INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS INTO BULK WATER MEDIUM TERM PRICE REVIEW

Tribunal Members

Dr Michael Keating AC - Chairman
Mr James Cox
Ms Cristina Cifuentes

Held at Griffith Regional Centre
1 Neville Place, Griffith, NSW, 2680

On Tuesday, 24 January 2006, at 9am

Transcript produced by ComputerReporters

INDEX

Page No. Organisation and Representatives

7, 79 STATE WATER CORPORATION
(Abel IMMARAJ, Russell SIMONS and Lindsay BECK)

23, 89 DEPARTMENT OF NATURAL RESOURCES
(Rob O'NEILL, Mark PAINTING, Rick RUNDLE and Mathew COOPER)

37 MURRAY IRRIGATION
(Jennie McLEOD, Jeff WASHUSEN and Gordon BALL)

51 MURRUMBIDGEE IRRIGATION
(John HOWE and Brett TUCKER)

60 RICEGROWERS ASSOCIATION
(Deborah KERR and Laurie ARTHUR)

65 MURRUMBIDGEE PRIVATE IRRIGATORS
(Lee FURNESS)

70 SOUTHERN RIVERINA IRRIGATORS
(Malcolm HOLM)

74 PUBLIC STATEMENTS & QUESTIONS

THE CHAIRMAN: I would like to begin by welcoming you all to this public hearing that is being conducted by the tribunal into bulk water prices. For those of you who don't know me, my name is Michael Keating and I'm the Chairman of the Independent Pricing and Regulatory Tribunal. I would like to introduce my fellow tribunal members, Jim Cox, who is the Chief Executive of the tribunal, and Cristina Cifuentes, on my right.

Also the tribunal secretariat is represented here by Colin Reid, who is the director of water, and Michael Seery, the program manager of bulk water pricing.

The tribunal is conducting this hearing under section 11 of its act. The hearing is part of a price review that will ultimately result in the tribunal setting a medium-term price path for bulk water prices to be charged by the State Water Corporation and the Department of Natural Resources from, we expect, 1 July this year.

Before commencing the hearing, I would like to talk a little bit about the review process. The tribunal's general approach to price setting and matters the act says it must take into account in conducting an investigation were set out previously in an issues paper the tribunal released as far back as September 2004. I am conscious that quite a lot of time has elapsed since then. I think it is fair to say this was principally caused by the changes in the administrative arrangements which led to the setting up of the State Water Corporation and also to change departmental arrangements which meant that there was some difficulty in accessing and providing the data that we needed for this investigation.

That led in August 2005 to the tribunal releasing a price determination for that year alone, that is 2005/06, which was essentially a holding operation. In the report that accompanied that determination we did, however, as a tribunal, outline some of the matters the tribunal considered important to this review and the tribunal also indicated at that time that it expected the Department of Natural Resources and State Water to make their submissions available by 30 September last year; with interested parties to be able to make submissions up to 18 November.

In fact, State Water and the department provided their submissions almost on time, in October 2005, and this was

followed by a large number of submissions from other interested parties which were received through November 2005. All these submissions from all the various parties are available on the tribunal's web site for those who are interested; and let me add that the tribunal is very grateful for the large number of submissions that have been made to the review and for the effort that people have put into making the submissions and indeed the appearances here today.

Some of the organisations that have made submissions to the review will be presenting a case to this hearing today but all of the submissions that have been received will be carefully considered by the tribunal in developing its findings and recommendations.

I think it is fair to say that the submissions have helped the tribunal to understand stakeholders' views on the key issues for review and the tribunal is also undertaking further public consultation. In fact, this public process of public hearings commenced in Sydney and we are now following that with three additional hearings in regional areas, today in Griffith, tomorrow in Dubbo and Moree next week.

A key part of the process is the review of State Water's and the department's operating capital expenditure costs proposals by our own independent consultants that the tribunal has engaged. To be frank, we had anticipated having the preliminary findings of the consultants available for this hearing today and that in fact the consultants would be presenting their findings, or preliminary findings, at these regional hearings. Unfortunately, the consultants are running behind schedule and they are not in a position to do this. That is unfortunate. We do anticipate the consultants' final report will be available in mid-February and it will be posted on the tribunal's web site at that time.

All stakeholders will be given the opportunity to formally respond to that report, to the opex and capex. Given the tight framework I anticipate, however, that stakeholders will be given only two weeks to provide a formal response to the consultants' report. The tribunal does anticipate providing further opportunities for consultation with interested parties through the course of this price review. In particular, all parties will also have the opportunity to respond to the tribunal's draft determination which we anticipate we will release at the end of March 2006.

As some of you will be aware, perhaps most, the tribunal has been involved in setting bulk water prices since 1996/97. One of the tribunal's key objectives for price reform over this time was to set charges to progressively increase the level of cost recovery in accordance with the objectives that were agreed by COAG back in 1994 but at the same time taking into account the impact on customers.

The tribunal has also restructured prices to improve cost reflectivity and improve conservation signals to users. The tribunal last held a major review of prices for bulk water services in 2001 when at that time the former Department of Land and Water Conservation was responsible for providing the services. As I mentioned, since then the department has been restructured and functions relating to river storage and operation on regulated rivers are now performed by the State Water Corporation. The functions relating to water resource management are performed by the newly formed Department of Natural Resources and the newly established catchment management authorities also have a role in water resource management.

Another significant change since the major review in 2001 has been the introduction of the national water initiative that could be described as refreshing the 1994 COAG agreement and which provides guidance for, amongst other things, water pricing reforms throughout Australia. The national water initiative was signed by the New South Wales Government in June 2004.

The task before the tribunal now is to actually set prices for bulk water extraction from unregulated, regulated rivers and ground water. In doing so, it will need to take account a wide range of matters as required by its act. These include, but are not limited to, the impact of prices on the financial viability of the regulated agencies and the potential impact of prices on customers. This hearing is a very important part of that broader price review process. It provides an opportunity for the tribunal to hear in a public forum from the water businesses and other key stakeholders and to question the propositions put forward.

Before we commence proceedings today, I would like to say a few words about the process of this hearing. You have available to you an agenda which indicates the order of presenters and the proceedings today are being recorded and they will be making a transcript available which we will be putting on the IPART web site early next week.

For each organisation presenting, a presentation time has been allowed and this is to be followed by a period of questions from the tribunal and its secretariat. I would ask, and indeed enjoin, presenters to stick to the allocated time. In addition, however, the tribunal has allowed time at the end of the morning's proceedings to allow all of you present to express your views on issues relating to the determination or to pose further questions for State Water and the Department of Natural Resources. These agencies will then have an opportunity to respond this afternoon.

STATE WATER CORPORATION

THE CHAIRMAN: We are going to commence with the State Water Corporation, followed by the Department of Natural Resources, so I would like to now welcome Mr Abel Immaraj, Chief Executive Officer of State Water, to make the initial presentation. Whenever anybody takes the microphone, could you announce who you are for the benefit of the transcribers, and Abel, I would appreciate if you could introduce yourself and your colleagues for the benefit of the transcribers.

MR IMMARAJ: Mr Chairman, thank you for the opportunity to make our presentation to the determination process. I would like to introduce Russell Simons, Acting Chief Financial Officer; and Lindsay Beck, Customer Services Manager for the South Area. Russell is based in Dubbo and looks after finance management functions. Lindsay is based in Leeton and looks after those customers in the Murrumbidgee.

Without having to go over the whole of the submission and the contents of it, I will do a quick overview of the submission. The process that we followed is we put the submission in in the first week of October and we followed that up with some fact sheets and frequently asked questions to explain the content of the submission to all stakeholders. At the presentation, the hearing in November, we explained what the content of the submission was, that subsequent to that the opex and capex review consultants would be working on State Water's operating expenditure and capital expenditure forecasts and have been providing information to aid in the determination process.

The submission itself is fairly simple: We identified all the business drivers arising out of our regulatory framework and the operating requirements for State Water and customer service levels and service required for State Water, so we identified those in our submission and we linked those to our program structure and identified our costs for that program. Just in the business drivers themselves, the big changes that have occurred since the previous submission was the Water Management Act; water sharing plans and water access licences have changed the way State Water operates and reports on those things; the compliance and regulatory requirements of State Water have changed significantly as a result of the water sharing

plans; the need to account for water differently to how it was in the past; and also for the need for corporate governance and audit requirements for that water delivery service.

The submission is separate to natural resource management costs, the two submissions, State Water and DNR, are separate and the costs are separate.

In the operating environment, the operating licence requires us to not only meet regulatory standards and requirements but also has asked for an increase of the variable component from the current 30 per cent across the state to something closer to 60 per cent, so that was an impost placed on us through the operating licence.

We have been in the process of developing customer service levels of service agreements at a valley level and in that process we are trying to identify what are the levels of service that the customers want and what sort of works are required to meet those levels of service in the valleys.

The third section of the submission relates to the full cost recovery under a building block approach using a regulatory asset base structure. The regulatory asset base structure is based on three- to four-year capex program forecasts, so the cost recovery that we have sought in the submission relates to the operating expenditure, opex, a return on assets at a weighted average cost of 7 per cent and assets depreciated at various rates for different assets, so they are the key components of the costs we are seeking to recover.

The last part of our submission relates to the pricing structure. We have proposed that the fixed variable ratio change from 70/30 at current to 40/60 over a period of three years. We have also proposed the high security general security ratio be reviewed and that it should be based on a water sharing plan based on the number of years that the water is stored, so it varies from valley to valley. The third part was removing all subsidies or making clear transparency of subsidies, both inter-valley as well as intra-valley, so that was the overview of the submission.

I will hand you over to Russell to take us through the building block approach and regulatory asset base and costs.

MR SIMONS: We would like to thank the tribunal for the opportunity to be able to present to this workshop. What we will be covering today will be some issues on the RAB, we will look at return on assets, some of the corporate costs within the business and how they are treated within the submission, we will then have a look at overheads, discounts, issues with conveyancing licences, and then I will pass over to Lindsay Beck to talk about past and future capital works.

The regulatory asset base that State Water has was set at 1 July 2004 at $302m. That is a financial asset base but State Water in reality, particularly in the south area, has about $1.1 billion worth of assets at current replacement value, so it's quite an investment in the business that we have to maintain and look after and run.

The setting of the $300m RAB was to ensure that the cost base to customers was the same as the current annuity that customers were paying from the previous determinations that IPART had set. There are a couple of good reasons for this. One is that there is no penalty to customers by putting a RAB in and the second one is that there is also no penalty to State Water. If we were to set a RAB lower than what we have proposed then the revenue base for State Water would be significantly down and would severely compromise the ability of State Water to carry out its functions.

We have quite a significant major periodic maintenance program to maintain these assets so that they are fit for purpose. A big benefit of the RAB is that it relies purely on three- to four-year forecasts of capex rather than setting an annuity based on 30-year forecasts. I think everyone here would agree that a 30-year forecast is somewhat less reliable than three- or four-year forecasts, so I would consider that to be a big benefit to not only State Water but all customers here.

The RAB also allows IPART at the end of each pricing period to allow for price adjustments for over and under expenditure. If State Water happens to overspend, IPART will look at that very closely to ensure it is prudent, efficient and appropriate expenditure before it will allow

it to be added to the RAB and therefore will start to earn more revenue.

The opening balance on this overhead represents what we anticipated would be the net cash flow of this business. That is in accordance with current accounting standards and State Water felt that that was appropriate as a starting point. There is a 7 per cent WACC that we proposed in the submission. We worked on a range of 5.9 to 7.7 per cent, and felt that 7 per cent was a reasonable return for this business.

The return on assets for State Water - this is a charge imposed on customers on the asset base of this business. State Water sees that this return will enable the business to be adequately able to fund the business through either debt or equity funding and that this return on assets will allow State Water to service that debt funding, or equity funding, and it will allow State Water to pay a reasonable dividend, depending on the state of the business, and it will allow State Water to pay the appropriate taxes of the business.

To follow on from this, in terms of corporate costs of interest, dividends and income tax, because we are earning a rate of return, the actual cost of dividends, interest and tax have been excluded from our opex. Therefore, whatever levels of interest or dividends are incurred by State Water are a business decision for the board to undertake.

I would just like to talk about overheads for a few minutes. Where possible, State Water has undertaken to allocate all of our costs directly to specific valleys. Specific examples of costs that can really be directed to valleys are river operations, maintenance, and so forth, but there are other head office functions that can be directly allocated to each valley. Examples of these are billing, engineering services - which is dam safety audits, and so forth - and dam safety surveillance. These are costs directly attributable to each structure and, therefore, we do allocate those directly to each valley.

Where costs can't be allocated directly to each valley, State Water has taken the approach that these overheads will be allocated to all the opex costs of State Water. We record all of our costs via jobs, and these overheads are apportioned to all of these jobs, whether they be regulated rivers or costs that we incur for unregulated rivers or any groundwater work that we do on behalf of DNR or costs that we incur for MDBC. So it is not just regulated rivers that are incurring these overheads; it's all of our costs. Overall, our levels of opex and overhead is about 25 per cent.

Overheads come from Lindsay's area in the Leeton office. There are also some operational and information technology costs that we incur in Dubbo and Parramatta. We have legal and risk staff who look after the business and make sure that we stay on the straight and narrow, and, of course, we have the Dubbo head office.

So the components included in our overheads include, amongst other things, the river operations, information technology, finance, payroll, HR, purchasing, et cetera, as you can see on this list here.

This shows that, whilst overall at a business level the overheads equate to 25 per cent of total costs in the Murray region, overheads account for 28 per cent of the costs. This is because it is dependent on the salary dollars within each valley. That's the basis of allocating the overheads. In the Murrumbidgee region, it is significantly less - it is down to 21 per cent.

We currently have 85 staff in the south area. They cover a fairly wide area in terms of the Murray, Murrumbidgee, Lowbidgee and the Lower Murray Darling Valleys, and they cover areas such as water ops, customer service, asset maintenance and field work and engineering and management.

One of the issues that State Water has put into its submission is the removal of discounts to irrigation corporations. State Water has consistently said over its last few submissions that the discounts provided to the irrigation corporations are cross-subsidised by general river pumpers. We have never wavered from that and feel that the discounts should be eliminated. We feel that State Water should be paying for any services that are provided to it so that there is a transparent passing of costs, rather than this general discount. State Water is continuing to push this line.

An issue that has come up is to do with conveyance licences that are now issued under the Water Management Act. Previously, there has been an anomaly where some irrigation corporations were charged for conveyance licences and other irrigation corporations were not. State Water feels that the conveyance licences that are out there now are fully tradable and we should, therefore, be charging for those conveyance licences.

I would like to thank you for your time. I will just pass over to Lindsay Beck.

MR BECK: Thank you, members of the tribunal. Ladies and gentlemen, where do I start? Murrumbidgee/Murray Valleys are quite large. They are old, their infrastructure is old. It is relatively large. It is disparate.

State Water has got 10 offices in the south area. The distances between Burrinjuck, Blowering, Hume and Menindee are considerable, so the south area could be seen as more expensive to operate than the other valleys because of those particular factors.

The south area also has a lot of New South Wales regulated entitlement. The two valleys, Murrumbidgee-Murray are different in that the operations in the Murrumbidgee are very specifically controlled by State Water and in the Murray there is substantial input from State Water but it is basically operated by the directions given by River Murray Commission.

Both valleys have quite a lot of infrastructure. The one that I know best of all is Murrumbidgee, and the dams - Burrinjuck is very old, Blowering is getting on 50 years old. The infrastructure within the valley is old. Berembed, Yanco, Old Yanco Weir, Gogeldrie - 70, 80 years old. A suite of infrastructure was built in the '80s - Tombullen, Hay, the New Yanco Weir - so that is relatively young.

I guess most of the irrigators in these valleys are pretty much aware of the sorts of works that have taken place. I would be fairly confident in saying that the history of the Murrumbidgee Valley and the Murray Valley has been one where decisions have been made jointly in relation to river management boards and later customer service committees have had input into the works that have been done and, I would suggest, subscribe to the works that we have done.

There are ongoing works to maintain our ability to supply quite a lot of water in both valleys and, in particular, in the Murrumbidgee Valley. This slide demonstrates some of the works we have done. Beavers Creek remedial works. We wish to maintain its capacity to operate. We wish to protect all our structures from failure. We want to maintain our ability to supply water and, in doing these works, we want to maintain and improve the environmental requirement.

Some of these works are pretty costly to do. This is Beavers Creek. I doubt whether a lot of people have actually seen it. It is tucked away off the Murrumbidgee. It stops uncontrolled flow leaving the Murrumbidgee and forming the new river. There are ongoing works to just maintain these assets. At the end of this particular work there was some realignment of timber to improve the environmental habitat.

This slide is just an example of some of the work that was done at this particular site. Hay Weir is another structure built in the early '80s and it suffered some fairly severe erosion downstream which threatened to undermine the stability of the structure. Those works were done in the early '90s and were subject to some sort of damage by the continual erosion of the water supply, and over the last couple of years we have looked at upgrading those. So we would consider the Hay Weir downstream stability to be fairly well looked after.

Blowering Dam is another major work that is in progress to comply with the ANCOLD guidelines on flood security. This is a work that will be funded by the government.

The Burrinjuck structure is very old. It is tucked away in a very deep valley. It is expensive to maintain. Keeping staff at Burrinjuck is an issue. Just recently we were there in the middle of summer and froze, so it is quite difficult at times to work there.

Major works that we have undertaken or are in the process of undertaking are the sector gates; the outlet

valves; we've got a series of penstocks that we need to maintain; we've got a cableway, because you can't readily access the site; and we've got some instrumentation that is in need of replacement. Some members of the CSC are aware of these because we have actually taken them to visit the site.

Major projects that are planned: maintenance platforms or walkways so that we can better access our site. Yanco Weir is also suffering from an erosion downstream, and we need to do a similar task as we have done at Hay. A lot of our structures have got a lot of metal in them which needs to be continually protected. Hay Weir, which was built in the '80s, has had no major maintenance undertaken since that time and needs to be repainted and have the roller trains refurbished. We have also got some minor stabilisation works to some gabions immediately downstream.

Redbank Weir is another major pool in the valley. It has got a series of regulators that need to be upgraded to ensure that the water in Redbank Weir stays in the river and doesn't leak onto the flood plain.

At Balranald Weir we have got some issues with a very old structure that is very difficult and unsafe to operate and that needs to be addressed.

The Murrumbidgee has a travel time of 20-plus days from the top to the bottom. In Yanco Creek, the effluent from the Murrumbidgee has probably got a 30-day travel time. So we are always looking at doing things to give us a better handle on the water supply delivery. So additional instrumentation will help us to improve our operational efficiency and delivery of services. Obviously we try to have major inflows, so we need to upgrade the inflow capability of the storages.

Over the years we have developed a fairly reliable telemetry system. If we wish to go back 10 years, all of the Murrumbidgee weirs were manually operated eight hours a day. Now they are operated 24/7 under full automation control with the operation centre at Leeton, so there's been quite a reduction in recurrent costs from the operation of those weirs.

The improvements that we are looking for is a water ordering system and water information exchange. That is being currently developed where all the orders will come in via the Internet or telephone.

We have also got some obligations to our staff and to the public, and if we recognise that we have got dangerous sites we have to address those. Elimination of the cranage at Balranald Weir is an issue that we are dealing with. At Burrinjuck we have got a difficult site to manage, and we are looking at some additional facilities at that site to recover any injured personnel.

We are also trying to protect people that use the river for recreation by excluding them from the weirs by the development of boat barriers.

We have also got some environmental requirements so that when we do works at weirs we invoke a requirement to create a fishway, so we're developing that as a program.

That's about it on the works. The photographic examples are there. We have got a system that you could say, well, maybe you can delay the expenditure at a site for a year, but overall we've got a whole suite of works that we've got to maintain, so our timeframe for works is quite long and you can't wait until it fails; you've got to make sure it doesn't fail. Thank you.

MR IMMARAJ: I would just like to explain some of the prudence of State Water's past expenditure on, for example, Beavers Creek and Hay, and also the capex forecast for 2006 onwards for the next three years and some of the works that have been identified here.

This relates directly to some of the submissions that came in post the last hearing, and that is why we have targeted these particular items. The recommendations from the customers were that State Water Corporation should provide the capex information to paying customers as a matter of urgency. The customer service committees have been provided with the full capex programs in both the valleys - the Murray and the Murrumbidgee. The prudence and efficiency of State Water's actual capex should be subject to performance audit and review by valley stakeholders, especially those customers who are being charged for the relevant budget item, and this is what the review of the capex as well as the opex is looking at, the

prudence and efficiency of our expenditure to date.

The next recommendation related to the capex projects must be clearly identified to users in each valley along with appraisal of cost benefits and beneficiaries, and if this is not provided through CSCs then the IPART independent consultant should consult directly with valley customers. We have provided this information to the CSCs and, as Lindsay indicated, some members of the CSCs have had much more in-depth explanation of why the capex program is required.

So those were the main ones, and they are the main drivers relating to the costs in the Murray and the Murrumbidgee Valleys, so I would like to leave it there.

THE CHAIRMAN: We might just have a few questions from the secretariat to you.

MR SEERY: I might just ask a question on the removal of the wholesale discounts to start with. You noted in your presentation that State Water feels the discounts are cross-subsidised by other river pumpers. I wonder if you could share with us what analysis State Water has undertaken to demonstrate that, indeed, the pumpers do cross-subsidise the irrigation corporations.

MR SIMONS: Just to go back to the previous 2001 determination, which stated that the Murrumbidgee Valley, for example, was at full cost recovery. The determination does say that, by the end of 2004, 100 per cent of costs attributed to users will be recovered in the Murrumbidgee Valley, for example. If you're providing irrigators with substantial discounts, the only way you can then achieve full cost recovery is by inflating the prices of river pumpers.

MR IMMARAJ: Can I just add a comment there, Michael? The concept of wholesale supplies is also important to understand. The stakeholder is a wholesaler, and the river pumpers and irrigation companies have the same status as wholesale customers. So I think there's a lot of information provided in the Murrumbidgee Irrigation Corporation submission which relates to services that used to be provided by government directly to the retail customers within Murrumbidgee Irrigation.

State Water has no obligation for providing those retail services to those customers; that is the domain of the Murrumbidgee Irrigation Corporation. Therefore, for us, the costs are really only attributable to the point of offtake, which is on the river. So, for us, the wholesale customer is the river pumper and the wholesale customer is Murrumbidgee Irrigation Corporation.

So I think it needs to be put in context with regard to whether there should be discounts payable by one group and not by the other.

So at full cost recovery, the costs have to be borne by one group or the other, and the more the discount is given to one group, the more the cost recovery requirement is placed on the other.

MR SEERY: The level of discounts that are applied to the various corporations seem to vary widely. Do you know the reasons for those large differences?

MR IMMARAJ: I think most of it goes back to the privatisation processes that went on over a period of time and the individuals negotiating those processes over the period of time. The cost structures that were put in under the old Department of Land and Water Conservation submissions were the basis on which those levels of subsidies were set.

MR SEERY: The irrigation corporations claim that they provide you with lots of information which helps State Water reduce its costs of managing the system.

Can you explain what information is provided to you by the irrigation corporations and how this helps you manage the system and, indeed, whether it reduces your costs?

MR BECK: Michael, the information that irrigation corporations provide is their forecast order, as do all other irrigators within the valley. So I don't see that they supply us with anything that somebody else doesn't have to supply as part of the whole operational issue.

When you are releasing water from dams or regulating weirs, you need to have the whole system demand in front of you, time delayed, because obviously if a customer at Balranald places an order, we have to have greater time to

supply that.

So I don't see that there is anything different that Murrumbidgee supplies from any other customer in the valley. Certainly they are big customers and what they supply is very important to us, but no special information is provided from them in comparison to any other customer.

MR REID: I'd just like to ask a three-barrelled question, if you like, in relation to the MDBC costs. First of all, what assurance can customers have that the amount on charged of MDBC costs is appropriate; secondly, that the allocation of these costs between different valleys is reasonable; and, third, a little bit about the logic of including in the RAB an amount to cover the MDBC costs and how does the amount proposed to be included in the RAB and the other associated MDBC costs compare with the actual cash flow or cash payment by the State to the MDBC?

MR IMMARAJ: I'll take the last one first, Colin, if I may. We adopted the regulatory asset base with a slight modification. We have called it the notional regulatory asset base for the Murray Darling Basin Commission and DBBRC up in the north as well. We have calculated what would be a notional regulatory asset base on which State Water could operate on just to give it consistency as a starting point, but also to make it clear that we do want those entities as well that we relate to DBBRC and MDBC to recognise that State Water has moved away from the long-term annuity approach to a regulatory asset base with a three-year forecast.

As you may be aware, MDBC works off a 100-year asset management program, and that exposes State Water to a considerable risk because of these long-term decisions. So we would like those entities to move as well to a notional regulatory asset base, so that's the first step.

The allocation of costs for valleys. We have allocated the MDBC costs to the Murray predominantly, and as two weirs are currently in a certain schedule of the Murray Darling Basin Commission, namely, Maude and Redbank, there is a small proportion of that allocation to Murrumbidgee, but that is due to be phased out.

The third point was the level of charges are appropriate. We do have debates with Murray Darling Basin

Commission with regard to its total asset management plan costs for the whole of system. The MDBC operates a system that covers three states and goes as far as the barriers in South Australia. So it is hard to justify at any given point of time whether the decision that has been made for that asset management is in favour of New South Wales. All we can say is it is in favour of the whole system operating for the benefit of all three states.

All we can say is that the New South Wales component, which is a percentage of the total cost, is in accordance with the agreement and the cost structure for the whole system is an appropriate benefit to all three states. Now, whether that percentage share by New South Wales for opex and capex is to be reviewed, is a decision by all three states.

MR COX: Can I just come back to the first part of that response. It is not clear to me, Abel, why you need to include the MDBC capital in your RAB rather than just pay them a charge which would no doubt have to service the capital the MDBC has. I can't see why you have to shift over to including your asset base, which means that the charge to the MDBC comes down. I don't see why you need to do that in the first place.

MR IMMARAJ: We did consider that option, to have a contractual arrangement with MDBC where we are providing contractual services and we paid for those services. However, we do own those assets. While they are termed MDBC assets, the asset ownership is still vested with State Water so we have to recognise that ownership. Hume Dam, for example, State Water owns 50 per cent of that and Victoria owns the other 50 per cent. With Ewston Weir and Wentworth Weir, we own 100 per cent, so on the one hand we have the ownership accountabilities and the need to return a rate of return on those assets to our shareholders, but on the other hand we are also suppliers of services. Both those options seemed possible and we just adopted the notional RAB, but in the future we would like to move towards a three-year capex forecast for those assets and better decision-making on asset investment in those assets.

MR COX: I am actually unclear as to how this notional RAB has been calculated. I looked to see if I could find that in your submission last night, and I could not find out what exactly you have done. Can you clarify that?

MR SIMONS: As a proxy to calculating the notional RAB, what we did was to look at the annuity component of the previous determination to determine what the revenue requirements were under the MDBC component of the total costs and converted that revenue requirement into a notional regulatory asset base.

MR COX: By discounting it 7 per cent?

MR SIMONS: Yes.

MR IMMARAJ: We have a diagram in the submission that shows that.

THE CHAIRMAN: Can I just indicate for the benefit of other people here that there are a number of assumptions that come into this calculation, including the notion that the WACC is 7 per cent, and at this stage I would like to say that the tribunal wants to consider this issue pretty carefully. I would not like to go further than that at this stage, but I noted the comment at the outset of the presentation that the RAB of 300 is equivalent to the annuity. That is something we want to consider pretty carefully.

MR REID: State Water, it would appear, has underspent in relation to the amount allowed in the 2001 determination. What has been the impact of that under expenditure in the southern valleys and has that affected services to irrigators?

MR BECK: It has not affected delivery, for a start. There is nothing that has failed, which is always encouraging. I can't think of a situation where a mechanical/electrical failure caused a non supply in the last ten years. There may have been some reduced supplies because of system operation, but nothing structural that has caused that sort of problem.

MR IMMARAJ: There have only been delays to some of our capex programs due to under-resourcing but that has not resulted in any failures of supply, non compliance with some regulatory requirements, which we have shown in our future works to be undertaken.

MR REID: I understand there has been a delay in the release of State Water's 2004/05 financial accounts. Is that delay and associated issues likely to impact on any of the figures in front of us today and will that have any implications going forward?

MR IMMARAJ: The delay is largely because of Audit Office requirements for clarification on calculation of the regulatory asset base for Fish River water supply, which is one of the entities that we took over on 1 January 2005. Using the Audit Office methodology they came up with a higher regulatory asset base than State Water came up with and that issue needs to be resolved if we are to avoid problems with the Audit Office. That has been a major reason for that delay. However, the International Financial Reporting Standard requirements are being reviewed and we have to demonstrate that we are prepared for that compliance as of 31 June this year. We are looking at that issue as well to make sure there are adequate notes in the reports. They will not have any material impact on the submission.

MR REID: State Water proposes that the entitlements associated with the conveyance licences held by the irrigation corporations should be chargeable. Can you explain in a little bit more detail why you believe that to be the situation?

MR IMMARAJ: Some of the irrigation corporations have been charged for them and we are continuing to make sure that they are invoiced for those charges in accordance with the previous determination. All conveyance licences are now equivalent to access licences, they are fully tradable, mortgageable, and the DNR advised us they should not be treated any differently to any access licences. We think that they should be included in the total entitlement available in the valley in the calculations.

MR REID: Can you remind us of the financial implications of that for customers?

MR IMMARAJ: The conveyance licences, where they have not been included previously and will now be included, as a result entitlements in the valley will increase because in the past they weren't, so the unit rate equivalent should drop as a result of that. But where they have previously been charged there should not be any difference.

THE CHAIRMAN: I will have to intervene to wind it up

here. I would like to thank State Water for its presentation and its readiness to respond to our questions.

DEPARTMENT OF NATURAL RESOURCES

THE CHAIRMAN: I now call on the Department of Natural Resources.

MR O'NEILL: I would like to thank IPART as well for inviting DNR to come and present at this regional forum. I am Rob O'Neill, Acting Manager of the Water Planning, Policy and Regulation Unit at DNR. I have got with me Mark Painting, who is the Acting RD of Murray-Murrumbidgee, Rick Rundle, our Principal Policy Analyst, and Matthew Cooper from the Allens Consulting Group who worked on the submission.

Today I will just run through three major things, just a little tiny bit of background, then I will give an overview of the statewide issues in our submission, then Mark will do the bulk of the presentation on regional specific cost drivers.

In terms of overview, the statewide hearings in November, I will not reiterate everything covered there but I thought it was useful, though, to try to expand on a couple of the major issues we talked about there, then hand over to Mark. Mark will cover a detailed breakdown of the historical activities that are in the submission and he will also cover a detailed breakdown of the forecast activities post '06 that are driving the costs in our submission.

In terms of a statewide overview of the major issues, there are a few different items I would like to cover. The first one is DNR's proposed cost recovery. By way of numbers I thought it was useful - I want to value add to the presentation done in late last year, not just reiterate everything, so I will try and explain from a different angle the cost recovery mechanisms that we are talking about.

To give you some numbers, DNR's 05/06 budget is $423m. These are the latest figures that we got from finance, so we are assured they are correct. Of that, we have excluded a number of items - all of the land use, vegetation and soil activities, the coastal and estuaries program; and we excluded the DG and all his support staff from the cost. That comes down to what we call the rivers and groundwater program, which is $134m.

Then we went through another stage of exclusions. We excluded all of the things that we are funding grants for separately, NHT for salinity management, Great Artesian Basin for cap and pipe bores; also a lot of funding from the Commonwealth Government through the Australian Government water fund for wetlands recovery. We have excluded DBBRC and MDBC relevant costs, WRM activities carried out by CMAs, and the water consent transactions. That breaks down to what we are calling the WRM activities, $53m.

If we look in a bit more detail, going down to the $53m level, the WRM activities, we have another round of exclusions we go through, which is our framework for cost recovery that is outlined in the submission. First of all, we looked at activities undertaken for the Government, so we excluded ministerial and parliamentary services, we looked at legacy items, which is dealing with past impacts. We then said, of the remaining activities, a proportion of those will be attributable to users and a proportion of those attributable again to the environment. We based this proportion on analysis of what we are calling the minimum standards and, based on that, we decided on a user share.

Our for basic minimum standard that we are talking about as a water sharing plan, we assume that is our minimum standard, so for items that were in excess of the minimum standard, funding for example for wetlands recovery or the LMI, which are considered over and above water sharing plans, is why they are payable by government. Everything else we are attributing to users based on our minimum standard. The details of each of the 60 activities and the cost recovery percentage are in our submission in appendix 3.

All of this breaks down to what equates to in the end is a cost weighted average of approximately 85 per cent of the $53m, which is $45. We are calling that full cost recovery, $45m, which is effectively saying 15 per cent of the WRM costs are not attributable to users.

I guess another way of saying that is that it is some sort of WRM subsidy from our perspective. This subsidy will be the subject of the IPART determination by looking at our recoverable percentages and also a function of the price path set by IPART.

Just to give you some more numbers to try to explain that a bit more clearly, I have also included some historical figures. I will do a similar breakdown. To look at the average historical cost for 01/02 to 04/05, about $ 43m. I have simplified these numbers to make it easier to demonstrate. The attributable costs from there, using the 65 per cent weighted average cost recovery, is about $28m, the notional revenue that we would collect based on the prices set by IPART for that period and the average use figure, not based on the actual use figures for that period, come in about $17m, which represents about 39 per cent of the historical WRM cost of $43m.

Effectively, we are saying that that comes in as a WRM subsidy of $11m, full cost recovery over that period would be $8m, notional revenue $17m.

I just want to cover three of the major issues that we are proposing in our submission as well. The first one is the simplified tariff structure; the second one is the removal of the discounts for the irrigation corporations and districts; and the third is the removal of the licence security premiums. With the simplified tariff structure, again it is important to point out here that DNR and State Water are now separate. We can actually separate out our WRM costs, and WRM does two functions, it protects the entitlements but it also protects the environmental requirements and the minimum standards, as I indicated before.

So what we are proposing is that WRM costs are a fixed cost effectively that should be based on entitlement. We do recognise that costs vary between water sources and between valleys. We are proposing in our submission that there may be potential for grouping of charges in a north-south direction for reg rivers and an east-west direction for unreg, meaning coastal versus inland, and some sort of consideration of the level of management for groundwater systems.

We also recognise that from year to year the costs will vary depending on the stage of water resource management that we are up to, whether development or implementation of our water sharing plans, and what we are stating is that WRM is not a function of water delivered, it is not a function of a licence class or security and

user efficiency should be driven by the tradability of savings, the market mechanisms put in place.

The second major issue is the removal of security premiums. Again we are proposing to remove the security premiums because WRM is now separated from delivery charges. We are stating, as I said before, that effectively WRM is not a function of security of supply or reliability. The unit cost of monitoring and managing entitlements is basically fixed and the costs of delivery of water is driven by infrastructure, so it is an issue with State Water as covered in their presentation.

The third major issue, and final one that I will talk about, is the removal of the discounts for irrigation corporations and districts. We are proposing to remove them. The history there is that the discounts were originally granted for metering tasks undertaken by the ICDs. DNR, as I said, is now separated from State Water, so we assert that DNR is no longer responsible for metering and water delivery and therefore the discounts should be removed. As State Water said, removal of discounts will result in increased charges for the ICDs and reduced charges for other users in valleys but no net change for DNR effectively.

Discounts could be replaced by some sort of appropriate fee for service. That fee for service will have to clearly define the services provided and the quality of the data, and the outcomes will have to be specified and, finally, there will have to be some sort of agreement between DNR and the ICDs on the level of benefit provided to DNR. We see this as a negotiation that needs to occur after this process.

So, without further ado. I introduce Mark Painting, who will go through a lot of detail on the regional specific cost drivers, thank you.

MR PAINTING: Thank you, rob, and thank you to the tribunal, and welcome guests and stakeholders, most of whom I think I know. For those I don't, I am Acting Regional Director in the Murray-Murrumbidgee.

I basically want to talk about the objective I have today of providing a bit of an overview of some issues in the Murray-Murrumbidgee for pricing and implications on our activities in the region, I want to specifically identify some of the issues we have talked about with the MDBC, I want to hear some of the other presentations as well as to get some perspective from the tribunal on some of the issues raised, and also some feedback from the users through the other presentations on how in this region our activities over the next couple of years will impact.

I will give an overview of the region and a profile - that will not be anything too new to most people - and I will talk about what has happened in WRM in our valleys in the last few years and where we see things changing from next year forward.

Basically the region covers the major valleys, the Murray and Murrumbidgee, including the Lower Darling system. Of course, that system is a regulated system. Collectively over 5,000 GLs of water are extracted in this region in those two regulated valleys alone, so it makes it about 80 per cent of the extraction of surface water in New South Wales.

We also have 44 unregulated subcatchments in the region, about 250 gauging sites in those water service systems, we administer about 7,000 licences in total, and that includes the eight groundwater systems, and of course we have four major irrigation corporations. The general population is around the 300,000 mark over 38 local government areas, and included in the region, both valleys, are some significant sites of ecological and cultural significance, and that area includes ten indigenous nations.

The Murrumbidgee Darling Basin Commission is fairly topical down here, particularly in the Murray Valley. Certainly it is unique to mostly the Murray-Murrumbidgee, especially the Murray. New South Wales shares the water of the Murrumbidgee and Darling with SA and Victoria. The MDBC is made up of the operating arm - certainly from an operation point of view, State Water will cover that - it includes regional programs such as a natural resource management arm, we do water quality, hydrographics, some salinity inspections and river management. Those aspects are funded to the regions so are not included in the submission because they are picked up in the government contribution.

As a general rule, River Murray Water costs are applied through the State Water Corporation and DNR picks up the national resource costs.

The total, to give a bit of a perspective on the Commission costs, for the current financial year the total New South Wales Government contribution was about $27m. Coincidentally, about $23m of that was actually returned to New South Wales, combined, to State Water and the department, but there is no correlation between those, it was purely coincidental. Based on the previous year's actuals, the total Commission expenditure of $104m included a $33.2 of national resource management cost. The New South Wales share of that was round about $8m - the New South Wales Government paid that - and of course not all of that was water resource management. That was the total cost that is then applied to the DNR system over appropriate valleys.

Going back over the last couple of years, since the last determination our activity has been predominantly planning, development of water sharing plans, and that included the support provided to committees, a number of river management and groundwater committees. With unreg systems we saw the introduction of the Water Management Act to replace the old Water Act, a lot of work is still being done there, and in that period there was severe drought which led to a lot of work in our monitoring systems.

The work in administration, administering those 7,000 licences, is included on the next overhead. That is ongoing work and we don't see much change over the next few years as that will continue.

The support provided to the committees in the last few years, a lot of that was technical advice. We had a number of committees operating in the region. Most of that work is finished. We are moving to implementation phases of the water management plans. The macro plan process for unregulated systems and groundwater is continuing. Of course, the ongoing work in the assessment of water availability is something that will continue as well.

The support provided in the past to the committees is that technical support level and again it was mainly about the support provided in the consultation process in developing plans. That was the last few years. Now we are at the present and as we move forward I will give a quick overview of where we are with the staff resources available to the region in DNR: A total establishment of 178, obviously not all of them on deck at the moment - about 155. Even if we are lucky and get away with some recruitment, that is not likely to exceed about 160 over the next few years.

We consider that about two thirds of that resource are involved in water resource management. After excluding projects that are already funded through various sources, including the money back from the MDBC, any other areas that are already met on a fee for service are excluded. Basically not included in that staff number in our region is an analytical services laboratory. We have a few of those people based in Leeton, but the majority are in Arncliffe in Sydney, and they are spread over all of the state. So, when it comes down to it, it is basically 60 EFTs in the whole area that we are seeking recovery of costs for water resource management. Based on the previous determination, or the last couple of years, it is basically an increase of about three EFTs based on the 04/05 levels.

The sorts of things we think will drive our work in the next few years: we are moving out of a planning phase and into an implementation phase, an ongoing transition from the Water Act to the Water Management Act, including the reporting for the water management plans, monitoring for the catchment plans, and of course we have already talked about the national water initiative as a key driver for a lot of the work we will be doing.

To meet those commitments, some of the major priorities in the region over the next couple of years will be the continual implementation of the water sharing plans, we need to finalise and implement the macro plans in unreg catchments, continual implementation of the Water Management Act, and the big challenge is the conversion of licences to water access licences with property rights. We need to do some work on our monitoring regime in the groundwater areas and we need to get meters installed to get a metering program in unreg catchments. Currently our groundwater coverage for the area is well into 90 per cent in groundwater, but single per cent figures in unreg systems. We need to get meters in unreg systems. We need to have a think about our monitoring program in the groundwater area.

Where appropriate we will be doing some work involving implementing some structural adjustment processes. The groundwater management systems, the Lower Murray, Lower Murrumbidgee, there is work going on there. We need to work on some steps to facilitate water trade. That is certainly a big driver. A rather new activity is the recovery of water for the environment, and related to that is developing some rules and processes to manage that more effectively, and that involves working out the timing to get the best environmental return on that environmental water.

We have already talked briefly that the department introduced a new costing activity structure. That was certainly very recent. We are trying to line this up. The four or five that I think we will change, or the most significant ones in our area, are surface water information, and obviously that includes our gauging network, our total number has not changed, but a few years ago these sites basically measured time and flow and that was about it. Now there is a whole range of information parameters that accompany each site and we are picking up turbidity, salinity, a whole range of things. Resources are still the same, we are coping with that, because the technology is better, for example, telemetry. And with the unreg, as we push the water sharing plans, implementation in unreg systems, we think that might have an impact there.

With groundwater information, we need to get a better handle on our groundwater resource - a minor impact, but we think some changes there. The water modelling and impact - there was some significant cost in there. We only had one EFT in each valley under that area. I suspect the costs in this include components of the basin salinity management strategy. This is where we see our largest increases. Basically it covers all the plans we have, including the review period, the groundwater plans and the macro plan areas. Some of those we had generally thought they would be pretty straightforward, some of the unreg systems, but it is becoming clear that a few of those systems will require some significant management. Of course, each plan has commitments and reporting that goes with it.

We are actually expecting a reduction in the planning areas, we are moving to an implementation phase, so no surprises there, but we still need some work in responding to blue green algae. In the last few years that has been much more than we would like to have mapped with drought and low flows in the Lower Darling area.

I have already said we don't see much change happening in the administration of licences and so forth. It is an ongoing activity. Consent transactions is processing transfers.

I took an opportunity to identify a few issues that I guess in a Regional Director capacity I would like to put on the table for our organisation as well as for others, maybe even for some future consideration of the tribunal. The main one, of course, is environmental water, and whether that it is a proper entitlement. Obviously State Water quite rightly expects to recoup the cost of storing and delivering that water. I don't think a lot of thought has been given at this stage, because there's not much of it yet, but as environmental water has an allocation, I don't think there's much thought to who recovers that cost, or who pays that.

Now, obviously at one extreme users will say, "Well, that's obviously for the benefit of the environment, so it's a government contribution." At another extreme, someone will say, "It's only happened because of extraction and existing things that have happened. Therefore, it's an impact on users and spread that way." So I guess that's just on the table for the future.

There is the issue down the track of whether any further thought might be given to impacts on the system for non-irrigation, especially in the Murray where the commercial and recreation use far exceeds any other system in New South Wales.

There's no doubt that we need to do some work in the future and work with State Water, customer service committees, and so forth, on improving our business relationships and have some more clarity about the work we do for and with each other, and we need to do some work internally on how we clearly identify costs to valleys and work internally as well. So they are, I guess, a few of my thoughts for the future.

Basically, in summary, in the Murray-Murrumbidgee, as we go through those areas of increased activity, again we

see the recoveries of costs, what translates to about three EFTs due to the expansion of the work under the national water initiative.

I guess that's it for me. I'm happy to talk about a few more of those specifics later with questions that are applicable directly to the region. Thank you.

THE CHAIRMAN: I ask the secretariat for any questions.

MR REID: There has been some recent publicity with respect to interstate trade and the allegation has been made that in some ways New South Wales stands in the way of greater interstate trade as well as the Living Murray's interest in allocations to the environment is concerned. I just wonder if you can clarify some of the issues associated with that - the impact on the amount of water that will be available to irrigators and how that may impact upon this determination.

MR PAINTING: Thank you. Certainly one of the major issues with the whole Living Murray and the recovery of water for the environment that has been very clear at all levels of government is that water recovered is not to come from existing irrigation entitlements.

Some of the major investments in water recovery having included 150 million, or thereabouts, for the Living Murray and 350 for recovery of the rehabilitation of the Snowy, the environmental flows to the Snowy. The costs associated with recovering that water are clearly identified as not included for recovery in pricing. So I don't see that there's likely to be an impact on availability because of those particular projects, anyway.

MR REID: The newspaper reports have highlighted two issues: the issue of property rights and the issue of tagging. Can you just clarify what differences exist between New South Wales and the other states on those particular matters?

MR PAINTING: That is basically more of a central policy issue rather than a regional one, but I'm happy to comment, having been in the Murray Valley for some time.

As we move to the implementation of the new

Water Management Act, we think that what will become a property right in New South Wales will be similar to the existing Victorian system. So we actually think that is a move in the right direction - certainly the national water initiative is supporting that type of move. The second part of your question was with asset tagging?

MR REID: Yes, that's right.

MR PAINTING: That is mainly in an attempt to try to facilitate water transfer, basically, because there has been some reluctance in some areas to do that, obviously because there is a large number of fixed costs associated with water. There are concerns that as water is moving out of areas, particularly in the irrigation corporations, it is a business risk to corporations, basically. Tagging was seen as a means of, I guess, facilitating trade that would see money eventually come back to where the water was managed.

MR SEERY: Your submission proposes moving away from the two-part tariff to a fixed charge per unit of entitlement. This proposal is a significant change from the direction that the department had previously been heading in with the establishment of a two-part tariff, and, if I recall correctly, the department was a little bit slow in moving away from the current area-based charges. Indeed, a number of representations have been made to the tribunal complaining that the customers or users have installed meters for the benefit of taking up this two-part tariff.

I guess there are two questions with your proposed uniform per unit of entitlement charge. The first is what actions have the department taken to manage the expectations of the users in regard to WRM costs, in particular in relation to the fact that users in a number of areas - perhaps not in the Murray-Murrumbidgee area, but certainly in a number of other areas - have not had allocations of water, and there's a concern that without that water being allocated these users are being asked to make a considerable contribution to the operations of the department? I guess actually that encompasses the two issues I have.

MR O'NEILL: To start with, we have to recognise that WRM is separated now from State Water. So DNR's assertion is

that WRM is not a function of usage, it is a fixed cost. If anything, you could argue in dry times it actually increases.

Now, we do recognise that there is some variation from year to year to recognise climatic variability, but certainly, if anything, it is a reciprocal relationship between dry times and wet times.

MR RUNDLE: Basically, we see setting the tariff on the basis of cost reflectivity, and WRM costs are predominantly fixed and actually rise - tend to rise - in drought conditions.

We understand that there may be some concerns with certain users who are obviously going to get bills when their allocation is very low, but it is not really the task of DNR to consider that issue so much as the actual basis of cost recovery.

I think, also, we have seen that water resource management charges and bulk water charges generally don't really serve as a demand management tool at all. Basically, irrespective of what the level of charges are, consumption tends to remain pretty static. Therefore, we don't see it as being an appropriate sort of mechanism to use in the circumstances.

MR REID: Whilst you have indicated that in some valleys you're only looking for an additional three full-time equivalent staff, the overall increase proposed in the costs to be allocated to irrigators is a very significant increase. I'm just wondering if you can indicate to us your ability to gear up, if you like, to deliver the program around which those costs are billed?

MR RUNDLE: Sorry, can you repeat that again?

MR REID: Whilst you have indicated in the slides that you are only looking at an increase of three staff for the southern areas, the total dollar increase in costs proposed to be imposed upon water users is much more significant than would be indicated just simply by the addition of three full-time equivalent staff - I'm talking about state-wide here.

My question is, given that very significant increase in costs, do you have the capacity to deliver the services associated with that increase in costs?

MR O'NEILL: I'll start with an answer on that. I think there are two components to how DNR provides its WRM activities: there's a head office component, which is approximately 50 staff, and then there's a regional component in each region.

From a regional point of view, I guess it is the region's responsibility to deliver the types of things that Mark has outlined here. From a head office point of view, we can say that we continually shuffle our resources to meet the demands of the priority work areas on an ongoing basis, and without any physical change of location, as much as it is an unsettling thing to do from time to time, it is not a particularly difficult thing to do.

In terms of regional issues in allocating resources, would you like to expand on that, Mark?

MR PAINTING: Certainly in terms of those relatively small numbers in EFT terms, there is a capacity to move our resource within the region. If we're not able to increase the total staff resource, we can certainly move within those limits.

What you might be referring to is how those EFT numbers translate into a number of costs, and I guess I can't offer much more value on that side because that was obviously put together by the central project team on the overall costing side. But certainly we provided the EFT details and, from a regional point of view at least, in terms of gearing up with those EFT resources I'm quite confident.

MR RUNDLE: The EFTs are three per region - I think there are 23 total on a state-wide basis - and that represents an increase over the 03/04 levels to 06/70, that two-year period. Basically, there was a dip in 04/05.

What we're saying is from 06/07 onwards we'll be getting back to relatively normal levels, and within that it will be a challenge for those extra EFTs to be able to meet those new activity levels because, in fact, we ideally would get more than that. We need a lot more EFTs, but that's the limitations we have got. We have got budgetary

constraints.

MR REID: At the Sydney hearing the Irrigators Council queried or questioned, if you like, the costs that DNR is attributing to the national water initiative. You have outlined a number of activities that have been undertaken here in response to the national water initiative. I'm just wondering whether you've had further discussions with the Irrigators Council on those activities and the additional costs associated with the national water initiative and whether you have been able to reconcile your two positions?

MR O'NEILL: Doug Miell is here today. I'm not sure if he is going to cover that issue. I personally haven't been privy to that discussion. I apologise for that.

MR MIELL: The answer to that is no.

THE CHAIRMAN: I think we might end it at this point. I would like to thank the representatives from the Department of Natural Resources for their presentation. We will have a cup of tea and resume again in about quarter of an hour.

SHORT ADJOURNMENT

MURRAY IRRIGATION

MS McLEOD: Good morning, I am Jennie McLeod, I'm the Policy and Communication Manager with Murray Irrigation based in Deniliquin, and I would like to thank you for the opportunity to speak to you today.

I have with me Gordon Ball, who is a Murray Irrigation director, and he is also a member of the Customer Service Committee South. Also with us today is Jeff Washusen from Marsden Jacobs Associates, who has been giving us some assistance with this inquiry, and Jeff will just comment on my last point.

Just in terms of introductory comments, this determination by IPART is pivotal in terms of impacts on water uses. It is also pivotal in terms of the financial viability of State Water and, having listened to the presentations this morning and having read the submissions between now and the end of March when you are planning to provide your draft report, there is an enormous amount of work to do in terms of drilling down into actual costs and efficient costs.

We have previously written to IPART expressing our concerns about the lack of concrete price information and the lack of State Water financial accounts, and I can only encourage you to ensure that water users have access to this information so we can provide you with detailed and constructive comments on the costs to help this determination because the ramifications of your decisions are critical.

First of all, we do support a financially viable State Water as an organisation that discharges its obligations it has to legally and to deliver services. The issue there is the efficient operation of the business and that is what I think we need to focus on.

Murray Irrigation also supports irrigators paying a share of the efficient costs of water supply. We don't necessarily agree with the previous water user shares that IPART has come up with and there are major issues in terms of drivers for costs and costs to provide services to water users versus costs that are driven by a community expectation of standards.

Looking at past State Water reports, looking at the conclusions from the work that was done by Marsden Jacob & Cardno, it would appear that the costs exceed the services provided to the water sector. We have some major questions, primarily about the last presentation from DNR, about what proportion of DNR's costs should water users actually be paying. We have had an very top down presentation. Perhaps we should look at a more bottom up presentation.

The last introductory comment is really to reiterate my first comment, that the views of IPART and its independence and rigorous analysis are crucial and we implore you as water users to exert your independence.

In terms of the key issues, and this presentation is relatively high level, we have got eight key issues that I will provide brief comments on. The first is the absence of cost information. The second is the lack of justification for improved services, or the outcomes that will result from the increased costs that are being sought by State Water and DNR, and the third point is the very significant impacts of the proposed price increases on Murray Irrigation and its shareholder customers. The fourth area is MDBC costs. The fifth is wholesale discounts; the regulatory asset base; some brief comments on cost sharing; and Jeff will comment about the weighted average cost to capital.

In terms of cost information, in the absence of detailed and verified cost information we are really asking the question, are the costs efficient costs? We have not got enough information about detailed costs to be able to give our opinion and our considered view, and to use our own cost information, as to whether they are efficient costs. I have mentioned State Water's accounts haven't been released. It is very difficult without valley-based cost and operating expenditure by activity to really provide you with good comments and Gordon Ball, a member of our customer service committee, will comment that the last capital and opex capital and operating expenditure budget and actual expenditure that the service committee was given is June 2003. That is the last set of detailed accounts Gordon has been able to provide me. Some members may have additional information, it is considered commercial in confidence, so we think that is a limitation.

This statement applies to both State Water and to DNR, where we have had a very top down - there is really nothing very much about what money they are spending in each valley, what it is being spent on and what the outcomes are or services provided.

In relation to MDBC, we need State Water's costs separate from State Water Murray costs that are not State Water Murray costs being done for River Murray Water or the MDBC. The same applies to DNR costs that are subsequently recovered through MDBC.

We need much better information. The irrigation corporations can provide you with some comparisons of providing some services which might be useful once we get this more detailed information, and an example is hydrometric services, which the irrigation corporations all use. The hydrometric services are put out to public tender and our cost per site is $4,649, that includes both the data collection and also the information management of that data. We think State Water and DNR should be looking at what are the outcomes they want to receive and where can they look to have their services contested rather than assume that they will just deliver them as an organisation.

The next issue is justification for increases in costs. At the last determination, the Murray was supposedly at full cost recovery based on the basket of costs and the information that was provided to IPART. You will see that the price increases proposed in the Murray are to increase substantially. We question how can this be justified. How will the services to water users be improved as a result of those price increases?

I think we are getting into an argument there about cost sharing. Just reading through the submissions of State Water and DNR, you get the strong impression that they are acting as monopolies and looking for increases, they have increased their costs and pass them all on to water users - new offices, more staff, higher salaries, because they can. They can send water users a bill. We feel very exposed by that and I think this falls on IPART to really look at the costs, the services and the outcomes. For example, with DNR, they talked about the extra costs and I don't think they clearly articulated what was the service they would provide or what was even going to be the outcome for New South Wales.

The conclusion from the work done by the consultants last year was that the allowance provided by the IPART determination was actually more than State Water's actual costs, so the key issue is justification for the cost increase. We are looking for you to make sure we don't institutionalise monopoly behaviour. That is a key role for IPART.

The next issue is the price rises will have very significant impacts on Murray Irrigation and the price impacts arise because of the removal of the bulk discount, the very significant increase in Murray costs, largely driven I agree by MDBC cost drivers, the change from a fixed collection charge to a greater proportion of a variable charge being collected. As an example of the price increases - and these were included in our submission - in a year when Murray Irrigation gets 75 per cent of water entitlement, the Government charge in this year's pricing would be 27 per cent of our costs. Under the proposal put forward by DNR and State Water it would increase the Government charge to 48 per cent of our costs in 2008/89, with price increases of more than 200 per cent.

The ramifications for Murray Irrigation are quite significant in terms of whether or not this price increase is going to have implications for the actual amount of water that is used within Murray Irrigation and whether it is actually traded out, potentially, to another state under interstate trade. We are talking about monopolies passing on their costs. Murray Irrigation is also a monopoly. We have to pass on the State Water costs but we are under intense pressure by our shareholders to be as efficient as possible and try to minimise our costs. Our water users can't pass on their costs, they are operating in competitive markets where they can't, their input costs go up and they can't pass it on into the marketplace. They are under relentless pressure to perform as irrigators in the agricultural markets to survive. They have to continue to be efficient and the price impacts that are proposed are going to make that task even more difficult.

It is really difficult to read this next slide, but this scale is Murray Irrigation's bulk bill, this is last year's and this year's determination, and this will be under 08/09 under different amounts of water diverted, so the key point is that the significant impact as a result of the changes to the structure of the determination and the increase in recovery and increase in MDBC costs, that is the key point, the point I made earlier about the significance of this determination. They are the same as what is in our submission, those figures.

The next area is MDBC costs and Deborah Kerr will comment about this area later. It is an area that has to be investigated by IPART. I have tried to look through what proportion of our costs MDBC are and it appears that they are about 75 per cent of forecast operating costs and 80 to 90 per cent of forecast capital costs. MDBC costs are a very high proportion of Murray Water resource management costs, although I am quite confused after listening to Rob's presentation as to what, for the $8m they have got for water resource management in the Murray, whether that includes or excludes MDBC costs. I think we need more information there.

It is an area of important public policy. MDBC costs have been increasing rapidly since 2001, both in the River Murray Water budget area and the DNR budget area. It is interesting that MDBC's annual report for 04/05 didn't actually say what their budget was and didn't say what River Murray's budget was. We have to look to the previous annual reports.

Key points about MDBC costs: Its activities are not subject to competition. IPART has no role in telling MDBC what their costs will be. I suppose that is a difficult issue for this determination, but it is a monopoly, it is having very significant impacts on us and I think you need to have some judgments about whether they are efficient costs or whether, if they are inefficient costs and the costs are caused by government institutional structures, why should the irrigators have to pay for them? We have this very circular arrangement with MDBC costs where their partner in government approves the budget and to a large extent cause the costs in River Murray Water. They report in last year's financial report that 84 per cent of their expenditure was actually paid to state authorities, so where the incentives are to create more efficiency and to really consider outcomes I am not exactly sure.

The next comment, and I know a little bit about what happens at MDBC and State Water, I have relied on publicly available information and information in the submissions,

but I think it is impossible to work out what water users are actually paying for in terms of MDBC costs. I refer to both River Murray Water and the national resource management costs. The Living Murray I think just clouds the issue. An example is in the Living Murray there is a program called Works and Measures where $150m has been allocated by government. A component of the Works and Measures is fish passage.

The proponent is the Murray-Darling Basin Commission. If a large proportion of the work is still being done through River Murray Water, are those costs part of what every water user pays or are they excluded? Are we only paying 50 per cent of this $150m that most irrigators think governments have allocated? Is a proportion of that being recovered? I might be wrong. Maybe we are not paying for it, but you can't work it out.

Another example is easements between Hume and Yarrawonga. Hume Dam developed a crack so they had to release a whole lot of water, so they flooded out people downstream for dam safety reasons, and that was nearly 10 years ago. They're still working to develop a negotiation package to pay compensation - not compensation to people, but to purchase easements which gives them the right to operate the channel. They are not actually talking about operating at a high level, they are actually just talking about operating it at the current level. Now, that is a program. It is in works and measures. It is actually being done by River Murray Water. So are irrigators paying for all of that or aren't they paying for all of that? You just can't work it out.

I have mentioned efficiency. I would argue that they are not efficient costs and cannot be because of their institutional structure.

The next point, which is relevant, is the sharing of MDBC costs between states. The cost-sharing formulas are described in State Water's submissions and they are broadly based on volume with a premium for security for South Australia. Now, I would argue that that leads to New South Wales paying a greater share of MDBC costs.

If you actually look at cost drivers, and if you were to look at MDBC costs in terms of cost reflectivity, all the costs aren't related to volume. There are a whole lot of other drivers - for example, structures. There is an enormous number of structures in South Australia with a very heavily regulated system not related to the volume that South Australia extract.

When you compare Murray prices per megalitre with the rest of New South Wales, if volume was the driver, they should be lower because the volume in the Murray, when you consider New South Wales, Victoria and South Australia, is much higher, just like the unit price in the Murrumbidgee is lower than, say, the Gwydir. But we have these other drivers that relate to structures and they relate to community standards, and it has a flow-on impact on the price that New South Wales Murray users pay.

The next issue is once New South Wales gets its costs that it needs to contribute to, how are those costs shared between valleys in New South Wales? There have been some prior determinations made through the IPART process. I suppose the question I ask is whether the MDBC and its integrated resource management delivers benefits to New South Wales that are wider than just water users. Many of the drivers of costs at an MDBC level are actually changing community standards, so I think there needs to be a re-evaluation of what proportion of those are paid by New South Wales Murray, what proportion are paid by other irrigators and what proportion are paid by New South Wales government on behalf of the people of New South Wales.

Wholesale discounts. We've heard State Water and DNR say there's no rational reason for them. We say there are a whole lot of rational reasons for bulk discounts. There are issues like accuracy of diversion. There are things that we do that State Water don't have to do and DNR don't have to do because we do them, which means that their costs should be less. Their billing and metering and water account management: if they only had two irrigation corporations to deal with, they wouldn't need the sophisticated systems they have had to develop because you'd be able to do it with an Excel spreadsheet.

So because we exist, many of the things that they do actually aren't all that relevant to us as an organisation, or could be done more simply and more cost effectively if there were only irrigation corporations. But there aren't. There are all these other little river pumpers and diverters that need these more sophisticated

systems. These comments here are about DNR and State Water.

In terms of licence compliance, the irrigation corporations have licences which are aimed at managing the environmental footprint of those irrigation corporations in their regions. Most of the irrigation corporations are actually involved in environmental activities in terms of land management and waterway protection that actually go beyond compliance. There are a lot of benefits associated with what the irrigation corporations do that justify an argument for wholesale discounts. If everybody else was able to provide broad-scale economies of scale, some of the activities DNR are doing wouldn't have to be done in the way they are proposing.

The shift to higher variable charges, whether you keep the bulk discount or not, will greatly dilute the benefits they provide to the irrigation corporations anyway, but I think it is an opportunity to rethink with the sound knowledge of what the irrigation corporations' contribution is to the efficient supply of water functions; the relevance of cost services provided to irrigation corporations; and the contributions that the irrigation corporations make to the delivery of both State Water and DNR objectives.

The notional RAB was raised earlier. This relates to the MDBC. New South Wales currently doesn't pay an annuity to the MDBC. They basically pay whatever the amount they approve is for the budget, although an annuity has been included in the IPART determination. I'm sure our annuity contribution isn't sitting in State Water's bank account to come back at a future stage.

River Murray Water have an annual operating surplus which gives them money for capital and investigation, which in some ways contributes; we're providing a capital contribution through our annual payments.

We are really questioning whether this concept of a notional RAB with a user share has any sensible basis, because the MDBC aren't using an RAB, so I don't understand the logic behind trying to come up with a notional cost for the MDBC.

The next point is in terms of this issue of the user versus government share of the RAB. I'm not quite sure how State Water have calculated that and what the impact is of the "line in the sand" approach. What I do know is that the RAB is a very significant driver of the costs that they are expecting to recover from the Murray.

What is left unanswered - and I think we need to discuss this further when we get perhaps some views from IPART about the notional RAB - is how we deal with the Murray contribution to future MDBC capital, given that the MDBC are not planning to have an RAB.

Cost sharing. I think I have covered these issues. There are a few things, like DNR changing the cost codes does confuse the issue. We have major questions about the accuracy of cost allocation. We really are wondering, with the separation of State Water, whether we should be having to pay a very large contribution to DNR for water resource management functions, and I think we need to explore what it is that they are planning to do in the regions and what the outcomes are going to be, because it certainly wasn't clear from the presentation today. The impression you get is that "water users are going to pay because we can send you the bill."

I will now get Jeff to comment very briefly on an issue that he knows a lot more about than I do.

MR WASHUSEN: I won't get up and stand at the lectern there. We covered this off in the brief submission that we prepared for Murray Irrigation and Coleambally Irrigation that went to IPART. The essential message we are trying to get across is that the weighted average cost of capital is a very difficult concept for water users to understand, and the way that IPART deals with it through the pre-tax model adds a fair bit to the lack of transparency in the way it is dealt with.

In particular, we have suggested that IPART adopt a similar approach to that that has been adopted by the Essential Service Commission, and that was partly to try and provide transparency particularly about the payment of tax.

I don't need to bore everybody in the audience with the technicalities of this, but that's essentially the basis of the plea, that IPART can do more to make this a

little more comprehendible to consumers or to water users. I would never try to claim that it is possible for water users or any consumers to ever understand exactly what the weighted average cost of capital is and what the capitalised pricing model does, but that's the essential plea.

The second one is to make far more transparent to water users what benefits the New South Wales Government gets out of tax equivalent payments, which is currently hidden in the pre-tax version of WACC, and that allows a couple of things to happen: it allows for benchmarking comparisons with other water businesses in other jurisdictions and it also provides notionally, in the theory of economic regulation, an incentive for regulator utilities to actually seek to minimise their tax through legal arrangements.

Now, whether or not that is possible in an environment where the shareholder happens to be the government and also a major beneficiary of the tax equivalent policies is another issue, but at least it makes it clear to water users just how much of the money they are paying for water services finishes up in state treasury.

MR SEERY: Thank you, Jennie, for your presentation. You discussed in some depth your issues regarding the discounts, and you indicated that the tribunal needs to have sound knowledge of the irrigation corporations' contribution to supply of water to their users.

The tribunal is critically concerned about this issue of wholesale discounts. I should point out at this stage that the tribunal has engaged the Centre for International Economics to undertake some analysis for it, and so they will be contacting a number of users, irrigation corporations, State Water and DNR to elicit some of this sound knowledge that you have and you will be able to share it with us, so we would appreciate it if you could do that.

I asked this question of State Water, and I'm not sure that they were able to answer it: perhaps, firstly, you could tell me if you can understand why the discounts across the various irrigation corporations vary so greatly.

MS McLEOD: I will endeavour to answer that question.

Murray Irrigation does receive the largest discount. I think it is worth pointing out that it is not only the irrigation corporations, but there is a number of large private schemes that also get a discount, for example, West Corurgan and Eagle Creek, which aren't irrigation corporations, and they probably provide different information services to State Water. So it is not just irrigation corporations we are talking about.

In terms of why the differential, the strongest argument, I think, for why our discount is greatest probably relates to the importance of our infrastructure in terms of the efficiency of water delivery in the Murray. Murray Irrigation has the capacity to pass water through our channel system and bypass a major channel constraint in the Murray river, and that diversion is used extensively by State Water and also River Murray Water to pass volumes through our system, and, yes, we do get paid based on a complicated formula for that volume, but there is this broader issue of the whole efficiency of the Murray operation that is improved by the capacity to use our system and also by the iterative process that occurs between us and State Water in terms of managing water delivery and demand for all the water users in the Murray.

State Water, the local operations manager and our organisation endeavour to work together cooperatively to achieve the best result, because by using our system it is actually much more efficient in terms of water delivery; the losses are less and it is quicker in terms of time. So there are actual benefits for MIL, but there are also benefits to wider users. So that is probably the key point. We also divert water into the Billabong Creek system, which helps the Murrumbidgee system from an efficiency and time point of view.

So that is probably the major reason why our discount is larger than the other irrigation corporations. Licence compliance requirements and the information provision are similar between the other irrigation corporations and ourselves.

MR REID: Thanks very much, Jennie. Obviously you have raised a number of issues and questions, and I would obviously be interested to get State Water and DNR's response to those later in the day.

I just have one simple question, and this has probably been answered before, but I just want to clarify the issue of water losses and who bears those; in other words, the charging basis to Murray Irrigation. Are you charged for the water taken at the one point or who bears the losses within your system?

MS McLEOD: Murray Irrigation's diversions and accounts are paid on the basis of our diversions and our offtakes. With the issue of who pays for conveyance losses, which I presume is behind your question, the main point we wish to make there is that there needs to be consistency in the application of the policy for conveyance losses. If there isn't consistency, you're not comparing apples with apples and you're treating different groups differently. We currently pay, Murrumbidgee don't pay. Probably paying is the right way, but the important issue, I think, is to ensure consistency so there is equity between licence holders and water users.

THE CHAIRMAN: I will just ask one question: I have noted your comments about the transparency of MDBC charges, et cetera, but an issue that is before us is that State Water has proposed to include the MDBC capital in their RAB base. The alternative, as I raised earlier in the day, was not to include it, but to just pay a charge to the MDBC. Do you have a view on whether it is better to include the capital, whatever the right capital ought to be, in the RAB base or to pay a charge straight to the MDBC?

MS McLEOD: You mean Murray Irrigation or State Water?

THE CHAIRMAN: Yes. We've got an alternate approach. We can follow the State Water proposition, which is to extract the capital MDBC has and include it in State Water's RAB base, or, alternatively, we can leave the capital with MDBC, but then State Water would pay a charge to MDBC which would then be passed on to you.

MS McLEOD: I think there are two questions there. One is about what is in the best interests of New South Wales in terms of how they provide capital funding to MDBC, and as a government it has got access to lots of capital. I think they should be only providing capital to River Murray Water as the capital is required in their budget; the lumpiness shouldn't be such a major issue.

I think the question you're getting at is, as water users, how do we want to deal with how we pay capital, which is subsequently going to have to come at some stage to River Murray Water, to avoid the lumpiness issue for water users. Is that your question?

THE CHAIRMAN: Well, you proceed.

MS McLEOD: Well, I don't want to answer the wrong question.

THE CHAIRMAN: At this stage, we have just been invited by State Water to include that capital in their regulatory asset base, but there is an alternative way of doing it and I'm just interested in your views.

MS McLEOD: Previously they have had an annuity, but they haven't been paying an annuity to River Murray Water. River Murray Water wanted an annuity, they have been including an annuity, so we have been paying.

Now, they are proposing an alternative, which is an RAB, and in terms of the rest of State Water's expenditure, there's quite a lot of logic to that.

The question I have with the MDBC is where is the logic of it when that is not the process that MDBC are following? From what Abel was saying, he's hoping that they might jump on board with the RAB. I suppose, as a water user, given that the RAB is paying a return to government which we currently are paying through the River Murray Water capital charges, I think I might prefer to stay with the way we are. But whether Gordon has another comment? We might prefer to give you a comment later on that.

MR BALL: It was a bit of a question without notice.

THE CHAIRMAN: I am quite happy if you want to think about it.

MR BALL: One of the comments that I would make is that at the moment we tend to be focusing on major structures, things like regulators and lochs and weirs, and that type of thing.

There's a new stream coming in where State Water are taking over the operation and maintenance of the salt interception schemes that are in New South Wales, and South Australia will be operating the ones that are in South Australia. At a program level the cost of those can vary a lot by the way they are operated.

Murray Irrigation has a deal of experience in salt interception schemes - we happen to run one that probably diverts more salt than all the MDBC ones put together, so we know a little bit about how altering the operations can vary the costs, but we will have no say, particularly the ones in South Australia, in how they will be operated, and that can then flow through to our cost structure without any real input.

To some extent, that is also the case for the lochs and weirs, and there are some real hazards, I think, in going to that regulatory approach rather than the annuity one where you really perhaps do get a bit of a chance to have a say about the way things are happening on a regular basis.

THE CHAIRMAN: Thanks. The proposition is from State Water; it is not without notice, it is in their submission. But if you would like to think about it and come back to us, that is fine.

Can I now wind up this part of the session and thank Murray Irrigation very much for your presentation.

MURRUMBIDGEE IRRIGATION

THE CHAIRMAN: I will invite Brett Tucker and John Howe from Murrumbidgee Irrigation to come forward.

MR TUCKER: Good morning. Brett Tucker is my name. I'm the chief executive of Murrumbidgee Irrigation. I have with me John Howe, who is our policy manager within the company, and we would like to firstly take the opportunity to thank the tribunal for allowing us to present today and follow up our written submission.

Our first comment today relates to the issue of externalities, and the use of the picture on the first slide is no accident. This slide is an artist's impression of the before and after of the rehabilitation of a swamp near here called Barren Box Swamp. The dead trees on the left-hand side relate to years of excessive water inundation, and the artist's impression on the right-hand side is what we're hoping to regenerate it to.

We mention this as an example of addressing external costs associated with water access through direct investment and improved water management. The project will not increase the cost of water delivery in the MIA because the water savings generated are directed to the environment as a purchasing beneficiary. We should also remember that not all externalities of variation are in fact negative.

We believe that addressing externalities through the price of water delivery is not appropriate. If direct investment and efficiency gains are not sufficient to mitigate the externalities, then they should be addressed directly via policies such as the CAP and trade, environmental flows, the Living Murray and national water initiative. The scarcity value of water should be reflected in the product, not in the delivery of the product.

Questions about externalities only serve to divert attention from whether the delivery is in fact efficient and whether there is an equitable share in those efficient costs. Our concerns about issues of efficiency and fairness are highlighted in the following charts.

We agree with Murray Irrigation that we have insufficient information to be able to determine whether,

(a), the costs are legitimate and, (b), whether they are fair and equitable and efficient. To provide some guidance as to how State Water or bulk water charges are tracking, in the graph that we have presented here the top line represents State Water's costs since the benchmark here for us, and let's assume it is privatisation in 1999.

Since that time bulk water costs have increased in real terms by 10 per cent. Over the same period, our costs within the company have decreased in real terms by 10 per cent. So do we think there are some efficiency gains to be made? Absolutely. Do we have enough information to be able to drill down into those costs of bulk water charges? No, we don't. There are some opportunities there, in our view.

The charts in this slide were drawn from last year's IPART determination for regulated rivers, both State and DNR, for all valleys. They show a level of cost recovery by valley for regulated rivers. The Murrumbidgee Valley was shown to be almost 120 per cent of full cost recovery for both State Water and DNR costs. It also shows that some of the other valleys are not at full cost recovery.

State Water and DNR tell us that such over-recovery is both temporary and a year-to-year phenomenon. In other words, that unders and overs will balance out in the longer term. They even argue against COAG principles that such an unders and overs approach is efficient, yet they both acknowledge that the subsidy for, say, the Peel Valley and coastal valleys will be required for many years because of the low customer base.

So where does our over-recovery go in that case? Surely the objective is to get to 100 per cent cost recovery and stabilise at that point, not run a system of constant overs and under. If the current system is perpetuated, we certainly look forward to the day when our over-recoveries are returned to us.

In relation to the efficiency of operating expenses and capital expenses, the submissions, once again, contain ambit claims with significant information gaps in the data presented. Customer service committees do not get adequate information on the cost drivers of the business. As a result, the customers tend to rely on IPART for protection, yet IPART doesn't have the ability or the resources to be able to drill down into the structure and the costs of the business. That can only be achieved at the valley-by-valley level. What is required, effectively, is zero-based budgeting in order to understand those costs.

There is absolutely no contestability for some of these costs. It was interesting to listen to State Water this morning about overhead apportionment. It appears we are still using buckets of counting to apportion overheads between valleys - that is, your share of overheads in this valley or our share of overheads in this valley are related to the number of full-time equivalents. They have nothing to do with the service delivery in this particular valley. So, for example, I presume they could run an expensive legal case in one of the other valleys and because we happen to have more EFTs down here then we would cop the lion's share of that expense irrespective of whether that related to us or not.

What we do know is that the costs of comparable services are way above those for Murrumbidgee Irrigation - in some cases a factor of 10 difference between comparable services.

We are firmly of the view that DNR staff believe they work for the government when, in reality, the people that are working in WRM that we're paying for effectively are working for us. I don't believe that philosophy exists amongst the staff.

State Water Corporation and DNR spend much time on non-commercial activities. Focusing on policy and water savings projects and the likes in our view are non-core business and they ought to focus on efficient operation of water delivering.

The programs within State Water budgets particularly contain projects that either won't proceed or are unlikely to proceed in the next couple of years or are simply not needed. We don't believe there is any rigour in terms of project prioritisation or development. There are no significant benefit cost analyses done. There is no risk management in terms of some of the capex programs particularly, and until you apply that rigour, then I don't think we can treat the budget estimates as credible.

In short, State Water Corporation and DNR are not at

all responsive to commercial demands and drivers, and we believe that there is a strong argument for extending the philosophy of the "line in the sand" decision until this takes place.

Just quickly, this chart shows our primary concern in relation to capex estimates. Society has reached conclusions over the years, rightly or wrongly, that there has been past over-investment in river regulations, yet State Water Corporation's budget suggests we are entering a boom phase in asset refurbishment relative to past capex and certainly relative to past submissions.

The information on the left of that vertical black line represents actual capex and, moving forward, the red line represents State Water Corporation's last estimate in terms of capex. The blue line represents their current estimate.

There is an enormous disconnect between respective estimates over the years and certainly between actual expenditure and estimated expenditure. In our view, State Water is using inflated projections of capex to manipulate the RAB approach and as a consequence is raising additional revenues. Just by way of comparison, if we adopted in our companies the same approach that State Water is suggesting, we would in effect double our asset charges each year to our irrigators, currently $2.5m, it would increase to $5m for no legitimate reason. In short, we seriously doubt that State Water's asset management will be jeopardised by RAB and certainly they should be using actual information for the calculation of RAB rather than budgeted capex information.

In terms of wholesale pricing, as we have called it, we have actually purposely dropped the term "discounts". The issue is about appropriate wholesale pricing. The use of the word "discount" implies that somebody else is by default providing a subsidy. Firstly, can I say we don't accept that we have been cross-subsidised by anyone in this valley. Indeed, if we had access to more of the cost information, we are confident that it might in fact demonstrate that it could be the other way round.

In 1998/99 IPART in its determination set the price differential between irrigation corporations or wholesale pricing compared to others. It was driven by three factors: The first was the prior recognition of that by the Department of Land and Water Conservation where they recognised that the delivery costs and servicing costs were lower. IPART agreed that there were lower delivery costs and it was also to avoid spillover benefits to others because of economies of scale by wholesalers.

State Water's justification this morning for the removal of wholesale discounts was on the basis that if you take it away, remove it for the irrigation corporations, then the price can come down or alternatively the price must go up for others, lacks credibility. We believe they should remain for the legitimate reasons that Jennie identified before, including servicing costs - lower servicing costs. It is interesting to note in State Water's written submission that they made the claim that servicing 10 megalitres of river pumping entitlement is the same as 1,000 megalitres of irrigation, yet the presentation is contrary. Our unit costs are 1 per cent of that of river pumpers. That is certainly not reflected in the current charging.

The increase in benefits of scale potentially captured by others is the other reason why the discounts, or the pricing, should remain.

What is required is a study into the issue of wholesale pricing and, on the basis that we can agree to a rigorous study that is driven by the customer service committee, we accept that the issue of losses should be put on the table and should be incorporated into the calculation of bulk water pricing provided, as Jennie indicated earlier, that is done on an equity basis and all losses are incorporated into the calculation.

Issues of fee for service for the provision of information, et cetera, should be treated separately. Of course, the acid test for wholesale pricing is really this: if State Water is correct and there are no economies as a result of our corporations and therefore the unit price should be the same then in theory if our 3,000 customers suddenly became customers of State Water and we ceased to exist as a company, in theory their costs should remain the same. We don't believe that to be the case.

In terms of Murray-Darling Basin Commission costs, we concur with them, they have every reason to be sceptical

and nervous about MDBC costs. There is still no robust and transparent method for allocating these costs. What we believe is that an IPART-type process needs to be followed to understand what is happening, what are the efficient costs, avoiding duplication, how can these costs be shared, including the current non paying customers. In terms of MDBC costs coming through State Water, they should pass through and they should not be clipped again as they come through.

In terms of DNR costs, allocation of costs amongst users and valleys is very difficult to fathom in their submission. Until a robust and transparent method is provided in dealing with their costs then the current plan should remain.

That brings me to the issue of RAB versus annuity. We support in principle the RAB approach in our written submission. We certainly don't support the way that State Water applies it. RAB and annuity should not result in significantly different charges. The main difference in the way that it is being applied is creating a ratcheting effect of budgeted RAB. Instead of using actual expenditure on capex loss expenditure they are using budgeted. There is a strong incentive to put inflated budgets in place to lift your rate of return. Annuity, on the other hand, is far from ideal but it certainly provides a higher level of budget restraint in the short term, and naturally we remain keen to explore the basis of RAB.

State Water, we do not believe, is sufficiently customer orientated to allow RAB at this stage. There are still insufficient protections in place. As a consequence, the RAB for State Water should be deferred until we have that sound basis. In respect of MDBC, RAB is simply not appropriate. It is difficult, almost impossible, to get a handle on what their actual costs are, so you can never get to a sound basis for RAB.

In terms of consumption forecasts, it has been proposed that we might in this submissions use lower consumption forecasts in order to stabilise cash management within State Water by as much as say one standard deviation belows the average. In that case, it would result in overcharging by at least 14 per cent in our area. We ask the question, how would surpluses in the good times be given back? We have no confidence that would take place.

Cash management risks should be addressed directly and one possible mechanism for this is to apply the proportion of government revenues as fixed charges for the non-commercial customers, if you like, given that we have heard this morning that a lot of the services are irrespective of how much water is used.

The proposed reduction in fixed revenue for State Water is only provided that we protect the value of the relative pricing or discounting. As fixed revenue declines, that has the potential to change the proportion of distribution.

All contestable water resource management services should be contestable. Those remaining, such as licensing and dealing in entitlements, et cetera, should be on a fee-for-service basis.

In terms of cost sharing arrangements, we believe the current IPART framework is good. The next step is to become more value orientated in that approach. In terms of the high security premium, we agree with the recommendations. Indeed, in the past we have worked with State Water to try to arrive at a more equitable level. We supported a slightly lower charge or premium for high security. We don't agree with DNR's submission that there is no differential between the two. In fact, it was interesting listening to DNR this morning that WRM costs are purely based on entitlement irrespective of security and usage, yet there is no justification for why that is the case. I simply ask: two irrigators beside each other, one with double the entitlement, how do they drive twice the water resource management costs? That justification needs to be provided before you can support the position of DNR. As I said, it is unlikely to be based on entitlement alone. Until then we should maintain the current security premium.

Just in concluding, some comments were made this morning in relation to the irrigation corporations support for tagging as an approach. Can I just say for the record that tagging, we certainly favour, but it has nothing to do with revenue risk for the company, it is all about water property rights and protection of third party interests, including the interests of the environment. I just wanted to say that for clarification. Thank you.

THE CHAIRMAN: Thank you very much for the clarity of your presentation. Notwithstanding that, there will still be some questions.

MR REID: Thank you very much. Two matters that arose after the last determination which caused some concern: One was the issue of conveyance licence and whether the conveyance licences held by the irrigation corporations should be charged. Another matter was the Yanco Creek levy. I am just wondering whether you want to expand on those two matters?

MR HOWE: I would probably cite those two, certainly the Yanco Creek, as an example of the benefits of a valley-based approach. It snuck through the IPART process but when dealt with at the customer service committee level it was fixed quite quickly in an efficient and fair way.

MR TUCKER: And in relation to the second issue of incorporating losses into the calculation of bulk water, we accept that the losses should be incorporated provided it is done on an equitable basis and provided we first have a look at the full issue of relative costs of service. It has to be part of a broader study rather than lumping it into change the distribution of costs.

MR REID: One of the matters I suppose we have not really covered this morning is the question of service quality, whether State Water and DNR are actually delivering the services that these costs support. Do you want to comment on the services that are delivered and the quality of that delivery?

MR TUCKER: Certainly that graph that we presented earlier of the 10 per cent real increase in costs versus our 10 per cent real reduction in costs, during that period we would regard that we have had no noticeable increase in level of service so in our view there is no justification for that increase in costs. It has not been reflected in service levels at all.

MR HOWE: In addition, I think we would make a claim that there has been a very substantial increase in service standards along with the reduction in costs of the services that Murrumbidgee Irrigation provides.

MR REID: So as far as your own reduction in costs are concerned, where did those reduction in costs come from and how could they be applied to the operations of State Water and DNR?

MR TUCKER: Certainly in relation to operating expenditure we have actually had some increases in our management of WRM costs as a result of additional imposts placed on the business, but in opex considerable reductions over time.

MR REID: Where have those reductions been achieved?

MR TUCKER: Just generally across the board in terms of numbers of staff, the way we deal with plant, machinery, efficiency, utilisation of our assets, administration - it is across the board and not in one particular area.

MR REID: And do you believe that approach is directly applicable to the operations of State Water and DNR?

MR TUCKER: Absolutely. Well before privatisation, prior to the separation of Murrumbidgee Irrigation from State Water, it was something of the order of 450 staff in this area. We now run the company, provide a higher level of service, with 180 staff. That trend has been happening for well over a decade now.

MR HOWE: Can I clarify one thing. In our presentation we do not under any circumstances support DNR, State Water, whoever, to roll into their own capital a RAB for another commercial entity. You were asking about that so I felt it worthwhile to clarify.

RICEGROWERS ASSOCIATION

MS KERR: Thank you. My name is Deborah Kerr, Policy Manager. To my left is Laurie Arthur, President of the association.

I would just like to initially thank IPART for the opportunity to comment on the bulk pricing review that is currently being undertaken at this current workshop.

I suppose, just some opening comments, one of those is the unavailability of the consultants' reports, and I refer to both the consultant's report on the impact of bulk water pricing increases on irrigators and also your own consultant's report into the opex and capex of State Water. We believe that once those reports are available we will hopefully be able to make more substantial comments on the detail of opex and capex.

There has been, I will reiterate here, the same comments of other people, substantial difficulty in trying to assess what the costs are for State Water, DNR, and a separation of those into MDBC and River Murray Water. That includes the full costs for River Murray Water and MDBC as well as the user portion of those costs. We are significantly alarmed at the substantial price increases forecast for the New South Wales Murray Valley in particular and we note that that is substantially around the River Murray Water MDBC costs and that the Murray Valley and Murrumbidgee Valley together contribute presently about 68 per cent of the revenue for State Water, so a significant cost driver for the State Water business as it is. We believe that the submissions set a new bar for cost recovery for both State Water and DNR.

Just in regard to opex and capex for State Water and DNR, as I said there is an inability to define the full and user shares of the costs for those charges and that is due to the lack of detail provided in the submissions. The actions of other agencies always has an impact on the pricing decisions or the prices of in particular capex for State Water, and an example of that is fishways deferred in the Murray Valley because of an inability to decide on what type of fish passage should be included, moneys are collected from irrigators in forecast of that expenditure happening but it has not happened, so is there going to be some double dipping of capex going forward? In that case, we don't believe that irrigators should actually wear the cost of any price increases that occurred because of the deferred decision. That should be the responsibility of the agency that is deferring the decision.

If you accept that the figures provided by State Water and DNR are efficient and prudent, which we don't, then there has been a substantial cost increase since the 2001 IPART determination, in the order of 127 per cent for State Water alone and 109 per cent for DNR, and that is excluding MDBC costs, so substantial increases expected from irrigators. In 01/02 through to 2010/11 we are looking at a substantial increase, and the ability for irrigators to pay for that must be part of your determination, as it is.

The proportion of costs for River Murray Water in State Water's submission is around 20 per cent, so quite substantial in itself. That does not vary greatly to the 2010/11 prices being sought.

We don't accept DNR's request for uniform groupings of charges between valleys. Irrigators in all valleys in New South Wales have strongly supported valley-based accounting to ensure there is no cross-subsidisation between valleys and this should continue into the future. We reject that claim by DNR.

The process in which State Water has a customer service committee set up, whilst there are difficulties in each of the committees with the provision of cost information at least there is a process there for State Water. There is no such process for DNR. There is no onus on them to negotiate or liaise with irrigators over their opex or capex prices, so we would actually support some type of similar process so that information is provided and that irrigators, stakeholders, have an opportunity, as each year goes by, to actually have some say in how those costs are incurred.

As Jennie indicated, I want to spend a little bit of time on MDBC costs. Last week we were informed that they have a new approved budget of $92m. That is from next year. The submissions by State Water and DNR have a substantially higher budget included in their cost forecasts, so I think initially there must be an adjustment for the newly approved budget. As part of the customer service committee in the Murray Valley we have been

provided with commercial in confidence information which was to allow the committee to gain a better understanding of the cost drivers for infrastructure in the Murray from MDBC and River Murray Water. There is a disparity between that information and the information contained particularly in the DNR submission for MDBC costs. In fact, the information provided to the committee is less than half of what is claimed in the submission, so we would be strongly questioning whether that information is accurate and, if it is accurate, then is this double dipping? Is there something happening between the valleys and head office? Is it a way of head office trying to over-recover from users? There are a lot of questions about that disparity.

The DNR submission, if it is taken that those figures are correct for MDBC, then there is an increase in recovery of costs from users to the total New South Wales share of costs over time - 49 per cent to 56 per cent to 61 per cent over the same period. So we have to ask questions about whether those costs are efficient or whether there has just been an increasing change or cost shifting to irrigators.

If you take the customer service committee figures as correct then the cost recovery from users is in the vicinity of between 23 and 29 per cent, so again the question needs to be asked, because there is a disparity between those two areas.

If we again try to compare the MDBC/River Murray cost to the 2001 determination, there has been an increase substantially in the cost. Up to 2010/11 we are expecting an increase of 102 per cent from the 2001 determination, on MDBC costs an increase of around 123 per cent, so again we need to ask questions about whether these costs are efficient and prudent and whether the process engaged by MDBC/River Murray Water allows the prudence of determining those costs.

We know that the capital expenditure by River Murray Water is done through contractual allocations to each of the state authorities so there is no risk of State Water Corporation not receiving its funds, but is there any commercial imperative to be efficient in determining the cost of that capital expenditure? Again that begs some questions about the two different jurisdictional processes and how they decide figures.

In the 2001 determination IPART called on DLWC then, DNR now, for a terminology for apportionment of resource water management costs between valleys. There has been no attempt at doing that in the submissions by DNR and at the moment there is no way to actually see how that apportionment between the valleys has been undertaken. I know with some costs there is a 90/10 cost, 90 to Murray, 10 per cent to Murrumbidgee, and bits that go everywhere else, so the methodology for doing that apportionment between valleys is not clear and it is something that IPART called for in 2001 and it is still, as far as we are concerned, outstanding.

One significant cost driver for Hume Dam into the future for capex is the inclusion of Bethanga Bridge refurbishment. I don't think that is a cost that should be borne by irrigators. Currently IPART has Hume Dam at 100 per cent attributable to irrigators and I think that is a significant cost which should be excluded from those calculations. It has nothing to do with water delivery, it is across the dam itself, so that cost we believe should be excluded.

Jennie overviewed the process for determination of MDBC costs, the apportionment between the states. We have gone through that in detail in our submission. I will not reiterate that now but only briefly say that the determination of that has nothing to do with water use in New South Wales. It is a formula that was agreed to and, as Jennie indicated, has an inclusion of a premium for, it is actually one third of SA's dilution flow. When you consider that was done a number of years ago and we now have a new water reform process in place which will see the average extractions by New South Wales Murray irrigators decrease, as it will with other New South Wales valleys, then I think IPART needs to make probably some in principle decisions about how we manage the MDBC River Murray costs, not only for New South Wales Murray but Murrumbidgee and other valleys in New South Wales. Is it fair that those irrigators pay for water that is delivered to another state? I don't think so.

We disagree with the inclusion of the RAB for MDBC costings and for State Water. They say they are only passing through MDBC costs. To include a figure in the RAB for River Murray Water is really not passing through those costs. There is the potential for double dipping. If you

look at the 2004/05 MDBC report, they list the assets in their report and claim ownership of them. If we are going to have them listed on a RAB for State Water, is the same thing going to occur? There is a bit of potential there for double dipping.

I think I might leave it there. There are a number of other issues that we raised in our submission. One of the big ones is the capacity for the environmental portion of water use to increase. That was raised in other submissions here today and I would strongly reiterate that I think it is time IPART again made a principled decision on how we are going to handle that into the future. I can see a time when irrigators will be paying for a largely escalating cost for bulk water delivery with a diminishing share, so I think it's probably time for IPART to make a decision on that and show some leadership. Thank you.

THE CHAIRMAN: Thank you very much, Deborah. Very quick questions?

MR SEERY: Just one quick question: you mentioned at length the notional RAB for the MDBC. I was wondering what your position is at this stage on the tribunal establishing a regulatory asset base for State Water anyway as a general business?

MS KERR: I don't think there has been enough information provided on a comparison between RAB, annuity or other forms of debt financing, and until that information is available for stakeholders to analyse, it puts us in a very difficult position of being able to support an option per se.

I know that treasury did a lot of analysis of that when the State Water Corporation privatised, but that information is not readily available to stakeholders. So it puts us at a disadvantage to say whether one method is better than another is better than another. What we have said in our submission is that we believe that all of the options must be looked at and must be available for stakeholders to have their input into.

THE CHAIRMAN: Thank you very much.

MURRUMBIDGEE PRIVATE IRRIGATORS

THE CHAIRMAN: I will now call on the Murrumbidgee private irrigators.

MS FURNESS: We're the river pumpers that people are so fondly referring to. Mine is at a very high strategic level.

I would just like to make some general comments. State Water didn't receive all the moneys owed and DNR didn't spend $4m last year because of restructuring and goodness knows what else.

It just starts to beg a question of, well, you've collected the money, what did you actually spend it on? It is my understanding that if you are collecting money through an IPART-type process it has been expended on the programs and things that you say, because I think it is actually illegal to do otherwise. I think there is a huge issue here about collecting money from people and spending it in a manner in which you said you were going to do. I will just leave it at that.

I think, too, there is a big question as to what actually is the role of government. Governments are there to regulate. It would seem to me that there is a fair amount of regulation that should be done on behalf of the whole community which is being apportioned to one section of the community because they have an ability to get a bill sent to them and pay. I think there needs to be some discussion on actually what the role of government is and who pays for that.

In terms of the national water initiative, it seems to be everybody is on the bandwagon: we are in the national water initiative, that is going to cost us more money, you are going to have to pay more. Yet in terms of what DNR and State Water are doing, it is not materially different. They make available water determinations, they are still delivering water, they are still doing the same activities that they were doing. Okay, you could say, well, you know, you've got a more robust - probably right, and you've got water sharing plans, but I can't quite get my head around those sort of increases to necessitate those sort of small changes. So I think the national water initiative has been blamed for all these sort of increases. Seventy-one FTEs

and the department has just shed goodness knows how many staff, so what is going on?

I think, too, there is a real need for a reconciliation of the moneys received against the programs and against the valleys that that has been spent in. There is no attempt being made to look at the outcomes. In terms of the Murrumbidgee, it is a regulated river source for 100 years, so it is being managed by the government for 100 years. We have been asked to pay for previous things that have happened, now we're paying for what's happening at the moment and we are going to pay for the future, so I think there needs to be a little bit of a think about who has been in charge.

In terms of State Water, I have got three quick slides: levels of service, pricing framework and wholesale discounts.

I think one of the problems that we have got is that there is little choice of what the level of service should be and could be. We are given no choice about what we could actually need and do and those sort of things. So you've then got no choice between that and the price. For instance, could we say, "Well, we could give you this level of information. It would cost you this much. Or I would give you this level of information and it will cost you that much"? But there is no choice there. We are just being told, "This is what you are going to have and you like it or lump it and you pay for it."

In terms of the technology and stuff, at some stage it does need to be reflected in the pricing. So if we are using better technology, fewer people are needed in the business, so that has to then start driving some of the pricing.

In terms of the pricing framework, there does need to be some independent advice sought on the appropriateness of safety levels for structures. Those structures need to be safe, but if the community's perception or needs, or whatever, has changed and they want a higher level than is absolutely necessary, we shouldn't have to pay for that. That should be worn by the government. We were hearing some really mad things, like a one-in-a-million-year event they were going to have these structures, the level upturned. That may be the case, it may be not, but I think there does need to be some appropriateness to those safety levels for the structures.

This has been said by the other groups, but there does need to be some way of looking at how you charge other users. In terms of the delivery of environmental water, you're delivering large amounts of environmental water, that does actually need to be costed properly and the environment paying for that.

Wholesale discounts has obviously been an issue which has generated an enormous amount of discussion this morning. We believe that discounts should be applied to variable charges and not fixed charges, and that's simply because the fixed charges guarantee the security of supply for the whole system.

I think, too, if you are going to have discounts, then they should be considered for other large users. So, for instance, corporates. I've got some corporate clients whose pump sites are greater than the two private ones that are getting discounts, the Eagle Farm and the West Corurgan. The discounts are obviously being applied in a manner which nobody can figure out, so if you are going to have discounts, then I believe that there are probably ways that you could give other large users a discount as well.

In terms of the Department of Natural Resources, I've got three slides for that. I have alluded to the role of government. Fundamental activities of DNR have not changed, but everything is being blamed on the national water initiative.

The management of the natural estate is for everyone, so I think everyone should be getting charged, and whether you do that through taxes or you do that through recreational - fishing licences, or whatever - if you are going to charge one group for the lot, I think it needs to be better apportioned out.

In terms of the activity profiles, 60 new individual activity groups. They couldn't sort of report against the 20-odd that they had before, so I doubt whether they are going to be able to do that against the 60, but there is still no ability to break down the information. There is no matching of that money with outcomes on a

valley-by-valley basis, so you're still unable to see what your money has been spent on. That really goes to the crux of some of the issues, and I think for us to have confidence in those price increases we need to actually see what's being delivered, and I don't believe that we are getting value for money.

In terms of cost-sharing arrangements, the regulation of the river has been going on for 100 years and I think there needs to be a lot more use of technology to increase the efficiency of the business, and that is for DNR as well, not just for State Water, but I think there is a lot of new and innovative technologies available in terms of metering, in terms of monitoring the natural estate, and they need to be used, I think.

In terms of the Yanco Creek system, firstly, I would like to thank IPART for allowing us to recover the 90 cents a megalitre. As you recall, there was a two-part levy which was a valley-wide one and one on the Yanco Creek. The valley-wide one was agreed to if the savings stayed in the valley. DNR then indicated that, no, they couldn't guarantee that the government wanted those savings, and so, quite correctly, all the other valley users said, "No, we shouldn't be paying for that," and the Yanco Creek people were quite adamant that, no, they did not want other people to be paying if there was nothing in it for them. But we are collecting the 90 cents per megalitre from the Yanco Creek users, that is on entitlement, and that will raise something in the order of $240,000 or something in that sort of area.

At the moment, we are partnering with Murray CMA to employ a staff member to undertake the implementation of the natural resource management plan and also using some of that money to have a look at the weirs that are on that system for taking them out and enabling better management of that system.

We are seeking the levy to continue on Yanco Creek irrigators only at the 90 cents per megalitre, so we would be really grateful if that could be included again. It was neglected to be included by State Water - that was an oversight - and we would ask that that be included in this determination.

MR SEERY: I have one question: you mentioned that you represent the river pumpers, and it was suggested this morning that one of the reasons why we should get rid of the wholesale discounts was that the river pumpers were subsidising the irrigation corporations. I was wondering if you have any evidence or have undertaken any analysis that would support State Water's assertion that river pumpers are subsidising the corporations.

MS FURNESS: To be perfectly honest, it doesn't interest us, really. The prices that State Water are going to charge are 5 per cent less; they have indicated that that is what it will be. So we are pretty happy with that. It probably could have been 10 per cent, they probably could have gotten their act together and been a bit more efficient, but we haven't done any analysis of that.

There are 680 river pumpers and there are two irrigation companies. Logic would have to tell you that it must cost State Water more to read 680 river pumper meters than two meters - one for Coly and one for Murrumbidgee. I would have to concede that. I couldn't stand here in all honesty and say we've been subsidising them for years, you know, we want it all back, so we would like to see the figures.

Business sense would tell you if you were a large user and you were buying petrol from Caltex, you would get a discount for bulk. We are not keen to see the fixed part of it receive a bulk discount. We believe that that is ensuring people's security is supplied on the whole system, but we have done no analysis and we don't intend to.

It would not be in our interest to get into a stoush with the irrigation companies and I think, too, to be fair to them, they provide a lot of support for us because we don't have an office, we are 680 individual people. That would be where we would see it.

THE CHAIRMAN: Thank you for your presentation.

SOUTHERN RIVERINA IRRIGATORS

THE CHAIRMAN: Last before lunch is Southern Riverina Irrigators.

MR HOLM: My name is Malcolm Holm and I chair the Southern Riverina Irrigators. Our members come from the same geographic area as Murray Irrigation and, as chairman of that organisation, I also am a board member of Murray Irrigation New South Wales Irrigators Council.

My wife and I run a 450 to 500 cow dairy which is totally reliant on irrigation water. Today I would like to bring four points to you. Our key issues are the ability of irrigators to pay; the operation of State Water and DNR; the community obligations by government; and bulk water pricing.

During the last four to five years, the Murray Valley has been in drought. That has been reinforced by the fact that dairy interests have received an EC rollover to make it 4 ECs of EC declaration. The rice industry has an EC declaration and there is currently an application before NRAC to consider mixed irrigators.

The impact of the drought will stay around for the next four to five years provided we continue to stay out of drought conditions and that water storages once again return to good yields.

The more important issue here is not the impact of the drought, but the perception that because the water bill of irrigators is perceived as not large irrigators can afford to pay. The use of gross margins is regularly used to compare crops, but the use of these gross margins as an ability to pay is misleading and doesn't take into account the overall overhead costs. For example, it is not just about applying water, but it is the costs of setting up good irrigation outlays, and this can range from $1,500 to $3,500 a hectare for service irrigation depending on your enterprises.

As all small cost increases reduce the profitability of irrigators, irrigators are continually under price pressure. Agriculture is in declining terms of trade, and the way that agriculture copes with this is to drive the productivity increases and thus remain profitable in the main.

When assessing the ability to pay, the overall businesses need to be looked at so that the truer picture can be obtained. With the majority of farm costs there are alternatives - somewhat limited sometimes - to help keep our cost pressures under control. There are different products and services that irrigators can turn to.

Even for somebody in a corporation, they do have options of putting pressure on management, directors, removing directors at the ballot box or even going as far as shifting to a different region. In relation to State Water and DNR, there are no options. The irrigator is forced to deal with these organisations, either directly or, in our case, through the irrigation company.

Moving on to our second point, which is the operation of State Water and DNR, these bodies have no competition and it is imperative that IPART is fair in determining in the pricing of water. Comparisons are made with other like state organisations. We would suggest that this is not reasonable, given that these other organisations have the same issues as State Water and DNR. They are run as monopolies in their respective states and have come from a culture of state-run bureaucracies.

From sitting on the Murray Lower Darling customer service committee a couple of times we see that there is a long way for State Water to go before it is run as an efficient organisation which is customer responsive. We also highlight that there are projects where there are cost blow-outs because of other departments not being able to meet their commitments on time, and Debbie highlighted a couple of those.

I also would like to highlight a couple of our customer service committee meetings where we looked at some salt interception schemes, and the line that State Water was thinking of taking was continuing to run them along the same lines as they had always been run on behalf of the MDBC. If State Water was a business focused, it would invest time into some different pricing options of running the schemes to reduce operating expenditure. We did suggest this to State Water.

There was a similar proposal to update machinery at

Menindee Lakes. Again, the CSC was critical, and we put it to State Water that some further work needed to be done to ensure that the end result would be cost efficient and meet the objectives.

From the privatisation of the irrigation schemes, we have seen that things can be done better, and Brett Tucker had a slide there which highlighted that. It would appear that, left unchecked, we have State Water building an empire at our expense and there needs to be some reality put back into the organisation.

We would like to have the ability to get State Water and DNR to be more responsive and give us the options of some cost benefit analysis so informed decisions can be made on greater customer services and needs, and Lee highlighted that as well.

Both State Water and DNR make much of the NWI as an extra cost burden. The water sharing plans were developed prior to NWI and they were modified to fit the framework, but, by and large, these were NWI-compliant prior and we believe that this is sheer cost shifting.

The community benefit of regulated river systems is drifting towards managing the river so that the tourist industry is the major beneficiary. We see a greater proportion of costs need to be apportioned to the community benefit or the tourist industry. I highlight the public outrage when the river operating level dropped at Moulamein at Easter and the skiers weren't able to ski on the river.

The cheapest improvements to some environmental outcomes comes from a river system with greater manipulation of river pools. This was suggested to Lake Mulwala so that there could be greater buffering and less flooding of the forests at the relevant time. The community at Yarrawonga shut shop and walked across the bridge in protest. Do irrigators need the extra burden of costs when the river community doesn't want the most effective and simple solution?

Added to this we see that the government should be paying for the environmental water, or the greater community should be paying for the environmental water that is required to deliver the environmental outcomes. This water is no different to irrigation water, as it occupies storages and needs river regulation to deliver the outcomes.

The removal of bulk discounts will have a huge impact on our members in increased water price. We believe they are just and come with a suite of obligations which cannot be treated in isolation. To remove the bulk discount and not to address the other issues tied around these would be a double whammy.

There has been very little discussion on the efficiency savings and cost reduction programs in the submissions of State Water and DNR.

In closing, I would like to thank you for your time. We believe that State Water and DNR should be run as efficient organisations and that IPART cannot simply accept the proposals that have been put to you. If this is done, this would only simply institutionalise inefficient monopoly behaviour, and we believe it is your duty of care to us to ensure that just costs are apportioned.

THE CHAIRMAN: Thank you very much. It is only 10 to 1. I would like to see if we can get back here just after 1.30.

LUNCHEON ADJOURNMENT

UPON RESUMPTION:

STATEMENTS AND QUESTIONS FROM THE PUBLIC

THE CHAIRMAN: The next item is an opportunity for statements and questions from the public. I have a suspicion that most of you have already spoken but that does not mean you can't have another crack at it, if you feel that in your presentation you left something out or something has been said since that you want to comment on, by all means you can have another go now. The floor is open to the audience.

MR ARTHUR: I have the good fortune of having a licence as a river pumper and also having some licences within Murray Irrigation. I know to administer my pump licence, which is a mere 600 megalitres, a fellow has to travel in a ute down 3 kilometres of track to read that pump and to monitor it is performing properly. Also, when we have got periods of restriction on the Murray, basically he has no way of enforcing it, whereas if one has a bulk licence you have to reduce your usage at that stage, there is no way to monitor that in any cost effective manner, so it is still an issue of physically going out there to look at the pump.

I am intrigued to see, looking at the costs, I would say there is a huge cost burden to deliver my 600 megalitres, so I am really intrigued to see how the suggestion is that somehow with that pump licence that I am subsidising those in Murray Irrigation. Possibly the way we determine what the bulk discount is, I suggest there needs to be a look at how there might be a better rationale for what the size of the discount is, but I would really like to hear how they could possibly suggest that they could monitor my pump usage as efficiently as what happens with one single bulk licence. I can't believe that that can possibly be the case. I would love to hear an explanation.

THE CHAIRMAN: I am sure they will take that on board.

MR SMITH: Thank you, Murray Smith, CEO, Coleambally Irrigation. I would like to thank you for the opportunity to speak and acknowledge all my colleagues in the irrigation sector, including State Water and DNR. First off, we have nothing new here today for us to base our comments on. We have no State Water accounts, we have no

IPART consultant's report. Number two is that we have two weeks to comment on the consultant's report, which I consider is very limiting on stakeholders. IPART has had the opportunity to converse with the consultants during the development of the report and we will just have two weeks.

I would like to pick up on some comments during the course of today. I have taken the opportunity to hand over three pages to Michael, so I will not go over old territory, but Colin flagged the history of State Water's under-expenditure. We can most probably equally call that over-recovery. Lindsay indicated that it did not lead to any substantial reductions in customer service. If this is the case, why the huge increase in charges? From that perspective I guess we identify the importance of IPART in determining what the inefficient costs are.

Having said that, I acknowledge the efforts of State Water in the Murrumbidgee Valley in providing the customer service committee with a complete understanding of its capital program. We are certainly starting to head along the right road but we have a little bit further to go.

Michael commented about the impact of removing discounts and charging on conveyance water. I think that was directed to one of the other speakers. In the case of CICL, you will notice in State Water's submission that irrigators on the Murrumbidgee have a reduction of 5 per cent. By the time you remove this, pay for the conveyance water, CICL customers will have a real increase of 35 per cent. So hopefully that answers that question.

Bulk discounts: Mark indicated that there are 7,000 licences, including bulk licences for irrigation corporations. There's 800 in CICL's licence, 2,400 in MIL's, over 3,000 in MIs, so if you remove the three irrigation corporations, the number of licences that DNR would have to administer would increase by approximately 100 per cent. Mark also indicated that DNR wished to move for a fee for service and removal of discounts. I can't quite see how you can introduce one side without introducing the other side, otherwise we are hopelessly out of step.

In terms of our bulk discounts, another question was why do you get them. Hopefully I can shed a little bit of light on that. As Laurie just said before, we have a

single meter, we have realtime metering, 24 hours a day, seven days a week. State Water can look at that, DNR can look at that. We have 832 farm outlets. They only need to look at one offtake. MIL have 2,400 and, as I said before, MI has over 3,000. Do the sums, billing as a single entity compared to over 7,000 bills if the irrigation corporations were removed.

We also deliver water via Coleambally Irrigation's main canal through to Tombullen as a service to State Water, and I guess as a service to the rest of valley, at no charge, with no provision for losses. Our system is fully audited. I don't think others are. That is just some examples, and it is more comprehensive in our report.

I was a little disappointed there has been no effort by State Water or DNR to explore opportunities to optimise resources in either of its reports in collaboration with stakeholders. In a truly business environment these opportunities would be explored and developed. There has been a bit of talk about hydrographic services. Jennie indicated that in the case of MIL their hydrographic stations are about $4500 per annum, and I am interested in IPART's response if we were to put forward, and State Water's response as well, in terms of a competitive bid to undertake the hydrographic services for the Murray and Murrumbidgee.

Our indicative costs at this stage are in the order of $4,500, a worst case scenario of $8,000. I think you are currently paying to DNR something in the order of $12,500 per site up to $20,000 per site. Obvious savings. I might add, with the latest technology, realtime for all stakeholders to look at.

Michael mentioned conveyance losses. I don't have a lot of history, I have only been here 18 months, so my corporate knowledge is a little bit let less than I would like it to be, but as I understand from talking to those who were around at the time that it was all part of the privatisation process. It was negotiated as part of the discounts. That being the case, there seems to be a lack of corporate knowledge in both State Water and DNR on how those numbers were arrived at.

From our perspective, if you are going to put that on the table, and we pay for the losses, I am not saying for a moment that we shouldn't, but it really needs to be equitable and revenue neutral in the whole scheme of things.

I trust that IPART noted the distinct lack of recognition of community service obligations in both DNR's and State Water's submissions. I hope it was not the shadowy hand of treasury in there, but maybe that is just me being a little bit sceptical. I hope you will get to the bottom of it. Mark went further today and introduced the concept of a subsidy in the case of DNR from a top down approach. We can stand here for ages and shoot holes in that. I am sure you will see straight through that and that you ultimately will spend more time looking at the CSOs than what DNR and State Water have.

In closing, I would like to acknowledge the efforts of State Water being more responsive and open with the Murrumbidgee customer service committee and, as I said before, we are on the road, but we have a ways to go. At a river operational service level, we have a collegiate approach with State Water and this is certainly very pleasing from our business perspective, but we would like to see this extended throughout the rest of State Water's business. Thank you.

THE CHAIRMAN: Thank you. Any other comments or questions?

MR MIELL: Doug Miell, NSW Irrigators Council. One question to Mark. This morning he said that New South Wales is moving towards the Victorian model of property rights. Would he like to give some elaboration on this, what exactly DNR has up its sleeve in that regard?

THE CHAIRMAN: All questions will be taken on notice. Further comments and questions?

MR WASHUSEN: A number of questions have come from the tribunal and secretariat about the Murray Darling Basin Commission RAB. The advice I have given to Murray Irrigation and Coleambally is that I would not expect that IPART would do anything other than act in the interests of transparency and accountability and address those issues. My view, if it is worth tuppence, is that it is a completely artificial notion and it does not do anything at all to provide incentives for either State Water or MDBC to

act in an efficient manner, and they are issues that are completely germane to IPART's role in all this, and I expect IPART to deal with that in the appropriate manner at the time.

MR HOWE: One of the things I would like to develop a little bit for the average irrigator, we are hearing in the national water initiative about up and down pricing and lower bound prices, and I have looked at the definitions. I have to say that there are probably about 25 people in Australia that could actually stand up and give an off-the-cuff discussion of what the heck they are. We need to start with groups like IPART giving a bit of guidance on where we are really heading with those issues and try to put forward an explanation, I suppose it is a problem with the national water initiative, it is esoteric and meaningless almost for water users. That is something I would like IPART to do something about.

MR BALL: My question is related to how the costs of the creation of the new licences for the titled holders is going to be attributed. In my view it would be a consequence of a government action and it should be borne entirely by government.

THE CHAIRMAN: If there are no further questions or comments, I think State Water has an opportunity to respond if it would like to respond.

RESPONSE FROM STATE WATER

MR IMMARAJ: I will start in the same sequence. Laurie raised a question with regard to the river pumper on Maron Creek, for example, with a 600 megalitre licence with a meter, and compared that with the costs associated with the meter reading with a customer within the irrigation area, Murray Irrigation, for example. We haven't done that sort of comparison. As I said earlier this morning, wholesale customers for us are you as the Merran Creek river pumper and Murray Irrigation Limited as diverted from the Murray, so we have looked at both those customers as wholesale customers for State Water. How much it costs to read the flow metre within MIL compared to reading a meter on the Maron Creek will vary greatly, largely through economies of scale as well as the type of function carried out.

The question was more to do with, can you demonstrate that there is a cross-subsidy of the irrigation area customer by the river pumper. It is not through analysis that you come up with that answer but purely through logic. If the full costs of the Murray were recovered from a set of wholesale customers, and one of those customers gets a discount, then de facto the costs have to be recovered from the remaining customers. It is just that logical. If the fixed costs were divided by the fixed entitlement in the valley, you get a price. On top of that the discount impacts result in an increased cost to the remaining people. Those that don't, get the discount.

That was the issue. It wasn't that we have calculated what the benefits are of not having the irrigation area customer as a government customer any longer, it was purely on the basis that if you were at full cost recovery that is what would result.

MR BECK: I guess, I don't want to use the postage stamp analysis, but it costs you more to deliver water to certain customers than it does others. If you think about a customer in the Tumut River immediately downstream of Goobrangandra River, he would say, well, you have got no storage for my entitlement because it comes naturally out of that creek, so the only cost that you should charge me would be the metering cost. Conversely, a guy at Balranald who has the whole Murrumbidgee infrastructure that has to be implemented to supply him, obviously there are different

costs to supply different customers right through the valley, and whilst some may argue that the metering costs in one area are lower than others, you just have to expand that across the whole portfolio of customers.

You might argue that, a customer in the Tumut River, you don't have to do a lot of operational decision-making to supply him because there is so much water in transit that he will be catered for anyway, but then you say, well, the whole order in the Murrumbidgee Valley and in the Murray Valley is dominated by the irrigation corporations therefore you can say that all the operational costs should be assigned to those units, so in some regard you might be getting lower, you might say you are getting metering costs attributed to you that should not be attributed, but there would be other river operations costs that others are being charged for that they don't have either.

MR IMMARAJ: Murray raised a few points which we will try to address, all three of us, and the first point is that we agree that this issue of equitable treatment for conveyance licences is very important. It is not our intention that we add conveyance allowance or the conveyance licence as an additional entitlement in the valley but purely to make sure that it is recognised in the full entitlement when calculating the fixed charge, so I think that is equitable.

We are not arguing that the conveyance licence is an additional amount and that somehow in the price calculation the conveyance licence should be ignored. We are not arguing that. I believe that is how those that do currently pay for conveyance licences in those valleys are treated. When you calculate the fixed charge, you use the fixed entitlement including the payable conveyance licences, then calculate that. That is all we are seeking to do, so we believe that is equitable.

CSOs are not evident, that is true. State Water is not paid community service obligations per se, but in the cost shares that had been previously determined that was the Government contribution into State Water. We believe that that may remain so if IPART's cost sharing still allows for government contribution for opex and capex. If that is not so and we are under-recovering by virtue of the new prices then we will have to either seek a community service obligation to provide those services to the community or reduce our levels of service to meet our budgetary requirements.

The third point regarding if irrigation corporations were removed then what would be the impact on State Water, what would it do to prices, I believe while that is a hypothetical question, we have moved on from that so it remains purely hypothetical, what would happen if the irrigation corporations were dissolved and they became government customers again, how would the prices be impacted. We have not done any analysis on the net price to the retail customer if that was to happen.

We believe that the privatisation has worked pretty efficiently and from all reports the irrigation companies are operating efficiently and effectively, therefore we believe that the price being paid to the retail customers is an efficient price. When you add on State Water's costs at your offtake then the net value, whether the irrigation company exists or not, should be the sum total of those two prices. So we are not sure whether that hypothetical question has any bearing on the bulk water pricing for State Water Corporation which is effective from 2006. If we were still liable for all the legacy issues back to DWR days, those costs for metering those retail customers would be within State Water's costs and we would then have to recognise the discount, but at the end of the day those costs are not part of State Water's full costs so we don't know where that question actually leads to in this current debate.

The other point you raised, Lindsay might comment, is optimising resources in the Murrumbidgee. We have started discussions with Coleambally Irrigation Corporation. There are potential areas both in the area of operations as well as in the area of capital project delivery but we do need to get to that stage probably in this year to demonstrate that resource sharing can work efficiently for the benefit of both parties. We are looking at resource sharing in operations within State Water with Coleambally and that will improve both the knowledge of the system and how the systems run but also improve the liaison between customers and State Water.

With regard to competitive sourcing of hydrographic services, as you are aware we purchase that service currently from DNR and DNR has given us a quote for running a hydrometric network across the state and the figure that

has been quoted of between 12,000 and 15,000 is a state average. Obviously those averages at a valley level might drop if there are a larger number of network stations within the one valley and they might be a lot higher where the costs are significantly greater. It is not our decision at this stage whether we can outsource that because we are currently wedded to the one supplier, DNR, but DNR assures us that there is a review going on at the moment.

At the end of that review they will be looking at market testing the provision of hydrometric services, so maybe Mark might comment on that.

MR BECK: We don't own them so we can't source alternative prices and, as Abel said, in some valleys the unit costs may be higher, there are minimum structures to maintain in each valley, a certain number of hydrographers per system, and I think Murray was getting towards it, that let's say we drop half a dozen stations out of the Murrumbidgee Valley, we have pretty got much still got the same support structure, therefore the unit rate per station increases unless, and it is not our call to say to DNR, you can manage that system with a lower number of staff. That is not our call. We buy the service. If that is their cost, we can't outsource it separately from another supplier. That is one of the issues that State Water has with the hydrometric network.

MR IMMARAJ: Would you like us to address some of the issues raised earlier in the presentation?

THE CHAIRMAN: Yes, everything.

MR IMMARAJ: SRIDC raised a few questions, one relating to community benefit through a regulation of flow in rivers and that there are lots of other beneficiaries. We believe that is the case, that there are lots of beneficiaries from flow regulation, including environment and opportunistic beneficiaries. We have raised that, but we haven't foreshadowed what the cost share of that opex should be for those other beneficiaries, mainly because we couldn't recover those costs directly from any of those opportunistic users. How would State Water recover those costs from, say, tourists and tourism operators or from the environmental benefits accrued to, say, the catchment management authorities or other agencies? So we have left that debate to be held through IPART and the determination process. That may result in a government contribution to State Water to continue providing those services, and I allude to the point about the community service obligations earlier as well.

The other issue raised by SRIDC was that a comparison of State Water with other bulk water providers in other states wasn't valid. I agree that that may not be ideal, but that was the only type of comparison we could come up with, given that the bulk water providers in Victoria are largely Goulburn Murray and in Queensland it is Sun Water and in South Australia SA Water. The fact that they all came out of state governments does mean that they are probably all inefficient in one form or another, but some of those corporations have been corporatised or operating as a corporation for a significantly longer period of time, so, in a way, by comparing ourselves with them it should give us some benchmarks to improve on.

So I agree that we have got a long way to go to become as efficient as we would like, but in the early days, we do think that there is an investment required for us to get to that point.

There was a question raised about whether the salt interception schemes would be operated as a business or business as usual. Because the debate about the transfer of that asset is still to be finalised and the operating licence for the salt interception scheme is not finalised, we are compelled to simply operate it under its current operating requirements and not change it, but once the operating licence for the salt interception scheme is finalised, then there is an opportunity to move towards competitive sourcing and Murray Irrigation Limited is welcome to bid for that contract if they are able to provide us that service.

The Murrumbidgee private irrigators raised some questions. I will deal with the levels of service and the lack of choice of levels of service and price. At the moment, valley pricing relies on treatment of the whole valley as a system. So whether you are 1 kilometre downstream of the dam, as Lindsay pointed out, or 1,000 kilometres downstream of the dam, you still pay the same unit rates, both fixed and variable. That is because the whole system is being treated as one integral system.

When you think about levels of service associated with bulk water delivery, the type of choices we could offer are whether you get water on the day that you order it or two days later or three days later, but in the valley business planning process that we went through to define levels of service, it was unanimous: you place the order and you take it on the day that you have ordered it or you amend your order so that nobody misses out on the system.

So because it is a combined system operating for the benefit of several hundred customers, most of the valley customer service committees have agreed that it is not about choice, really; it is more about whether you can meet the levels of service that everyone expects as a uniform product. So if everyone had a different product and one said, "Well, I'm happy to go two days later provided you give me a discount of 10 per cent," the third party impacts of that sort of product have a huge flow-on impact on other users who rely on that quantum of water that is being released from the dam.

So I think when that debate occurred, the customer service committees pretty much decided that it is really the one product: you order your water and you take it on the day you want it or you amend your order and you don't take it. The options of whether order debits should be in place or should not be in place all relate to the type of services that we can provide.

I think the debate can still continue, but as things stand today, we are continuing with the one product and the one level of service, and it may not be the best thing for everyone, but I believe that it works for the system as it stands and with the current level of rights to access.

If a customer didn't get water on the day that they ordered it and their property right was compromised because of different levels of reliability associated with it, then we are actually changing the regime under the water sharing plan and the Water Management Act, so there is a danger of trying to do too much within State Water's domain.

The next issue is dam safety levels and whether the safety levels were set too high and that there should be some debate on it. The industry standard is set by the dam safety regulator in New South Wales. They are reasonably consistent with other states, and at this stage under the previous determination the dam safety compliance costs are picked up by the government.

Our position has been that we should try and get to that point of safety compliance as quickly as possible, and that's what we're proceeding with. So hence you will see our capital program is largely dominated by dam safety compliance costs. That is an industry standard, that is the dam safety regulatory standard in New South Wales, and that is what we are compelled to meet.

Brett from MIA raised a question on the RAB and the budgeting of the RAB costs, and I might get Russell to talk about that one.

MR SIMONS: I think what you said, Brett, was that you were against the idea of the RAB being built up on budgets. In State Water's view, the RAB needs to be built up on what we see as being prudent and efficient budgets over the next three to four years, and at the end of that period IPART will be looking at our actual expenditure against what we budgeted and making any necessary adjustments to our actual expenditure.

I would also like to add onto that that if we continued with the annuity approach to pricing, then the annuity would also be based on budgets, so there is not too much difference between the two except one is a long-term budget and the other one is a short-term budget.

MR IMMARAJ: I think the other comment was that the actual expenditure, opex and capex, are looked at by IPART and only what is prudent and efficient can be capitalised, so when the RAB is reset, it will only be on the basis that it is prudent and efficient. So even if we did borrow money and spent it on something that wasn't prudent or efficient, we would have no recourse to recovering the costs associated with that unless we could demonstrate otherwise.

MR SIMONS: I will just talk generally on one subject that seemed to come up quite often during the presentations by everybody, and that was the issue of provision of data or lack of it by State Water.

I would like to just point out to this hearing that State Water went to a great deal of effort to provide

subcommittees of each CSC with all the data that we had available to us that went into the submission, and that included not only capex but opex data. We met with every CSC with the understanding that the CSCs were able to ask whatever questions they liked and we were obliged to answer those commercial in confidence. That has taken place with every CSC.

MR IMMARAJ: Murray Irrigation Limited raised some points which we might comment on. On the hydrometric costs, Mark may add a few more things, but the cost of hydrometric work in a canal system or a channel system with reasonably stable controls might be in the vicinity of $4,500 per station, but when you compare that with hydrometric costs with rivers and river channels where there's lots of change in the control section - and this is born by figures in Victoria as well as Queensland - it is in the order of about $10,000 to $12,000 per site. So I think if you were bidding for that competitively, I would be looking at how much it costs in other states as well and whether they are efficient costs.

On the MDBC, we have been passing through the renewals annuity collected from the Murray customers to the New South Wales Government, so the government contribution that goes from treasury has an implied flow-through of the renewals annuity collected from the Murray customers.

A renewals annuity approach has been agreed to by all states: Victoria, New South Wales and SA have agreed to allow River Murray water to proceed down the renewals annuity. I believe that some legislative amendments might need to be agreed to, but in-principle agreement has been reached. So it does give the opportunity for both approaches, whether you go with the notional RAB approach or continue with the renewals annuity approach.

My only point is that a regulatory asset base approach does allow for a review of the efficient and prudent capex on a three yearly or four yearly cycle, whereas an annuity on a 100-year total asset management plan doesn't give you as much flexibility, and you may end up with situations such as Bethanga Bridge or a fish passage or barrages, so you have a long-term capital program set in stone and an annuity collected on that basis, whereas as things proceed, you might want to make some changes to your capex program and priorities.

With regard to the use of the water delivery structure, we do want to reiterate that we pay full costs to MIL for the use of water delivery infrastructure at full cost. So MIL is not providing that service to us free of charge. We pay that and we recover that from the users in the Murray. So I don't think that that should be a reason or rationale for a discount because we pay full cost for that.

Just with the other comment on discounts and what the basis for that was, we simply wanted to make transparent, both for inter-valley subsidies as well as intra-valley subsidies, that at the end of the day it doesn't give us more revenue. So if the decision is to maintain discounts at whatever level and we are at full-cost recovery, it simply means that one group of customers is paying more or less than the other. That is all. But that decision should be made in the light of what exactly is that subsidy, and if that is not debated and set, then we won't have agreement on this for a long time. So we thought we would put that in the submission and get an independent assessment of what those discounts should be.

When the secretariat asked us the question about what is the history of these discounts and why were they set at different levels, the same question could be asked of why are some conveyance licences chargeable and not others, and, in fact, why are some access licences chargeable and not others, and why are some environments water chargeable and not others. These are all policy questions that don't get a fair debate and each valley ends up doing its own thing, so we felt that putting it into a state-wide context is a good thing so that we get a consistent decision.

So while we have put the discount issue on the table for transparency sake, at the end of the day, whatever the price determination is and what the determination allows us to apply as a discount is what we will have to apply.

I hope we haven't missed any questions or queries raised, but we are finished, Mr Chairman.

THE CHAIRMAN: Thank you very much. If you feel that they haven't answered something, I will let you go, but if you don't agree with the answer, I won't let you go. We could debate forever the quality of the answer. If you feel it

has been overlooked entirely you may address it.

MR THOMPSON: Dick Thompson, chairman of Murrumbidgee Irrigation. I must say that it is a great idea of State Water's to blur the high costs that they are metering and billing in increasing the charges for two groups. Their PR people must have had a field day with this. They have all except two people happy in the valley; there will be a decrease everywhere else.

The point is the national water initiative said there were to be no cross-subsidies. There will be no driver for efficiency in this valley if the real cost of metering the billing does not go to the people who are causing the cost.

THE CHAIRMAN: I don't regard that as anything new. It may have been more effectively said, but it wasn't new. Are you going to ask something new?

MR SMITH: I am just seeking clarification. I asked the question during my talk would State Water like to see a competitive quote, and I asked the same question of IPART: would they like to see a competitive quote on hydrographic services? I would just like a "yes" or "no".

MR IMMARAJ: Yes.

THE CHAIRMAN: Look, IPART doesn't answer questions without having gone through its process, but let me just state that, in principle, our job is to ensure efficiency - that is clearly our job. The second thing is, as a general expectation, we think a very effective way of ensuring efficiency is competitive quotes where they can be obtained. Of course, if they could be obtained everywhere, then we wouldn't need IPART.

Thank you very much, State Water, Abel and the team.

RESPONSE FROM DEPARTMENT OF NATURAL RESOURCES

THE CHAIRMAN: I now ask the department to come forward and respond to the various comments that have been made throughout the day, not just in this section.

MR PAINTING: Thank you again, and before I get into anything else, I thank Doug Miell for reminding me to bring a bit of clarification from this morning. I can assure everyone that New South Wales is not adopting a regime similar to the Victorian licensing arrangement. I guess in response to a comment dealing with the whole new system, basically I was trying to say simply that Victoria already has, and has had for some years, a water rights system under their more conservative management regime. The new property rights associated with water access under the Water Management Act will look a little bit more like that but there is not any major plan to go down that path, so thank you for that reminder. I clarify that.

I guess I can address a couple of issues in relation to, there has been plenty of talk about the MDBC. I have a fair history in dealing with the Commission from a New South Wales point of view. I don't know how much time we have got here to talk about it but, some of the high order principles, I share the thoughts with most of what has been raised here today about transparency and access to information. I guess I am privileged enough that I can access plenty of information.

We seriously need to look at, from a DNR point of view we probably need a little bit more, I guess, mature process about that allocation, firstly, regarding the Commission budget for the current year. At the time of preparing the submission, the Commission's budget for 06/07 had not been resolved and at that point the Commission was working on three scenarios, one being the requested budget of the Commission, the other extreme being an absolute minimum, because there has been some issues between the states about levels of funding and so forth, and one in between those.

At the time of doing the submission we took the middle ground of those three options, and that is what went up. Since that time, in fact only within the last few weeks, the formal budget of the Commission has basically been endorsed at the lower levels, so it is correct to say that there will be an adjustment from 06/07 costs of the

Commission.

Deb pointed out that no real attempt to improve the apportionment between the valleys had been undertaken. As I said, we did have access to more information. Basically what was done this year is we identified some valley-specific costs but it is fair to say the majority of costs are on a statewide basis that were used previously in the determination.

A couple of comments were made about the department's costing/pricing/program activity structure. Yes, they are very new. In fact, it was only created for the purpose of this process, as they are not hardwired in a system sense. The new version of financial system in the department for implementation in July 06 is not new but an enhancement and gives us the opportunity to put those new activities into a proper system and I guess that puts a responsibility on us then to use that as well to capture the information that is required to improve this process. Lee Furness made a similar comment this morning about collecting money and using it as proposed. Of course, at this stage we don't have the history based on these new activity codes but, with the ability to put the new program structure into the system, that brings with it some responsibility for us to do that.

I need to make a comment for the information of the tribunal - it is much less of an issue for us than anyone else - but the notional RAB versus renewals annuity, just for the information basically of the tribunal, the Murray-Darling Basin Commission certainly has a preferred option of that. Abel mentioned this morning, when he was asked about which way to go, he correctly pointed out that whilst renewals annuity would be an option, there is still the legal ownership issue of the structure and the proposal of the commission office, which will soon be consulted amongst the States - that will include DNR and State Water - but the proposal from the commission is that the assets, and I think someone also mentioned that if you look at the Annual Report they say they own assets, the proposal is that the assets of River Murray Water actually do belong in legal ownership to River Murray Water rather than the respective states and that instead of the states owning individual assets, or parts thereof, the states will own a respective share of equity in the business of River Murray Water and on this basis they are suggesting that therefore a renewals annuity would simply be an annual payment, an annuity to them, and that the states wouldn't have those individual assets in their books.

I guess that is just an information item. I am sure we will hear more about that later. That is for the benefit of the tribunal.

I don't have anything more specifically on local stuff, unless something has not been picked up and I can add to that later.

MR O'NEILL: There were a lot of issues raised and we will try to cover a few of them. The first one that we honed in on was the justification for the increases. There were a lot of questions relating to increased costs. First of all, we strongly contest the assertion that it is business as usual for DNR. This is not the case.

In context, I would like to state that there are two components of work that are different. First of all, the water sharing plans and the development and implementation of those; second, the additional obligations under the NWI. We have talked about that in general terms but because of the nature of all the comments that were made I thought it might be useful for me to talk through some specific examples of things from a statewide point of view. Mark covered some very specific examples that are regional specific.

The first thing I would like to point out is that we will require internal redeployment to meet our full commitments. We have stated that already. That is because we have undergone a significant downsizing over the last few years, which means we all work a lot harder trying to deliver for you guys.

We recognise also the statement was made that the WSPs are effectively the same as NWI. This is not the case. We do recognise though it was the precursor, but there were definitely differences between the two and additional requirements under the NWI. Just to give you some examples on the differences between the two, from the WSPs point of view - water sharing plans - we have statutory requirements now that didn't previously exist. Those statutory requirements preserve the user share, of course, but they also preserve the environmental share. We have a

compliance and audit component of that because they are statutory requirements.

We have an increased requirement for monitoring of water quality and water quantity. This is because we need to operate our water sharing plans appropriately, so we need to know what is going on in the rivers in terms of what flow is occurring when and make sure we share the water according to the water sharing plan rules.

Increased monitoring of groundwater is also required for issues such as ensuring sustainable yield in the systems. And the development and implementation side of things has the macro plans in train and also the specific plans for other areas.

From an NWI point of view, the differences, again I am only summarising, I will not cover all of the things that are different, but basically the key things are the public reporting requirements of the NWI on the operation of water sharing plans. We also need to identify and review the size of the consumptive pool. This is an ongoing process. Because of various different issues we need to make sure we have got the number right. This requires a lot of modelling and data to go into the process and ultimately it has a risk assignment framework in place that we effect.

From a water accounting point of view, we have got increased requirements for public reporting on users' shares and the environment's share. To do this we need information. Water title register - the conversion of licences is a big task. And facilitation of water trading is also a result of the water title register. We have also got issues there of compatibility with other jurisdictions.

Just one further piece of detail I thought I would add is that the floodplain harvesting policy, implementation and regulation, is a big task coming up for us.

That was only a overview of the activities. There is a full detailed description in table 2.14 in our submission. It goes into those things I have mentioned plus a whole lot more.

In terms of the next major issue that was mentioned, it was mentioned quite a few times so I thought it was worth at least restating our position, the discounts to

ICs. I am not going to go into any more detail other than to say that further negotiation is required. We recognise that WRM services need to be defined and that the value of these services needs to be defined, but we do stand by our assertion that they should be allowed for on a fee for service. We look forward to having input into the study on that process, I am sure that will contribute to the negotiation.

One further item that I just wanted to touch on was I guess costing information and efficiency. First of all, I want to state that DNR is committed to efficiency. Secondly, there were a number of statements about technology improving and therefore we should be getting more efficient. Yes, of course we are, we are incorporating technology improvements on a day-to-day basis, but typically these are swamped by all those additional requirements that I have outlined above.

Thirdly, I think a comparison with industry or services provided by industry is something we should be careful about. It is not always valid. There are differences between the services provided by industry and DNR. For example, one may be the close proximity of gauging stations. It makes it a lot cheaper to run ten that are close together rather than ten that are quite significantly separated.

The fourth point I wanted to add is - Mark has just indicated that he will expand on that point further - is a comparison with other jurisdictions needs to be done very carefully. It is a process we are involved in but we need to recognise the differences between New South Wales and other jurisdictions in that process.

MR PAINTING: I just want to touch again the hydrometric services that was alluded to and the work being done on that. Talking about costs of hydrometric stations, I mentioned earlier about 250 stations around the region, but certainly the number of sites is not a good measure of output in hydrometrics. To get a real handle on what that output includes we need to look at the number and type of parameters measured and collected, whether the data collected is in a time series or not, the reliability of the data, variability in rating control, the frequency of visits, the geography and so forth.

As far as those services goes and a review, a comprehensive exercise has been undertaken. A first draft report was released I think last October, and the final report was due by the end of last year. I have not seen it so I assume it is not quite finalised, but basically it is due very soon and it will outline the costs and benefits of various models of hydrometric service delivery, which includes the current one, and some recommendations on the preferred model to government. Whether there is scope in that for market testing and so forth we will wait and see, but that is nearing completion and there should be something on it soon. That is a final comment on where the review was, since it came up earlier.

MR RUNDLE: I have a few general comments to raise. I will go over a few things we have already talked about. With the wholesale discount, one of the reasons put forward for DNR was that the irrigation corporations and districts supply us with information for WRM. We did some survey work a while ago in the regional offices and at head office and we were not able to find any evidence of that information. If there is, fine, but we have not been able to find any evidence of information that has been used for WRM in the irrigation corporations.

Some of that information I understand is available publicly in any event which irrigation corporations produce, but on that score we understand that the discount is primarily given for metering purposes, it is not really related to the WRM function. But certainly from our perspective, separate from State Water there would be little value in that if the fee for service comes in - it would be I guess for a relatively small amount, but certainly very small in relation to the size of that discount. That discount is quite huge.

The other thing about discounts is that now they have become quite historical and they are fairly arbitral in nature. You could say when they were first set they were arbitrarily set. Certainly now they have become I guess a bit of an anachronism between the valleys.

Optimisation of resources was mentioned and efficient costs. With WRM I suppose it is a very hard one to pin down because we are not producing widgets and you can't say, how efficient are you doing, because a lot of our stuff is in the nature of information gathering and desk-type jobs, so that is where it becomes a difficult task. But insofar as our resources are constrained, we have got these priorities of the national water initiative, the Water Management Act, water sharing plans and so forth coming in, the last couple of years, certainly the next few years, we are in the process of trying to continually meet the challenges, and that is not easy. The only way we can really do that is basically continually reallocate resources on a statewide basis or at a regional level.

We have done that with a lot of our work, for example, development of the Water Management Act coming in, the access licences and approvals, the water sharing plans, implementation of those plans, and now we are doing the same with the macro plans, and whereas it was groundwater or reg and unreg, that has been a process of project teams, whether in head office or at a regional level, sort of moving around and doing different functions.

Basically there is so much in the way of work to be done in WRM on this score with the national water initiative and Water Management Act that we have had no choice but to prioritise the work to optimise resources.

The other thing in terms of the efficiency of costs is that we have based our estimates for staffing and current costs on a certain level of activities. We have not built in extraneous price rises for material, resources or salary increases. Effectively, if you like, we have based it on a level of activities, not on a cost and then inflated it. We also haven't included a return on capital.

I agree with the comment on conveyancing losses, whether they should be equitably distributed across valleys. Certainly the costs of conveyancing should be recovered through prices.

In terms of the CSOs and subsidies to DNR, basically an element of the subsidy is in the nature of a CSO although it is not given to us in that way by Treasury. I also point out that in the first slide Rob put up, the $117m subsidy is in fact what we call a subsidy, or you can call it a revenue shortfall, but it is in fact higher than that because our actual receipts have been lower. That was a notional revenue figure, and a notional subsidy, $11m.

A few other points. The WRM activity profile we

developed, well, we have 60 activities and they are grouped into about 12 groupings. That compares to the previous 12 bulk water products we had before, something like for water resource management around 45 sub products, so there was a fair bit of level of detail before. If you took the State Water sub products as well, you had a huge number. If you look at the back of the ACER report from 2001 you will see that there is quite a detailed spread of costs. That was really necessary to do that exercise, and it wasn't an easy one to do, and possibly a few of those activities might have been refined further, but basically it was necessary because of the introduction of the Water Management Act and water sharing plans. If we hadn't done that, really the old sub products would have been a terrible misfit with what we are doing now, it wouldn't have worked, partly because the old sub products incorporated the water delivery side of things as well.

So that was quite a necessary exercise. I think basically, if nothing else, it achieved a match with what our contemporary WRM business is. Also, those activities include the consent transaction side as well.

The comment was made on upper and lower bound pricing. I fully agree with that, that that is an adaptation of what was going on many years ago. It was developed for COAG, the upper and lower bound, and the definition, I think we all understand it here, but it is terribly poorly set out. It would be useful if that was refined or at least made more comprehensible.

The only other thing is the hydro savings through outsourcing. Well, Rob has also mentioned that, but basically there are, aside from efficiencies of having hydro stations together, the hydro stations serve a number of purposes. We supply information to other organisations that are not involved in bulk water, the Bureau of Meteorology, et cetera, and a whole lot of others, so we are getting economies through the use of those stations. It is a consideration for IPART, if you are looking at how efficient those stations are being used, to know they serve multiple purposes.

MR COOPER: Another issue that was a recurrent theme today is about cost reporting from DNR. I would just like to say one of the parties that actually would love to be able to press a button and get a report is DNR, but it has a costing system set up to report on the whole of the department and to actually extract what are the costs attributable for IPART assessment is not a simple exercise. That is one of the things that is currently being addressed to see if, with this latest adjustment to the system, they can actually start to get some efficient production of costing reports.

In terms of allocation of cost to valleys, the costing system that DNR has is actually a good system of recording costs by job activity devoted to the old activities on a valley- and water-source basis. Yes, there are some costs which have been spread across valleys, and I will just give you some background. The water management division, which is the central core of the water business which has the licensing administration system, the water modelling, the audit function and policy and planning in it, is a centralised function and most of those costs are transferred across valleys and water sources. There is the Office of Knowledge and Information, which has been shrunk dramatically, and the amount of cost that comes from DNR is only about $2m.

What the department has been doing is taking specific resources and putting them either to WRM, because they are pure water resources, or putting them out in the regions where the work is actually being done. So the accountability by valley is becoming a lot more discrete and identifiable with the valleys.

The other area is the lab. There is a water lab which was referred to this morning, and that is a centralised facility in Arncliffe and they have taken their costs and spread those across valleys. It is not a significant amount, I think about $1m overall.

The other area, there are few regional activities where they have had to do splits by valley or water source, but in general most of the activities are captured by valley, by activity, by water source. That was the way that those costs were extracted. There is now an automatic way to do it, but they were tagged and allocated to valleys. Then the corporate service, share services - these were all described in the submission - those were applied because they are mostly driven by staff-related costs, then the specific capital-related costs were identified and costed.

So what the department did, they invited us to come in and assist them with the principles. It has been more a facilitation process. The initiative has come from DNR. They want to know what their historical costs were and the only problem with those costs is that they are historical, they are looking at costs in retrospect, so what they wanted to do in terms of a submission was to change and take a proactive approach, because the belief was that water resource management had changed, so they built a costing model where they identified by individual person what that person is doing, or what the position is doing, and the activity that that person is doing.

That is the way that the forecast has been built up because you can see from the historical cost the department has been under very tight budgetary controls, and I think I heard at other hearings, if not this hearing, where people complained about the level of service delivery. It is because the department has been significantly budgetarily constrained. Whether that has been driving efficiencies or not only further assessment will tell, but that is the way those efficiencies have been driven.

The department is now concerned about establishing those specific activities and that is why they have taken the present active approach to actually doing their costing based on individuals and what those individuals are doing, so they can see in advance what they intend those people to do, then look afterwards and see what the costing system has said about what the actual activities were.

I have just give that background, there is a lot of work going on with DNR with an intention to be able to provide much better costing reports in the future.

MR O'NEILL: I think that covers the DNR response to questions.

THE CHAIRMAN: If there is something that wasn't answered, I will allow any further questions or comments.

MR SMITH: It was mentioned that gauging stations were used for other purposes and multiple usage. I was just wondering if that was recognised in the costs which were passed on to State Water and which were in turn passed on to consumers.

MR RUNDLE: The costs to State Water were a cost that was applicable for the regulated rivers which they run.

MR SMITH: So are there multiple functions for the gauging stations which are associated with the regulated rivers that State Water runs?

MR RUNDLE: To my knowledge, no. To my knowledge that is separate information which is provided to others which is not, I know what you are saying, it is not duplicated, we are not charging someone else, we are charging State Water for that particular information.

MR SMITH: Do they pay the bill?

MR MIELL: Following up on a point about the review of hydrometrics, I was consulted on that. Is that draft report going to be provided for further comment. The ABARE survey, is it proposed that IPART is publishing that and, if so, when?

THE CHAIRMAN: The answer to the first part is yes.

MR SEERY: The collection of the data has just been completed and they will be providing our report in the next couple of weeks, so we envisage we will be able to provide that sometime in February.

MR PAINTING: I am a bit surprised you have not got one if you are on that committee. I will certainly find out for you.

MR HOWE: As a point of clarification, Mark, I have to ask again, what really do you mean by the move towards Victorian property rights in any way, shape or form? I don't understand that. Secondly, I didn't understand what you said about the MDBC, does the MDBC have a preference for renewal annuities? If so, are you saying that it is just going to be a pass through or were you actually just trying the notional RAB. I didn't understand.

MR PAINTING: Firstly, as I said, I withdraw any reference to Victoria. In the Murray in the last few years prior to the move to the new water access licences we had a lot of issues obviously with the different regimes of levels of security between New South Wales and Victoria, because we

were sharing the Murray, and so for people down that way there were a lot of issues about property rights, hence now that property rights are enshrined in the new water access licences it was simply a comment that the level of access has improved through the new system. It is just coincidentally a little bit more like a stronger property right that previously existed in Victoria and nothing more, so don't read too much into it.

The second point in relation to the MDBC is we are not proposing or recommending anything other than it was a comment for the information of the tribunal, but the Commission itself is proposing and recommending a renewals annuity approach with some other changes to ownership of assets and so forth, and it is a decision for state jurisdictions. We have a request from the commission to consider that and I believe a working party of a number of New South Wales jurisdictions will consider that, but at that stage that is all it is.

THE CHAIRMAN: Can I just follow that up. From the sound of it this issue is not going to be resolved by your working party, let alone the Governments, this side of our determination; is that a correct assumption?

MR PAINTING: I would think you would probably be right, yes. I would not say that would be in the next few months.

MS McLEOD: Jennie McLeod, Murray Irrigation. My question may not be an IPART question, but I can't resist asking Mark, with this whole policy decision about what you do with state assets that are managed by River Murray Water, is this debate that you're having ever going to be out in the arena with the stakeholders that are actually likely to bear the ramifications of the policy decisions you make?

MR PAINTING: Jennie, I'm not sure that either way is going to have much significant impact price wise or anything else, but I guess it will be up to the individual agencies to consult as they see fit.

MR IMMARAJ: Just a quick comment with regard to that, what Murray Darling Basin Commission has proposed through RMW is for the renewals annuity-based approach for the way they recover their costs and to have the ability to carry forward under-expenditure from one year to the next.

River Murray Water does not have water user customers; it only has the three states as their customers. Therefore, I think what Mark has just said is valid, that the flow-on implications of that decision by RMW or the MDBC shouldn't have a bearing on the price. If we go down the approach that State Water has the customers in the Murray, State Water develops the costs and the prices for managing the Murray.

The other issue is that the dealings between MDBC and New South Wales State Treasury and the contribution from the states is driven by the budget and the estimates of what each state is willing to pay and that, in turn, will drive the annuity arrangements of RMW.

THE CHAIRMAN: I would like to thank the department again for its contribution to today.

CONCLUDING REMARKS - CHAIRMAN

THE CHAIRMAN: I think at this stage we will move to my concluding remarks.

Basically, what I want to do is talk a little bit about where we go from here. One specific issue I want to pick up is the point that was raised after lunch about the consultants' reports on capex and opex not being available. I did say at the outset of today's proceedings that that is a matter of very real concern and disappointment to the tribunal. In fact, we deliberately timed these hearings in the expectation that they would be available. So it is a matter of concern to us.

The specific suggestion was that allowing stakeholders only two weeks to comment on those reports is too short, and I have got some sympathy with that observation. We need to balance that against the consequences, if you like, of allowing a longer time.

What cannot be varied is the date at which our final determination is made, and we need to work back from that. For obvious reasons, the determination has to take effect from 1 July. If you work back from that, any delays in getting our draft determination then come off the time that is available for comment on the draft determination, given that our final determination has to be able to take effect from 1 July.

So we have reached the decision, on balance, that the best way to proceed is two weeks for comment on the consultants' report, recognising that there will be an opportunity for further comment on the draft determination, and that is precisely why we have draft determinations, because we do expect and we do receive comment on them.

Looking more broadly at the task in front of the tribunal, obviously the issue of the opex and capex are critical. We have been helped by observations today, and we will be pursuing that, particularly based on the consultants' report.

There is a particular issue in this case which makes price determination here rather more difficult - that is, than in my experience with let's say gas - which is that a big part of the costs have been driven by the Murray

Darling Basin Commission, and where we don't have the same access to information we would normally enjoy there's this vexed issue of how best to handle any capital which is managed by the MDBC but is owned by State Water. That is something we will be giving serious consideration to, and that is why I had some interest in what the state government's own thinking would be on this, but I suspect it will be too late for us to take account of it. But it is something we need to think about critically.

An issue which has had almost no attention today, which would normally have attention in developing pricing determination, is the consumption forecast. I just remind you that how we work if we pursue the building block approach is that we look at the costs and work out as best we can what is an efficient level of costs and a prudent level of costs. That determines, if you like, a revenue target, but when you come to the price per unit, you have got to have regard to the local demand - how many units are to be sold of water - and we haven't really had much discussion at all about the consumption of water, the future consumption. That is something we will have to think more about.

A critical issue is this issue that has been discussed about whether we in fact move to a building block approach or continue the annuity approach, and let me just say in relation to the building block approach - and I'm really repeating what was said particularly by State Water this afternoon - that if State Water doesn't spend what is allowed over the period of the price determination, that will subsequently be adjusted downwards later on. Equally, if they spend more than is allowed, we would want to consider whether we would allow it in the future in terms of whether or not it was prudent. We are determined to get at what is efficient in relation to capital expenditure under a building block approach.

In that context, we are concerned about allegations that payments have been made in the past for particular projects or services which then weren't supplied. We will certainly be looking at that issue if it is an issue, but we are concerned about those allegations. We certainly don't think there should be any double dipping, but we're alive to at least that possibility.

I won't say a lot about the rate of return on capital

or the WACC. In some respects that is an arcane subject. Let me just say that the 7 per cent that was used by State Water in assessing what level of regulatory asset base would be consistent with the annuity approach, if something less than the 7 per cent had been used, then using their methodology, that would have actually increased the regulatory asset base. So it is a bit of swings and roundabouts with this, because I'm presuming that at end of the day we will use one rate throughout, whatever it is, if we go down the building block approach.

So if we used a lower rate of return than 7, other things being equal, that could lead to an increase in the regulatory asset base. I do emphasise "other things being equal" because there are a lot of elements in this calculation.

One of the other issues that we will have to consider which looms particularly large in relation to bulk water pricing is the issue of cost sharing, which has been pointed out by others here this afternoon, and it does include the notion of community service obligations, et cetera. But the government's contribution to cost sharing is quite significant. There is an issue beyond the government of recovery from users other than irrigators and, if you like, the government and we will have to think about that.

We have had an enormous amount of discussion about discounts. We have touched on that more than any other topic today, although I'm not sure it is the most significant topic when it comes to the final price, but at the very least, I have to say the scale of the variations in the discounts, whatever the rationale, does stand out as something that requires some consideration, quite apart from whether you're in favour of them or not.

There are some difficult issues of fixed versus variable charges and premiums for security, and so on, and last, and by no means least, there is the question of the impact of any price adjustment upwards on the irrigators.

Let me say in relation to that that one element of discretion that the tribunal normally has is how fast a change is phased in, and one advantage of doing a multi-year price determination - it is only one of the advantages of doing it - is that it does give us an extended period in which we can phase in what might otherwise be a difficult change to accommodate in a short period.

I think that is all I have to say at this stage, other than to thank you all again for your contributions today. I think I can say that the tribunal has been significantly helped by today's proceedings, and I hope that will be reflected in our draft report due by the end of March. So thank you all and I close today's proceedings.

AT 3.20PM THE HEARING CONCLUDED