BULK WATER PRICES 2005

SUBMISSION TO IPART

LACHLAN VALLEY WATER

Lachlan Valley Water

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EXECUTIVE SUMMARY

State Water projected costs for 2005/06 represent a 60% increase on 2003/04. LVW does not consider State Water's projected costs are efficient and recommends the adoption of benchmarking between valleys to identify best practice performance, and that efficient costs be determined in line with the levels that reflect best practice.

State Water's capital expenditure program is optimistic based on previous performance and we recommend the program be reviewed in terms of what can realistically be managed.

LVW does not support the 'building block' approach to capital in its current form, and recommends the annuity approach be retained until problems with the building block approach are resolved. The proposal to include pre-1997 assets in the regulatory assets base is an attempt to undermine the "line in the sand" and it is not acceptable to seek a return on these assets.

On the information provided we were unable to determine whether DIPNR's WRM costs are efficient and recommend a complete review of DIPNR's WRM costs be undertaken. Until such a review has been completed we propose that there should be no CPI increase, and instead a 10% reduction in the level of WRM prices.

If WRM functions transfer from DIPNR to CMA's then the funding should also transfer and there should be no duplication of services.

LVW proposes the delivery of basic rights be identified as a Community Service Obligation. The CSO would require Government to pay the fixed charges on licensed entitlement once an event is identified as an extreme drought.

LVW proposes a review of cost sharing principles with a view to State Water seeking cost recovery across the full range of users of State Water's services.

Infrastructure maintenance and upgrading has been under-funded for many years prior to corporatisation and LVW recommends that the liability related to bringing infrastructure to full service capability be recognised as part of State Water's balance sheet, and that no tax equivalents or shareholders dividends become payable until this liability is extinguished.

It is not appropriate to use both the 2 years' supply factor and the general security:high security conversion factor to assess the extra level of reliability high security enjoys over general security. LVW recommends the ratio of high security:general security entitlement charge for the Lachlan should be 2:1.

We recommend that flood mitigation benefits are quantified through a process of identifying the assets at risk and quantifying the expected impact of dam failure on those assets in $ terms. This would enable a costing of the total financial impact of dam failure and allow users' proportional share of benefit to be determined.

LVW supports the proposal that the 27% wholesale discount for JIL be removed but recommends that JIL receive credit for the cost savings it provides to State Water and DIPNR, subject to that being no greater than the 27% discount.

The proposed price increases of 20% or more annually are excessive and we recommend that the maximum increase in either entitlement or usage charges should be no greater than 5% per year.

We recommend 50% of Jemalong Weir costs be charged to JIL and 50% to the rest of the valley.

LVW does not support the users share of Lake Brewster project costs being recovered over 2 years as proposed by State Water and instead recommends a 10 year repayment period.

INTRODUCTION

Lachlan Valley Water is the main valley based organisation representing 600 surface water and groundwater users in the Lachlan Valley, including irrigators within Jemalong Irrigation Limited (JIL). This submission has been prepared on behalf of all members and represents a 'whole of valley' position, except for two issues where JIL members have reserved their right to make a separate submission – Discounts for Wholesale Irrigation Customers and Jemalong Weir Costs.

4 ESTABLISHING EFFICIENT COSTS

4.1 Operating Expenditure

The Tribunal has requested comment on

- *the efficiency of State Water's projected operating costs*
- *whether there is scope for State Water to achieve further efficiency gains*

4.1.1 Efficiency of Projected Operating Costs

On the level of information available it has been difficult to assess the efficiency in detail or to reconcile the State Water and DIPNR costs to determine whether there is any duplication of charging, however, we have compared State Water's projected operating costs for 2005/06 against previous years' costs and against the Macquarie, a similar valley, to assess their efficiency.

State Water's submission shows a $1,808,000 jump in operating costs, or 59% increase, between the actual 2003/04 figures and 2005/06 projections for the Lachlan. State Water says that operating expenditure prior to corporatisation was constrained due to lack of income and because of their arrangements with DIPNR. There are some increased administration costs attributable to the corporate structure, although we would also expect efficiency gains to result from corporatisation. However, the size of the increase is such that we conclude State Water sees corporatisation as the opportunity to achieve a substantial increase in operating costs.

Significant cost increases from actual 2003/04 to projected 2005/06:

	$ increase	**% increase**
PA100 Surface Water Data Collection & Archiving	$367,000	168%
PC200 Regulated River Operations	$182,000	34%
PC221 Regulated Water Metering	$118,000	21%
PC416 Dam Maintenance Work	$566,000	79%
PC 421 Rural Water Storage Surveillance Data Collection	$263,000	128%

For PA 100 Surface Water Data Collection, State Water notes that previously users paid 70% of the cost of 818 gauging stations statewide, and they now propose users pay 100% of the costs for 399 stations statewide. We do not accept this should result in a 168% increase in costs.

In the case of PC 200 Regulated River Operations, PC 221 Regulated Water Metering and PC421 Water Storage Data Collection, we see no reason why there is such a large increase in the costs between 2003/04 and ‘2005/06 when State Water consistently maintains that their costs do not vary with the volume of water delivered. There is no indication that State Water proposes to increase the level of service, and we conclude that the forward projections for 2005/06 on these items do not represent efficient costs.

We understand that State Water currently allocate their regional and head office overheads to valleys based on the number of staff employed, and we query whether this is the most appropriate cost driver for all head office and regional office activities.

Scope for Efficiency Gains

From the information presented and by comparison with the Macquarie we believe there is scope to achieve efficiency gains in at least the following areas:

- PC 200 Regulated River Operations cost approximately $550,000 in both the Lachlan and the Macquarie in 2003/04, however, by 2005/06 State Water is projecting that costs will be $604,000 in the Macquarie but $724,000 in the Lachlan, ie 20% higher. We are not aware of a planned change in service levels to justify such an increase.

- PC 421 Storage Surveillance Data Collection, cost around $200,000 in each valley in 2003/04 but by 2005/06 State Water is projecting those costs will increase to $392,000 in the Macquarie, and to $469,000 in the Lachlan (20% higher than the Macquarie). Again we are not aware of a change in service levels that would justify the differential increase.

We recommend the adoption of benchmarking between valleys to identify best practice performance, and that efficient costs be determined in line with the levels that reflect best practice.

Lack of Incentive for Efficiency Gains

There is scope for efficiency gains, and we are concerned that corporatisation hasn’t provided an incentive for State Water to control costs or achieve efficiency gains. For example, Service Level Agreements (SLA’s) are negotiated with DIPNR and the costs simply passed on to customers.

We support competitive tendering as a method of encouraging efficiencies in the provision of WRM and other services.

4.1.2 Capital Expenditure

The Tribunal has requested comment on

- *State Water’s projected capital expenditure program and the expected outcomes*
- *the prudence of State Water’s past capital expenditure*
- *what approach to funding capital expenditure should be adopted*
- *an appropriate rate of return for State Water*

Projected Capital Expenditure Program

State Water has an intensive capital expenditure program over the next 10 – 15 years, with major dam compliance upgrades planned. We accept that State Water intends to undertake the work as quickly as possible, but question whether this is a realistic time frame given the time involved in consultation, planning and approval processes for major capital projects. State Water has averaged $18 million annual capital expenditure over the last 2 years, but is budgeting to increase that to $50 million per year over the next 3 years.

In our view the capital expenditure program is optimistic based on previous performance and we recommend the program be reviewed in terms of what can realistically be managed.

Approach to Capital Funding

Building Block Approach and RAB

It is acknowledged that the annuity approach has drawbacks, however, there are also a number of problems with State Water's 'building block' proposal and we do not support it in its current form.

- The revenue under the RAB approach has no relationship to projected capital costs and despite the misleading presentation of the graphics in Figure 3 on page 29 of State Water's submission it is clear that the revenue from customers will rapidly exceed the expenditure requirements. In effect customers will be underwriting State Water's financing requirements, and if this is to occur, there should be a commensurate benefit to customers.

- As revenues under the rate of return approach are not directly related to capital expenditure requirements there is no commercial pressure for State Water to achieve efficiencies in its capital program.

- In proposing to include pre-1997 assets in the RAB State Water is trying to revisit the Tribunal's decision that pre-1997 assets should not be included in the asset base for pricing purposes. Government's reason for investing in such assets was not for the purpose of earning a direct rate of return on that investment, but for industry and regional development and the consequent economic benefits.

- The corporatisation of State Water should not result in a change in that principle – it doesn't change the fact that pre-1997 investment decisions were not made in the expectation that the assets would earn a commercial rate of return. The 1997 'line in the sand' was well known when State Water was corporatised and must not be undermined to enable State Water to achieve 'upper bound' pricing.

- Turning to the question of asset value, the value of the assets constructed or refurbished since 1997 is estimated at $75 million as at July 2004. Instead of adopting that figure, which is entirely consistent with the previous Tribunal decisions, State Water has selected the value necessary to achieve their desired level of income rather than a value for the assets that can be justified in terms of past policy decisions. This indicates that State Water needs to reassess their expectation of profitability to align it with the structure of their business and their level of assets.

The National Water Initiative requires rural water utilities to move to upper bound pricing where practicable. We do not consider the move to upper bound pricing is economically or socially feasible under the current conditions. In other situations upper bound pricing for utilities and the requirement to pay dividends has resulted in a lack of reinvestment in infrastructure and consequent failure in service supply.

There has been a history of under-funding of water supply infrastructure in NSW, certainly in the Lachlan, and the first priority for any returns on capital must be to reinvest in the infrastructure to maintain and improve service levels. Dividends to shareholders cannot be considered until infrastructure is at its full service level and fully compliant with all environmental and OH&S standards.

We do not support the 'building block' approach in its current form. Until the above issues can be adequately addressed we recommend the annuity approach be retained.

Appropriate Rate of Return for State Water

State Water, in its pricing submission, has adopted a low risk profile. It seeks to recover 60% of costs from fixed charges, thereby cushioning its income against climate driven fluctuations. It also proposes to minimise price risk and increase income by moving to the building block approach. A low rate of return is appropriate for a low risk business and we recommend that there should be no risk premium charged over and above the risk free rate.

4.2 Costs of WRM Activities

The Tribunal has requested comment on

- *whether there is a connection between the provision and use of water services and the WRM activities undertaken by DIPNR*
- *the efficient costs of providing WRM services*
- *the role of CMA's in relation to WRM services*
- *DIPNR's proposal to set WRM prices for 2005/06 based on current prices plus a CPI increase*

We found the entire DIPNR submission lacking in useful information on which to respond to IPART's Issues Paper and opaque in terms of gaining an understanding of what WRM services would cost licence holders. We expect that where water users are paying charges based on DIPNR's costs, DIPNR has a responsibility to provide information on the breakdown of those costs, and should have been able to express the user share of WRM charges for 2005/06 in terms of a price per ML for each water source in each valley.

We oppose DIPNR's proposal to bring forward a medium term submission in the second half of 2005. This means a new pricing round will commence virtually as soon as the existing process is completed and is a substantial and unnecessary workload for all other parties who have complied with IPART's timetable.

DIPNR's proposal for a medium term submission should not be approved.

Connection Between Provision of Water Services and WRM Activity by DIPNR

In claiming that most of its WRM activities are undertaken to manage the impacts arising from regulation of flows or water extraction, DIPNR's submission appears to have overlooked its regulatory functions. The IPART determinations of July 1998 and December 2001 identified a clear Government component in half the Water Resource Management Products, particularly in water quality and river health data, river quality and flow reforms, blue green algae and river salinity strategies and wetland strategies. DIPNR's costs in fulfilling its regulatory role should not be passed on to customers, who already pay taxes to finance Government's core business.

Efficient Costs of Providing WRM Services

The lack of specific information from DIPNR makes it very difficult to make an informed response on the efficient costs of providing WRM services. It has been impossible to make a comparison between the information provided by DIPNR and State Water for this determination and the information from past determinations, in order to understand whether the complete separation has been achieved or whether there is any duplication of charging for services.

DIPNR's submission refers to contestable tendering arrangements when DIPNR is satisfied that cost efficiencies and standards of service can be maintained. We support the move towards contestability sooner rather than later.

A complete review of all DIPNR's WRM costs is needed to determine the efficient costs of providing WRM services. This should include:

- actual costs over the last 3 years
- reallocation of costs to subproduct codes
- basis for apportionment of overheads
- details of any service level agreements between DIPNR and State Water or CMA's.
- clear delineation of responsibility between organisations for WRM functions and costs

We recommend a complete review of DIPNR's WRM costs be undertaken to determine the efficient costs of providing WRM services.

Role of CMA's in Relation to WRM Services

We understand that CMA's will take a major role in monitoring and reviewing water sharing plans and that DIPNR will provide some technical advice, monitoring and other services to assist this function. However, the mechanics of this are unclear to us at this stage and we understand the boundary between DIPNR functions and the CMA is still being clarified. Our chief concerns are that duplication of services is avoided and that water users are charged for efficient costs of service only.

If functions transfer from DIPNR to CMA's then the funding should also transfer and there should be no duplication of services.

WRM Prices for 2005/06

DIPNR's proposal to set WRM prices for 2005/06 based on current prices plus a CPI increase is unjustifiable and unacceptable. DIPNR has provided no up to date information that indicates what level of costs are actually being incurred. Restructuring has led to a reduction of approximately 500 staff over the last 12 months, which suggests that DIPNR will have difficulty providing that same level of service in the future.

Under these conditions we propose that there should be no CPI increase, and instead a 10% reduction in the level of WRM prices to reflect the reduced level of service expected to be provided by DIPNR.

5 ALLOCATING COSTS BETWEEN USERS AND THE COMMUNITY

The Tribunal has requested comment on

- *whether there are new arguments against the cost sharing approach used for the last determination*
- *what costs should be considered as 'legacy costs'*
- *what cost-sharing arrangements should apply to compliance-related capital expenditure*
- *whether there is a connection between water extraction and the various WRM activities*

5.1 Delivery of Basic Rights – New Argument on Cost Sharing Principle

A significant new cost sharing issue is the cost of delivering basic rights water. Basic rights are defined under s 52 of the Water Management Act and allow landholders who adjoin a river to take water for stock and domestic purposes without a licence, and without paying a charge for the water.

Supply of water to non-paying basic rights consumers is a public good that constitutes a Community Service Obligation (CSO).

The Lachlan supplies basic rights to land holders along the main stem of the river as well as replenishment flows down 4 other creeks. Managing these flows is part of State Water's workload. Under severe water shortage conditions the delivery of town water supplies and basic rights stock and domestic receives priority over other licences.

During the current drought the delivery of basic rights water has been a very significant part of the workload for State Water in the Lachlan. In 2003/04 and 2004/05 there has been no allocation at all for general security and only 15% of the flow down the Lachlan River has been for the supply of licensed water, the rest has been for transmission and maintaining a flow to deliver basic rights to riparian landholders.

This has resulted in general security irrigators in the Lachlan receiving only 3% total water allocation over the last 3 years, while still being charged the fixed charge on 100% of their entitlement each year.

Lachlan Water Allocations during current drought sequence

Year	High Security Allocation	General Security
2002/03	**100%**	**3%**
2003/04	**70%**	**0%**
2004/05	**Towns 50%, other 30%**	**0%**

We recommend that the delivery of basic rights be defined as a Community Service Obligation. The cost of meeting this obligation is low when there is plenty of water in the system but rises exponentially under extreme drought conditions when the majority of the costs incurred by State Water relate to basic rights delivery, as is happening in the Lachlan now.

We propose the delivery of basic rights be identified as a Community Service Obligation. The CSO would require Government to pay the fixed charges on licensed entitlement once an event is identified as an extreme drought.

We suggest a standard methodology across the state where the CSO process would use objective criteria such as 2 consecutive years of less than 10% general security allocation, or less than 15% total allocation over the 2 year period, to identify the event as an exceptional drought. Once the criteria are satisfied this would trigger a NSW Government subsidy to State Water to pay, say 90% of the fixed charges on general security for the period.

Environmental Water - Cost Sharing Principle

One of State Water's principal functions under the State Water Corporation Act is *"to capture, store and release water …including the release of environmental water"*

This function forms a significant part of State Water's workload in the Lachlan. Only 25% of the average annual flow in the Lachlan is able to be delivered to extractive users, that is, paying customers. We expect the workload associated with the management of environmental flows and environmental contingency allowances may increase in future, either because more active management will be used to achieve defined outcomes, or if the volume of water available for environmental purposes increases.

We recommend that State Water, as a commercial entity, seek to broaden its revenue base and redefine its customers as the full range of users that require management input from State Water.

We propose a review of cost sharing principles with a view to State Water seeking cost recovery across the full range of users of State Water's services.

5.2 Legacy Costs

We recommend a legacy principle be established in relation to the standard of infrastructure prior to corporatisation of State Water. As stated in 4.2, there has been a history of under-investment in infrastructure to progressively upgrade it to optimise service capability and achieve efficiencies in running the operating the river.

It is not reasonable for Government to under-fund State Water's operation, then corporatise it and expect it to provide a commercial return without recognising the contingent liability associated with below standard infrastructure.

We recommend that the liability related to bringing infrastructure to full service capability be recognised as part of State Water's balance sheet, and that no tax equivalents or shareholders dividends become payable until this liability is extinguished.

5.3 Compliance Related Capital Expenditure

Dam Safety Compliance

State Water proposes that once the dam safety compliance program brings dams up to 1997 standards, future compliance costs will be shared between users and Government based on the level of flood mitigation benefit. We do not accept State Water's proposal that users bear 50% of the cost of upgrades for flood mitigation dams and 100% for non-mitigation dams. This is not an equitable sharing of costs relative to flood mitigation benefits. In addition, where safety standards increase above the 1997 level, the impactor is the community's requirement for higher standards.

We recommend that flood mitigation benefits are quantified through a process of identifying the assets at risk and quantifying the expected impact of dam failure on those assets in $ terms. This would enable a costing of the total financial impact of dam failure and allow users' proportional share of benefit to be determined.

OH & S Compliance

We recommend that the user share of OH&S compliance remains at 50%. The expenditure that State Water is already aware is required over the next few years to bring structures into compliance has public safety aspects and should not be treated any differently than the expenditure over the last 4 years for the same purpose.

6 SETTING PRICES

The Tribunal has requested comment on

- *whether a two part tariff should apply for both WRM and river operations activities on regulated rivers*
- *the appropriate balance between high security and low security entitlement charges*
- *the progress of converting to volumetric licences and applying the two-part tariffs on unregulated rivers*
- *how prices for extractive users on unregulated rivers should be set if volumetric licences have not been established and metering is not in place*
- *the percentage of entitlement extractive users on unregulated rivers receive in an average year*
- *whether wholesale discounts are still appropriate, and,*
    - *if so, what level of discount is appropriate*
- *what transition path and rate of increase is reasonable in valleys not yet at full cost recovery*

6.1.1 Two Part Tariff for Both WRM and River Operations on Regulated River

We support the two part tariff for river operations and recommend that the 60:40 ratio be adopted. This is very close to the current ratio in the Lachlan and will have little impact on users.

We have reviewed the implications of moving to greater usage based pricing in view of the current drought in the Lachlan, where general security licence holders are in their third year of virtually no water. However, we believe this is an area more appropriately dealt with by means of a Community Service Obligation as outlined in 5.1.

Balance Between High and Low Security Charges

In proposing the new ratio between high and low security entitlement charges State Water appears to be double counting the additional level of reliability that is enjoyed by high security compared to general security. In the Lachlan's case two years supply of high security entitlements must be maintained in the dam before any allocation can be made to general security. The general security to high security conversion factor of 0.45 has been set at the level that will not diminish reliability for all other users, therefore already taking into account the increased level of reserves that must be maintained for high security licences.

It would be appropriate to use either the 2 years' supply factor or the general security:high security conversion factor to assess the extra level of reliability high security enjoys over general security, but not both.
We recommend the ratio of high security:general security entitlement charge for the Lachlan should be 2:1.

Estimated Water Usage

State Water's proposal to adopt a long-term usage figure of 1 standard deviation below the 100 year average (section 3.5 State Water submission) ignores the fact that the Water Sharing Plans (WSP's) already specify the long-term Plan limit. This figure is derived by modelling expected diversions under the operating conditions in the WSP, taking into account the climatic conditions of the last 100 years. It is more likely that this will be the volume of water delivered, particularly in a valley such as the Lachlan where the Plan limit is some 20% below the recent average usage.

We recommend that the long term usage figure adopted should be the WSP Plan Limit.

6.1.2 Wholesale Discounts

With regard to a wholesale discount for Jemalong Irrigation Limited (JIL), we accept that the Corporations do provide services and information that assist State Water and DIPNR. In particular we understand there is a cost saving for State Water because JIL provides water demand and usage information that State Water would otherwise incur a cost to collect. We also understand that JIL provides information to DIPNR as part of its Environmental Report that assists DIPNR in meeting its regulatory functions.

We support the proposal that the 27% discount for JIL be removed but recommend that JIL receive credit for the cost savings it provides, subject to that being no greater than the 27% discount.

Where JIL supplies services to State Water or DIPNR over and above the service an individual irrigator would provide, and that service provides a cost saving for State Water or DIPNR, then JIL should receive a credit against its charges in proportion to the cost savings.

6.2 Transition Path and Rate of Increase in Prices

Following is a table outlining the proposed prices for the Lachlan. As DIPNR did not disclose their WRM costs on a price per ML basis we have made an assumption that DIPNR costs will increase by a CPI of 2% per year. We accept this figure may not be correct but have made our best estimation for the purposes of understanding the impact of proposed price increases.

STATE WATER + DIPNR PROPOSED LACHLAN REGULATED RIVER PRICES

		O4/05	05/06	06/07	07/08
FIXED	**HS**	**7.09**	**9.00**	**11.50**	**14.85**
Increase from last year			27%	28%	29%
	GS	**4.72**	**4.90**	**5.15**	**5.35**
Increase from last year			4%	5%	4%
USAGE		**5.41**	**6.50**	**7.90**	**9.60**
Increase from last year			20%	22%	22%
Effective prices per ML used					
75% user	**HS**	14.86	18.50	23.23	29.40
Increase from last year			24%	26%	27%
	GS	11.70	13.03	14.77	16.73
Increase from last year			11%	13%	13%
50% user	**HS**	19.59	24.50	30.90	39.30
Increase from last year			25%	26%	27%
	GS	14.85	16.30	18.20	20.30
Increase from last year			10%	12%	12%

Note: Assumes DIPNR WRM charges increase by 2% CPI each year.

One way of looking at the reasonableness, or otherwise, of the price path, is to look at the effective prices per ML used, to gain an understanding of the real impact on the different types of user. Under the Water Sharing Plan the Lachlan has a 75% individual annual use limit, so even high users automatically fit into the 75% user category, and the average general security user on the Lachlan is likely to fit within the 50% bracket.

State Water notes that the price increases sought are to reflect cost increases related to corporatisation and to cover what State Water describes as increases in efficient costs.
There are both one-off and ongoing costs related to corporatisation and all one-off costs should be borne by Government as a cost of restructuring.

With regard to increases in efficient costs, as outlined in 4.1, we consider there is scope for further efficiency gains in State Water's projected costs.

Price increases of 20% or more annually are excessive and we recommend that the maximum increase in either entitlement or usage charges should be no greater than 5% per year.

7 MATTERS NOT INCLUDED IN THE IPART ISSUES PAPER

Stakeholder Consultation

We do not accept State Water's assertion that it undertook comprehensive consultation on the proposed submission. One meeting was held with the Customer Reference Panel in our area and one with the Reference Panel members and CSC chairmen. From a customer point of view State Water's actions could, at best, be described as providing information after the event. The very significant changes proposed in the 'building block' approach were not discussed with customers until the joint meeting with Reference Panel and CSC chairs, and it was clear at that meeting that State Water had already formed its view and was outlining that decision, not seeking input from customers.

State Water needs to make a substantial improvement to the way it consults with customer representatives on pricing proposals to meet the terms of reference it already has in place for CSC's.

8 COSTS NOT INCLUDED IN THE DETERMINATION

Lake Brewster Project

Lachlan Valley water users do not support State Water's proposal to recover the costs of the Lake Brewster project over a 2 year period. There has been no consultation on the payment arrangements and had there been, State Water would have been well aware that an additional cost of $2.41/ML for 2 years is untenable under current extreme drought conditions. General security irrigators in the Lachlan have had allocations of 3%, 0% and 0% over the last 3 years, and high security licence holders have had allocations of 100%, 70% and 30% over the same period. There is no evidence the drought is over, and without water irrigators are not in a position to pay additional charges at such a level.

We recommend State Water spread the irrigators contribution over a 10 year period. We are aware this will increase the cost per ML recovered, however, under current conditions affordability is the over-riding factor.

Proposal to Include Jemalong Weir in Pricing Determination

State Water proposes to include all costs for Jemalong Weir in pricing for the valley as a whole. We accept that all users receive some benefit from the operation of the weir and that the costs of the weir should be borne proportionately to the benefit received from the weir.

However, it is difficult to quantify the proportional benefits on the information available in the submission. Jemalong Irrigation Limited (JIL) has approximately

15% of the total licensed entitlement in the valley but we believe it receives more than 15% of the total benefit from the weir.   JIL also enjoys a cost saving because the weir means they don't need to pump out of the river.

Under average to wet conditions JIL receives most of the benefit from the operation of the weir, while in drought conditions the situation reverses and the operation of the weir tends to benefit the whole river rather than JIL.

We recommend 50% of Jemalong Weir costs be charged to JIL and 50% to the rest of the valley.

Adjustments for Water Ordering Errors

We question how State Water is going to measure accurately the net losses as a result of incorrect ordering, as opposed to system losses due to other factors, given that the Lachlan has an end of system flow target to meet basic rights requirements. Operating the river is a highly skilled operation balancing a range of factors and we consider it will be difficult to measure with sufficient accuracy the losses that are due to incorrect orders. Until this can be done we oppose the proposal to charge for incorrect orders.