

**PEEL VALLEY WATER USERS ASSOCIATION INC.**

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State Water Corporation Price Review 2010  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
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**Submission to IPART – Bulk Water Prices from 2010**

State Water's Submission to IPART based on a consumption forecast of 4367GL per annum over the period of the Bulk Water Pricing Review is optimistic in the extreme given that the States water storages are at or near to all time lows and General Security allocations in many of the Regulated Rivers are also very low and that over the duration of the last pricing review 2006/07 to 2008/09 consumption averaged only about 1500GL.

State Water Corporation and the Government Agency for Water whose name changes more often than most people change their jocks and socks have to come to grips with the fact that they are, to all intents and purposes, an agricultural produce industry dependent on the vagary's of nature for their financial well being. If it rains they have water to sell if it doesn't rain there is no water to sell and no income except of course that they are or have monopoly access to the resource and can stabilize their income with charges that can be levied when they have nothing or very little to sell. If only farmers could do the same. Imagine the uproar that would occur if Jo Blow the public, had to pay for food that they were not going to get!! The Politicians and the Bureaucrats would spring into action to redress the wrong. Well its time that the Politicians and Bureaucrats had a long hard look at the Bulk Water businesses. Heads have been stuck in the sand for too long.

**The Bulk Water businesses with it's Valley based pricing structure coupled with low water availability and the likelihood of further reduced water availability due to Climate Change, MDBA restrictions and Water Sharing Plans is in crisis.**

The smaller Valleys, the South Coast, North Coast, and Peel Valley are already dead and buried price wise. Soon to be followed by the other Northern Valleys – Gwydir, Namoi, Macquarie and Lachlan as Bulk Water costs which continually escalate are defrayed across a continuously diminishing resource.

Unfortunately the concept of Water going to the highest valued user isn't going to solve the problem, as even with reduced access to Bulk Water the amount of Bulk Water that is available well and truly exceeds the amount which can be used by the "High Value Users" – principally Town Water Supplies, Industrial use and some niche agricultural pursuits. Most Bulk Water is in fact put on relatively low valued crops which can be grown with little or no irrigation in other more favourable climatic regions of the world. Unfortunately Australia is a dry continent and we have used our Bulk Water resources to

compensate for lack of rain to produce food and fibre for Australia and the World but they are NOT of such high value that they will remain financially viable with continuously escalating Valley based Bulk Water prices.

**Uniform Statewide Bulk Water Pricing is the only viable option left if NSW is to have a viable irrigation industry north of the Murrumbidgee.**

**What does Uniform State Wide Bulk Water Pricing look like?**

Entitlement

High Security	920,000ML
General security	6,827,000ML
Likely usage	3,500,000ML

Note: Likely usage is well below State Water Corporations estimate use of 4,367GL

Notional User Share - \$55,000,000 PA (see State Water submission)

Tariff design based on ratio of fixed to variable revenues of 40/60

**Resulting tariffs**

Entitlement Charge

High security	\$9.50/ML	= Total income	\$8.74Million
General Security	\$1.90/ML	= Total income	\$12.97Million

Usage charge \$9.5/ML = Total income \$33.25Million

Total revenue (Notional User Share) \$54.96Million

Ratio fixed / variable cost 40 / 60

**How easy is that?**

No Water User could complain that they were being hard done by

- The High Security entitlement charge of \$9.50 ML at 5 times General Security reflects reasonably accurately the much better security of supply of High Security Licences.
- The General Security entitlement charge \$1.90/ML is significantly lower in most valleys than those in place at present. A low entitlement charge is necessary to assist Water Users to contribute to State Water's finances in years when little or NO Bulk Water is available for use and consequent farm incomes are low or negative.

- The usage charge of \$9.50/ML cannot be considered unreasonably high as 6 of the 12 States Regulated Rivers already pay more than this and the Peel, North Coast and South Coast have paid a usage charge more than \$9.50 / ML since IPART's 2006 determination.
- The likely use of 3,500,000ML is well below State Water Corporations estimated consumption of 4,367,000ML which if achieved would allow State Water Corporation to have a surplus of income which it could put away for a rainy day or a dry day as the case may be. The concept of putting money / income aside to cater for low income years would however require a quantum leap forward in State Water Corporations and for that matter DWE / NOW's financial planning strategy.

**In short State Waters funding is met and the whole irrigation industry pays a fair price for Bulk Water services and more importantly remains financially viable.**

Note: The Water Corporations have lost their subsidy but still remain viable enterprises.

**Why is the move to Uniform State Wide Bulk Water Pricing inevitable and necessary?**

- **Climate Change**

Very few doubt that climate change is taking place. It is the degree of the change that is contestable. Reference CSIRO "Water availability in the Murray Darling Basin Oct 2006.

*"The impacts of climate change by 2030 are uncertain; however, surface water availability across the entire MDB is more likely to decline than to increase. A decline in the south of the MDB is more likely than in the North. In the south of the MDB, a very substantial decline is possible. In the north of the MDB, significant increases are possible. The median decline for the entire MDB is 11 percent – 9 percent in the north of the MDB and 13 percent in the south of the MDB."*

*"The relative impact of climate change on surface water use would be much greater in dry years. Under the median 2030 climate, diversions in driest years would fall by more than 10 percent in most New South Wales regions, around 20 percent in the Murrumbidgee and Murray regions and from around 35 to over 50 percent in the Victorian regions. Under the dry extreme 2030 climate, diversions in driest years would fall by over 20 percent in the Condamine-Balonne, around 40 to 50 percent in New South Wales regions (except the Lachlan), over 70 percent in the Murray and 80 to 90 percent in the major Victorian regions."*

That is with climate change it is likely there will be a lot less water available to generate revenue for State Water.

- **Impact of the Murray Darling Basin Authority**

Reference -The Basin Plan – A Concept Statement June 2009

*The central legal requirement of the Basin Plan is to set environmentally sustainable limits on the amount of water that can be taken in future from the Basin’s water resources. Such a limit is known as a “sustainable diversion limit”(SDL).*

*SDLs will limit the quantity of surface water and groundwater that may be taken from the Basin water resources as a whole. There will also be SDLs to limit the quantity of surface water and groundwater that can be taken from individual water resource plan areas and particular parts of water resource plan areas within the Basin.*

*The current Cap on surface-water diversions is set at a level based on historic use, not on what is sustainable. In addition, the existing Cap does not limit the use of groundwater, and groundwater consumption has grown significantly in the context of the introduction of the surface water Cap.*

*The SDLs must be set at a level that the Murray-Darling Basin Authority (MDBA), using the best available scientific knowledge, determines to be environmentally sustainable.*

*This is defined as the level at which water in the Basin can be taken from a water resource without compromising key environmental assets, key ecosystem functions, key environmental outcomes or the productive base of the water resource.*

*Given the stresses on the Basin environment, it is likely that the Basin-wide SDL for both groundwater and surface water will be set at a level below the current level of use. (note: this is not necessarily the impact on an individual valley basis but is likely to be the case in most valleys.*

This Plan whilst only a conceptual statement leaves little doubt that the active use of Bulk Water in the Murray Darling Basin will be less than current active use. The question is by how much will active use be cut?

- **The Application of a Sustainable Diversion Limit to the Murray Darling Basin – Impacts on WSP Plan Limit.**

The Application of an SDL to the MDB – Impacts on Plan Limit

MDBA Total SWA 23417GL

Current use SW + GW 13157GL

MDBA Plan Limit	SDL	Cut in current active use	
	30% of SWA	6134 GL	47%
	40%of SWA	3792 GL	29%
	50%of SWA	1450 GL	11%

Regardless of the science the SDL for the Basin is highly likely to be in the order of 40% of SWA. – Too low a cut in active use will not achieve the Communities desired environmental outcomes, too high a cut will result in too much socio economic pain.

#### The Application of an SDL of 40% of SWA on a Valley Basis

Valley	SWA GL	SDL GL	Plan limit GL	Cut in active use GL
Namoi /Peel	965	386	585	199 or 34%
Murrumbidgee	4270	1708	2450	742 or 30%
Murray	5211	2084	5000	2916 or 60%

State Waters coffers are looking sick if this scenario pans out with Valley based pricing in place.

- **The Impact of Inter Valley Bulk Water Sales.**

The Murray Darling Basin Authority in its concept plan of June 2009 states

#### Trade

*Develop efficient water trading regimes across the Basin*

*A Basin-wide approach to the trading of water rights is another important element of the Basin Plan.*

Even IPART in it's State Water Issues paper July 2009 promotes Bulk Water sales.

*The ability to trade entitlements produces strong financial incentives for water to be traded to its highest value use due to the more productive and profitable outcomes that the purchaser can achieve with it. The financial incentives created through the operation of a secondary market produces strong demand management outcomes by ensuring that water is diverted towards those who value it most.*

There is little doubt that inter valley Bulk Water trading will become a significant mechanism for ameliorating the impacts of reduced Bulk Water availability and getting Bulk Water to it's highest valued use.

Neither the MDBA or IPART have addressed the issue of inter valley trading on Valley Based price structures. What happens if entitlement is sold say from the Peel to the Namoi. Does the Peel's entitlement and usage charge go with the entitlement? Do the remaining entitlement holders pay more?

In the Peel it is possible that half the General Security entitlement could be sold out of the Valley. The cost impost on the remaining entitlement holders could be enormous in a system which is already unviable price wise.

These issues are very hard if not impossible to deal with under vastly different Valley based pricing structures.

Uniform State Wide Bulk Water Pricing solves this issue as the price structure is the same for all Valleys.

- **Environmental Protection – promotion of ecologically sustainable development via appropriate pricing policies.**

IPART promotes pricing as a mechanism to achieve responsible water use to protect the environment and there is no doubt that pricing structures achieve this goal as clearly demonstrated in the table below.

Valley	Usage Charge 2009 / 10 \$ ML	Av Surface Water Available (Valley Based)	Av SW use GL	% of SWA used
Peel	25.72	271 GL	13	5%
Namoi	12.56	694	238	34%
Murrumbidgee	3.54	4270	2246	53%
Murray	4.00	5211	4239	81%

Jacking up the usage charge to \$9.50/ML in the two Southern Valleys may go some way to achieving sustainable water use. The Murray and Murrumbidgee's combined surface water use accounts for 56% of the surface water used in the MDB and they use 68% of their combined valley based surface water availability. That is the Valleys that use the most water and have the greatest impact on their riverine environment have by far the cheapest Bulk Water prices. So much for promoting ecologically sustainable development via appropriate pricing policies.

- **Water Sharing Plans**

The draft WSP for the Peel Regulated System will limit active use of the General Security Users in the Peel to about 25% of General Security entitlement. Which means on average something less than 7500 ML and decreasing over time will be all that State Water can levy a usage charge upon. Reducing State Water's revenue and no doubt further impacting on the viability of the Peel Valleys General Security water users.

- **Indicative Total Bills for General Security Holders**

The following Graphical representation extracted from State Waters submission Fig. 12.2 and 12.3 shows a comparison of a total State Water bill for 2009/10 charges and proposed 2010/11 charges for a General Security licence holder who holds 1000ML entitlement shares, with usage based on average allocations over the last 15 years (as per table 10.5 chapter 10 of State Waters submission. It is clear from this graph that the Peel, South Coast and to a lesser extent the other Northern Valleys have a significant equity issue with both the current and proposed Valley based pricing structure when compared with the Murray and Murrumbidgee.

The Indicative Total Water Bills for the Murrumbidgee, Murray, Gwydir and Peel are directly comparable as these four Valleys have had very similar access to water over the last 15 years (reference table 10.5) of around 50 – 55% and are tabulated below.

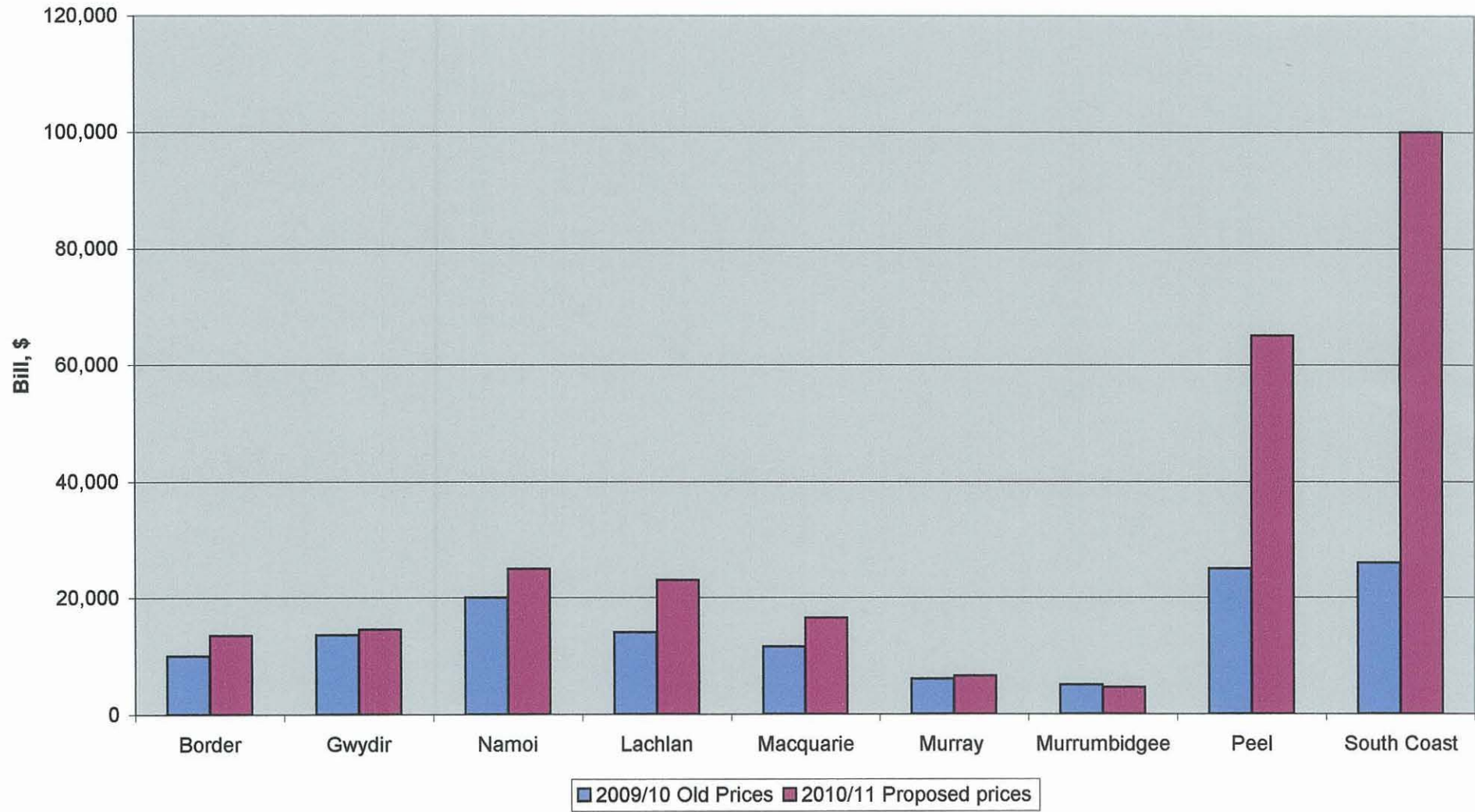
**Indicative Total Water Bill**

Valley	2009/10 Old Prices	2010/11 Proposed Prices
	\$	\$
Murrumbidgee	5,000	4,500
Murray	6,000	6,500
Gwydir	13,500	14,500
Peel	25,000	65,000

Whilst the Peel Valley has a climate which in many seasons contributes significantly to the crops water requirements compared to the Valleys in the dry South West of NSW, One Megalitre of water used in the Peel unfortunately does not produce four to five times the hay or milk that a Megalitre of water currently produces in the Murray and Murrumbidgee and certainly will not produce 10 to 14 times the hay or milk that would be required to maintain equity with the 2010/11 proposed Valley based price structure.

Uniform State Wide Bulk Water Pricing resolves this equity issue

Indicative Total Bills for General Security Holders 2009/10 and 2010/11 (1000ML ENT)





**In summary this is the third IPART round that the Peel Valley Water Users Association has proposed Uniform State Wide Bulk Water Pricing. Maybe this time the Penny will drop and the lights will come on.**

Just in case the Penny does not drop and Uniform State Wide Bulk Water Pricing is not adopted by IPART blind Fred can see that the current regulated prices being paid in the Peel ie usage charge to State Water of \$25.72/ML plus a further DWE / NOW usage charge of \$2.12 /ML to give the Regulated Users a total usage charge of \$27.84/ML is unsustainable. The General Security users of the Peel Valley are not only uncompetitive with General Security users in most of the other Valleys, they can't even compete with local Ground Water and Unregulated users with usage charges of \$1.24 /ML \$1.10/ML respectively. The proposed price hike by State Water for 2010/11 to a usage charge of \$62.36 per Megalitre beggars belief. The Regulated General Security Users in the Peel Valley are finished at these usage charge prices.

Unfortunately lifting entitlement charges to compensate for lowering the usage charge is not an option as the General Security users of the Peel Valley who have received FIVE consecutive ZERO start of season allocations commencing in 03/04 then 04/05, 05/06, 06/07, 07/08. What more could one want?

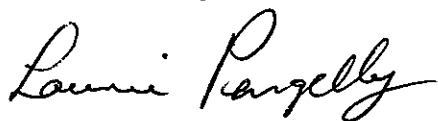
In summary the Regulated Peel Water source has a low reliability of supply and very high usage charges and a proposed Water Sharing Plan that will limit long term average annual use to about 25% of entitlement.

**The future for the Peel's General Security Water Users is bleak or is there a future at all. It's in the hands of IPART.**

*"I'm reminded that the actions of those in power have enormous consequences-a price that they themselves almost never have to pay."*

**The Audacity of Hope** 2006 by Barack Obama

Yours faithfully



Laurie Pengelly

Representing the Peel Valley Water Users Association Water Users