achieved or government responsibility is determined. It is also noted that the proposed allowance for Land Management could result in an income source and any costs be covered by income from various leases.

Discretionary Charges

HVWUA is happy with the proposed costs for this valley for 7 day service in years 3 & 4 of the determination.

Summary

HVWUA notes the level of increase requested by State Water mainly because of reduced sales of water due to drought conditions.

However a study of sales in the Hunter does not show any great variance from forecast and consequently it is difficult for us to support changes to the method of forecasting sales (15 years rolling average) or the proposed increase in WACC. Indeed it is a fact that most irrigators have suffered long term income losses and negative return on capital over the last few years.

We believe that the Hunter is at or above full cost recovery if the issues discussed above were to be recognized and in fact would be looking for reduced pricing in the new determination to reflect the cost savings already being implemented.

We recognize that removal of Lostock from Hunter costings would place extreme pressure on Paterson users but firmly believe it is a government responsibility through a community service obligation to address this issue rather than it is a subsidy provided by Hunter customers.

We would be most supportive of a CSO for Lostock as well as Brogo, Toonambar and Peel being granted in accord with COAG and NWI requirements:

Clause 66 of the NWI “ *(1) the adoption of pricing regimes based n the principals 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.

This could be limited to an average %age increase of all other valleys (after Hunter costs have been adjusted down OR linked to the adjusted Hunter prices.

Hunter Valley Water Users trust that this submission will be fully considered in your current deliberations and are happy to provide further details either privately or at the public hearing proposed for Sydney.