

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

BULK WATER MEDIUM TERM PRICE REVIEW

Tribunal Members
Dr Michael Keating AC - Chairman
Mr James Cox

Held at The Wesley Centre
Pitt St, Sydney NSW 2000

On Friday, 30 June 2006, at 9.30am

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1 WELCOME AND INTRODUCTION

2
3 THE CHAIRMAN: I would like to begin by welcoming you all
4 here to this public hearing that the Tribunal is conducting
5 into rural bulk water prices.

6
7 For those of you who do not know me, my name is
8 Michael Keating, and I am the chairman of the Independent
9 Pricing and Regulatory Tribunal. On my left is Jim Cox,
10 who is my fellow Tribunal member, full-time member and
11 Chief Executive of the Tribunal.

12
13 I suspect most of you will know my colleagues on the
14 right here, who are Colin Reid, who is the Director of
15 Water, and Michael Seery, who is the Program Manager, Bulk
16 Water Pricing.

17
18 The Tribunal is conducting this hearing under
19 section 11 of its Act. The hearing is part of a price
20 review that will ultimately result in the Tribunal setting
21 a medium-term price path for bulk water prices to be
22 charged by State Water Corporation and the Department of
23 Natural Resources for the period from 2006/2007 to
24 2009/2010.

25
26 The purpose of today's hearing is to listen to
27 stakeholders' views on the Tribunal's draft determination
28 which it released on 31 May.

29
30 Before commencing to hear from the key stakeholders, I
31 would like to speak briefly about the review process. The
32 Tribunal has in fact already engaged in a considerable
33 amount of public consultation, as I think most of you are
34 aware.

35
36 State Water and the Department of Natural Resources
37 provided their submissions on their proposed costs and
38 prices in October 2005. This was followed by a large
39 number of submissions from other interested parties which
40 were received in November 2005. Submissions from all
41 parties are available on the Tribunal's website.

42
43 The Tribunal conducted a public hearing in Sydney in
44 November, and then we had further public hearings in the
45 three regional centres of Griffith, Dubbo, and Moree at the
46 end of January this year. Today is the Tribunal's final
47 public hearing for this review.

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2 The submissions and presentations at the public
3 hearings have helped the Tribunal to understand
4 stakeholders' views on the key issues for the review. All
5 of the submission have been carefully considered by the
6 Tribunal in developing its findings and recommendations.

7
8 To assist it in the review, the Tribunal has engaged a
9 number of consultants. The Tribunal in fact engaged two
10 groups of consultants - PB Associates and Halcrow/ MMA - to
11 review State Water's and DNR's operating costs. The
12 Tribunal took the consultants' views and the comments made
13 by the stakeholders on the PB Associates reports into
14 account when making its findings on operating and capital
15 expenditure for the next four years. That, in fact, meant
16 that it did not accept State Water's and DNR's submissions
17 on their face.

18
19 The Tribunal asked the Centre for International
20 Economics to provide it with advice on consumption
21 forecasts, cost shares and wholesale discounts. In
22 addition, the Tribunal published a report by ABARE on the
23 impact of bulk water prices on farm profitability.
24 The Tribunal provided an opportunity for the stakeholders
25 to comment on those findings. Each of the consultant's
26 reports is available on the IPART web site.

27
28 As noted earlier, the Tribunal released its draft
29 determination report on 31 May. In response to that draft
30 determination, the Tribunal has received in excess of
31 20 submissions from the agencies and other interested
32 parties. The public hearings bring to a close this
33 consultation phase of the review. The Tribunal's task now
34 is to consider the submissions, both written and oral, and
35 make its final determination on prices; that is, to set
36 prices for bulk water extraction from regulated rivers,
37 unregulated rivers and groundwater.

38
39 In doing so, the Tribunal will need to take account of
40 a wide range of matters as required by its Act. These
41 include but are not limited to the impact of prices on the
42 financial viability of the regulated agencies and the
43 potential impacts on customers.

44
45 The Tribunal also needs to consider the objectives of
46 the National Water Initiative, including the expectation in
47 that initiative that there will be full cost recovery at

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1 least over time.
2
3 The Tribunal anticipates that it will release its
4 final determination by the end of August this year. Some
5 of the organisations that have made submissions to the
6 Tribunal will be presenting a case to this hearing today.
7
8 This hearing is an important part of a broader price
9 review process. It provides an opportunity for the
10 Tribunal to hear, in a public forum, from the water
11 businesses and other stakeholders and to get their views on
12 the Tribunal's draft determination and question the
13 arguments put forward.
14
15 Before we commence the proceedings today, I would like
16 to say a few words about the process for this hearing. You
17 have available to you an agenda which indicates the order
18 of presenters. It also gives a timetable. I was asked
19 that we vary the timetable that was originally put up on
20 the website. That timetable proposed taking lunch break
21 and then everyone reassembling after lunch. It was put to
22 me that rather than reassembling after an hour's break, we
23 should just press straight through and have lunch after the
24 proceedings, so we aim to finish at 1.30.
25
26 If we are going to achieve that aim, it is important
27 that people keep to the timetable that is set down. We do
28 want to allow a period for the Tribunal to question the
29 presenters, so that means the Department of Natural
30 Resources and State Water, will have 30 minutes for their
31 presentations and 10 minutes for us to question them. For
32 the various irrigators, we ask that you allow the last five
33 minutes for questions on your presentation.
34
35 We would also note that the proceedings today are
36 being recorded and the transcript will be available on the
37 IPART website early next week. When people get up to
38 speak, I ask that they introduce themselves for the benefit
39 of our transcribers and the members of the team.
40
41 We will start with State Water Corporation, followed
42 by the Department of Natural Resources.
43
44
45
46
47

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1 STATE WATER CORPORATION
2
3 THE CHAIRMAN: I would like to welcome Mr Abel Immaraj,
4 the Chief Executive of State Water, to make the initial
5 presentation. I will ask Mr Immaraj to come up here and
6 introduce his team.
7
8 MR IMMARAJ: Thank you, Mr Chairman. I am accompanied by
9 Dennis Zandona, Manager Corporate Services, and Russell
10 Simons, who is the Commercial Accounting Officer.
11 Dennis Zandona will be making the presentation and will be
12 available for questions.
13
14 MR ZANDONA: Mr Chairman, members of the Tribunal and
15 interested parties. I would like to run through State
16 Water's response to IPART's draft pricing determination.
17 Firstly, I will give an overview of State Water as a new
18 organisation. I will talk about the organisation's
19 objectives; the commercial policy framework within which we
20 operate; some of the challenges that face State Water and a
21 response to those challenges; and the objective of full
22 cost recovery and what that might mean. I will then deal
23 with some draft determination responses and cover some
24 other issues.
25
26 I take this opportunity to remind everybody that this
27 is a new organisation. It was brought into being on 1 July
28 2004. It still uses the old State Water name, but it is a
29 new corporation, and it effectively is a new line in the
30 sand since 1 July 2004.
31
32 As a new organisation, we have to operate within a new
33 framework. It is a commercial policy framework that
34 applies to all State-owned corporations. We were formed
35 under and have responsibilities under the State Water
36 Corporation Act. There is an operating licence with our
37 portfolio minister and that imposes obligations on this
38 organisation, some of which were never there before. In
39 summary, it is a fairly highly regulated business.
40 You are not dealing with the same organisation that you may
41 have dealt with in the past and everybody needs to
42 recognise that there has been a change. The new
43 organisation has approximately 6,500 customers and they are
44 on the regulated rivers.
45
46 Dealing with the State Water Corporations objectives,
47 obviously our objective is to deliver bulk water to

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1 regional New South Wales and to do that in an efficient and
2 effective manner. As a result of our being set up as a
3 separate organisation, improved transparency and
4 improvement accountability fall out of that. Any
5 organisation that stands alone cannot hide behind another
6 large organisation.

7
8 We are required to identify and disclose subsidies.

9 We are also required to be commercially viable. Commercial
10 viability involves achieving full cost recovery. In
11 addition to that, we are required to be socially
12 responsible.

13
14 Government commercial policy framework is consistent
15 with the National Competition Policy. That involves full
16 cost recovery. It is based on efficient operating costs.
17 We are expected to recover costs of the assets and provide
18 a return on assets. We are expected to pay income tax
19 equivalents and to be subject to dividends. This policy is
20 applied to all State-owned corporations and we are no
21 exception.

22
23 I wish to refer to some of our major challenges. We
24 have had to transition from a government business unit to a
25 stand-alone corporate entity. It seems fairly simple,
26 really, but I can assure you there is a significant
27 challenge in that transition. I have been in the
28 corporation since July last year and the organisation has
29 been pushing ahead with its ambition of being a stand-alone
30 corporation. For the first 12 months, as many of you would
31 know, we were still relying on the old systems that we
32 operated under, where DNR provided the platform for our
33 financials as well as most of our administrative systems
34 and policies and procedures.

35
36 As a stand-alone corporation, we have to contend with
37 a corporate governance framework, as the irrigation
38 corporations would appreciate, having been through this
39 process themselves some years ago. There is a lot more
40 transparency. A lot more obligations and a lot more
41 compliance requirements fall on a corporation to satisfy
42 the corporate governance. That has been driven as much by
43 the board as it is by external parties.

44
45 We have had to transition to a commercial accounting
46 practices. The practices of the past were not appropriate
47 for a stand-alone corporation. As many of you have

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1 recognised in your submissions, the accounting practices of
2 the past have not served the organisation well. In my past
3 life, I spent some years with one of the predecessor
4 organisations, the Department of Water Resources, and its
5 financial accounting systems at that time were complex to
6 say the least, and there was really no change to the system
7 that State Water was operating within when it was supported
8 by DNR.

9
10 As a stand-alone corporate entity, we are responsible
11 for our financial management and we have taken on that
12 challenge. We need to deal with moving to a more
13 commercial culture. As many of your submissions have
14 alluded to, there is a difference between a government
15 bureaucracy or being part of a government bureaucracy and
16 operating as a stand-alone commercial entity. We have
17 accepted that challenge and we are taking steps to meet
18 that challenge.

19
20 There is significant organisational change involved as
21 a result of moving from being a business unit to a
22 corporate entity. There were a lot of responsibilities
23 that were handled by others and which the organisation was
24 not well equipped to handle when it was first formed.
25 Those challenges need to be recognised by all parties.

26
27 One of our obvious challenges is to move down the
28 efficiency and effectiveness path. We are determined to
29 meet that challenge as well. I guess you have to put first
30 things first and our response to these challenges is
31 initially to focus on corporate governance. We did not
32 have the systems and processes in place to be a stand-alone
33 corporate entity as at 1 July 2004. Now, that is
34 bleedinly obvious to everybody, I am sure, but it is no
35 less obvious to those who are a part of that organisation
36 and who have had to contend with those challenges.

37
38 As we said in our response to the draft Tribunal
39 determination, during this two-year period, we have
40 actually had to contend with two IPART submissions. They
41 take up considerable resources, and that process has
42 detracted from the need for us to concentrate on the
43 corporate governance and other aspects that we were charged
44 with.

45
46 We have had to implement a new financial system, and
47 that commenced at the start of this financial year. We

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1 commenced implementation of that system on 1 July 2005.
2 That system will deliver some improved levels of financial
3 reporting for the organisation and will assist with meeting
4 our transparency obligations. Anybody who has been involved
5 in implementing new systems would appreciate that
6 implementing a new system is quite a challenge in itself
7 and takes quite some time to actually bed down, and we are
8 still working through that.

9
10 Part of our response to these challenges is to develop
11 a businesslike culture. We are taking steps to move down
12 that path and we have been taking steps for several months.
13 One of our objectives, obviously, as a stand-alone
14 corporation is to achieve full cost recovery.

15
16 Full cost recovery means different things to different
17 people. In the next slide we will outline what full cost
18 recovery means to a commercial entity. We also need to
19 benchmark our operations, as many of you have indicated,
20 and review work practices and develop efficiency and
21 effectiveness measures. As I outlined, these things do not
22 just happen from day one and any expectations that suddenly
23 State Water, from 1 July 2004, would suddenly be
24 transformed into an efficient and effective organisation, a
25 commercial entity, are just totally unreasonable.

26
27 In the IPART pricing determination, we seek through
28 this process, to have adopted an appropriate pricing model
29 supported by appropriate commercial accounting practices
30 and to provide a pathway to full cost recovery. We expect
31 that, through this process, we will achieve appropriate
32 price outcomes for all stakeholders. We are also expecting
33 that this process will help to identify explicitly the
34 government subsidies that exist now and have existed from
35 1 July 2004, and obviously the intention of IPART is to
36 protect customers against unwarranted price increases.

37
38 The IPART pricing impacts are important to consider,
39 and State Water is very cognisant of the impacts that a
40 pricing determination can have on the various stakeholders.
41 It provides a significant challenge for all, as is
42 evidenced by the responses that many of you have provided
43 to the draft determination. I am sure it was a challenge
44 for IPART to come up with those draft determinations, as
45 was the case with us when we were formulating our response
46 to those determinations.

47

1 There will obviously be an impact on customers. There
2 will also be an impact on State Water and an impact on
3 government through this process and we believe that, at
4 this point in time, the pricing determination has taken all
5 of those stakeholders into consideration.

6
7 The price outcome that we seek is for costs shared
8 between customers and government on an equitable basis.
9 The approach to that is through a regulatory asset-based
10 approach, or RAB approach, and that's a commonly used
11 approach to determine full cost recovery and for supporting
12 long-term commercial viability. It involves identifying
13 efficient costs of meeting our service and regulatory
14 obligations and ensuring pricing addresses those efficient
15 costs or is sufficient to meet those efficient costs, but
16 more than that, it requires that there be a return of
17 assets and a return on assets as part of the pricing
18 formula. Those ingredients are the key ingredients to
19 ensuring commercial viability and long-term sustainability
20 of any organisation.

21
22 With respect to cost sharing, State Water has an asset
23 base of \$2.7bn in MEERA: that's modern engineering
24 equivalent replacement values. They have been written down
25 to what is considered to be a commercially sustainable
26 level as at 1 July 2004. Our assessment of that and the
27 agreement from government was that those assets would be
28 valued at \$302.7m. IPART's draft determination has
29 revisited those numbers and has come up with an amount of
30 \$240.8m.

31
32 That asset base is split between government and
33 customers on the proportions or on the dollar values
34 indicated in the chart behind me. They represent the same
35 proportion, so the differences are clearly just between a
36 total value of \$302.7m and that \$240.8m split.

37
38 With the cost sharing, at the formation of the State
39 Water Corporation as a stand-alone entity there was a
40 government commitment to funding the operating costs for
41 identified activities paying for upgrading major dams for
42 non-compliance at pre-1997 standards. There was an
43 agreement to fund some categories of capital investment.
44 There was also an agreement to fund operating subsidies
45 that are necessary to achieve full cost recovery and also
46 there is a commitment from the government to fund return of
47 and return on its share of assets. As we saw in the

1 previous slide, its share represents more than 50 per cent
2 of the costs of our \$302m or \$240m asset base.

3
4 In our response to IPART's draft determination, we
5 have challenged some of the draft determination and we seek
6 some adjustment or recognition of the following adjustments
7 in the final pricing determination. There was obviously an
8 admission of the full costs of operation and efficiency of
9 water supply and that represented a \$2.18bn shortfall in
10 cost base allowed for State Water as a stand-alone
11 corporation.

12
13 We are seeking further costs to support our customer
14 support costs of \$0.14m, water quality monitoring of an
15 additional \$490,000 and an additional \$0.98m for river
16 operations and \$0.26m for dam safety operations and
17 maintenance. There are also some significant accounting
18 policy changes that have fallen out of the production of
19 the 2004-2005 financial accounts and they include
20 adjustments of \$4.1m to our initial submission and we also
21 seek through a better analysis of a generic term called
22 "overhead" a \$2m adjustment for indirect costs.

23
24 In reading a lot of the responses to the draft
25 determination there is an apparent failure to acknowledge
26 that this pricing determination does provide for government
27 contributions to our revenue base and just to highlight
28 that, in IPART's draft determination the government's share
29 of revenue would constitute \$14.3m and the operating
30 subsidy that has been identified based on IPART's draft
31 determination of efficient costs would be for a \$5.7m
32 operating subsidy to be applied.

33
34 Based on our requested changes there will be a change
35 to that government share, assuming that IPART holds the
36 line on the level of price increases that it is proposing
37 to pass through to customers, but the government's share
38 would increase to \$18.8m and there would be a \$15.6m
39 operating subsidy. These numbers exclude the contributions
40 for MDBC and DBBRC by the State Government.

41
42 Just to highlight the comparison between customers and
43 government share, the top line of this graph shows the
44 customer share of revenue, the intermediate line shows the
45 government share of revenue and the yellow line depicts the
46 level of operating subsidy that the government contributes,
47 based on IPART's draft determination over a period of four

1 years. Whilst there is an increase in customer
2 contributions to revenue, there is also an equal increase
3 in government contribution and over that price path there
4 would be a reduction in government contribution for
5 subsidy.

6
7 Just to depict the representation differently, over
8 the determination period that would mean that there would
9 be a 65 per cent contribution from customers and a
10 35 per cent contribution from the government within the
11 draft determination environment.

12
13 If State Water happens to be successful in negotiating
14 higher costs and therefore adjustment to revenue, these
15 numbers change as depicted in this following chart. As you
16 can see, the level of government subsidy would increase
17 significantly over the period unless a change to the
18 pricing determination was made. Over the four-year period
19 of the determination it would represent a 52 per cent share
20 by customers of our revenue requirements and a 48 per cent
21 share of revenue being provided by government. It is quite
22 wrong to suggest that our customers are being expected to
23 contribute to our operations.

24
25 Moving on to the recommended capital expenditure as
26 provided in the draft determination, internally State Water
27 has reviewed its capex program since the initial pricing
28 submission was prepared. We have put some reality checks
29 in there. We have reviewed the likelihood of that
30 expenditure and we have implemented a capital investment
31 and a risk evaluation process as part of our capital
32 spending and that has changed the numbers. The whole
33 process has led to us concluding that the allowance for
34 capex that IPART has provided within the draft
35 determination period is a realistic capital program for
36 State Water to deliver.

37
38 With respect to the regulatory asset base, our
39 response to the draft submission has questioned the use of
40 a 7 per cent WACC for the open wrap and we seek that that
41 be revisited. That would provide a step in between our
42 starting position and IPART's position and would provide a
43 RAB of \$277m. With respect to the go-forward rate of
44 return on State Water's RAB, IPART has used a WACC
45 consistent with urban water utilities and that is a
46 6.4 per cent WACC. We have far greater revenue volatility
47 than any metropolitan water utility and we don't have the

1 same opportunity for growth that exists in that
2 environment. The higher risks that are involved in that
3 would require a higher equity beta to be applied and debt
4 gearing to be at a lower level than IPART have assumed.
5 Both facts together reflect a higher return to equity and
6 it would logically follow a higher WACC should apply. That
7 would reflect the high risk on water usage. Our pricing
8 proposal is not a grab for cash. It is not an abuse of our
9 monopoly position. It doesn't represent a country to city
10 cash transfer. It is about disclosure of costs and
11 disclosure of subsidies by government. It looks at
12 equitable sharing of costs and it is aimed at long-term
13 sustainability.

14
15 Some of the myths that exist out there - some valleys
16 subsidise others. That may have been the case in the past,
17 but the government is contributing to any shortfall that is
18 identified in efficient costs through an operating subsidy.
19 There is also a myth that overheads are too high. We have
20 to accept a lot of the blame for that myth. It really
21 relates to the accounting processes and systems that were
22 in place before. Our re-examination of overheads indicates
23 that our overheads are around 15 per cent of our opex.
24 With respect to inefficient bureaucracy, anybody can claim
25 that. I can assure you that the bureaucracy bit of
26 State Water if it exists, I haven't witnessed it yet.

27
28 MR CLEMENTS: Do we have a right to question this guy at
29 the end of the session?

30
31 THE CHAIRMAN: No. You can make a comment at the end of
32 the day.

33
34 MR CLEMENTS: I think it is inappropriate that this --

35
36 THE CHAIRMAN: I would like him to continue.

37
38 MR ZANDONA: Are our costs too high? We can show that
39 they're not necessarily too high. Efficiency depends on
40 market pressures. That is not the only way to achieve
41 efficiency. No consultation with customers? We have had
42 28 to 30 customer service committee meetings per year since
43 incorporation.

44
45 State Water controls substantial assets. Their MEERA
46 replacement values are \$2.7bn. An opex of
47 \$40.5m represents 1.5 per cent of asset value and a

1 2 per cent benchmark that is typically used for
2 organisations that are asset rich would indicate that opex
3 should be \$54m. On at least that measure I find it hard to
4 accept that we spend too much on it. We also have
5 obligations. The 2004/5 annual accounts have been subject to
6 extensive review and there are adjustments from the past
7 accounting practices that have resulted in an additional
8 \$10.6m being brought to account through this process.
9 Those adjustments have been confirmed by our auditors.
10 \$5.3m relates to prior years and the delays in finalising
11 our annual accounts has not been an attempt to circumvent
12 disclosure, but it is purely as a result of us being
13 corporatised too quickly and having to deal with past
14 inadequate systems, processes and resourcing.

15
16 The government's share of return on assets is \$54m.

17 I note that the temporary transfer fees that we proposed
18 for the 300 megalitre example is capped at \$275 as
19 State Water's fee and the South Australian fee for the same
20 transaction is \$300.

21
22 We also support the retention of higher fixed charges
23 for under-recovered valleys and some of the constituents
24 will be seeking that change. We would believe that new
25 pricing would be applied from 1 October 2006 regardless of
26 when the determination announcement is made. That is all
27 from me.

28
29 THE CHAIRMAN: Thank you. Colin?

30
31 MR REID: Thank you very much, Dennis. First of all,
32 I would just like to clarify a couple of matters. Firstly,
33 on the Fish River, I take it you're not suggesting any
34 change to the proposed price levels there, but rather
35 recognition of full-year expenditure; is that right?

36
37 MR ZANDONA: That is right, yes.

38
39 MR REID: One of the issues that flows through in both
40 your response to the Tribunal's draft determination and in
41 other responses as well is the question of costs allocated
42 to the Murrumbidgee. There seem to be two issues there:
43 one, whether it is appropriate to charge the full costs of
44 the MDBC purely to the Murray and if those costs should be
45 shared beyond the Murray; and the second issue seems to be
46 whether the Murrumbidgee was unduly favoured by the
47 Tribunal's decision to draw a line in the sand in 1997.

1 I am just wondering if you want to expand on those two
2 matters for me?
3
4 MR IMMARAJ: On the first point, the two weirs that used
5 to be part of the Murray infrastructure, the whole of the
6 Murray-Darling infrastructure, Maude and Redbank Weirs have
7 been transferred to New South Wales and are now part of the
8 Murrumbidgee infrastructure. Therefore, that lessens the
9 case for spreading MDBC costs into the Murrumbidgee valley.
10 That was why we supported the bearing of the MDBC costs
11 purely by the Murray. The second issue relates to the
12 level of cost recovery in the Murrumbidgee. We don't
13 particularly have a favoured view on that issue at the
14 moment.

15
16 MR ZANDONA: Could I just add that compliance
17 issues were addressed for Burrinjuck Dam in the early to
18 mid-1990s, so it is a 100 per cent compliant dam. That has
19 certainly been an advantage to that valley that other
20 valleys may not have. Those assets were in fairly good
21 shape overall, so the requirement for capex on those
22 structures may not be nearly as high as some of the other
23 valleys. Should the natural advantages that apply to a
24 particular valley be used to favour the pricing outcome for
25 that valley? The same could be said for most utilities.
26 Most utilities operate in both an intense market urban
27 environment and also in regional New South Wales and mostly
28 the argument is we should share the joy for everybody and
29 use the efficiencies that might operate in a larger market
30 and provide the benefits right across the network. In my
31 view, we can certainly use that similar sort of argument
32 for the Murrumbidgee Valley.

33
34 MR REID: Another issue that has come through in some of
35 the submissions is the high security premium.
36 In particular, if I take, for example, the submission from
37 Western Murray - and I know the Tribunal in its draft
38 determination went for a higher premium than State Water
39 had originally proposed - what Western Murray indicated was
40 that because the water for the Murray/Murrumbidgee comes
41 obviously from the Snowy scheme, that the provision of high
42 security water imposes a much lower or no cost impost on
43 State Water and therefore the proposed minimum premium of
44 1.5 that the Tribunal has put into its draft determination
45 is inappropriate. I want you to comment on that.

46
47 MR IMMARAJ: In our submission we had suggested 1.17,

1 I believe, for the Murray based on our understanding of how
2 the system operates and the level of security. We support
3 that. We think there is a reasonably strong basis to stay
4 with that ratio.

5
6 As we pointed out in our submission, from an
7 operational point of view we do store more water in some
8 other valleys not the Murray and Murrumbidgee because, as
9 you said, it is secured from Snowy releases rather than
10 from our operational releases. In the other valleys we
11 propose that it be multiplied by the number of years we
12 store that water. Both those issues are relevant, they
13 need to be looked at, but in particular for the Murray and
14 the Murrumbidgee we would be supporting the initial
15 submission ratios.

16
17 MR REID: Another issue that you raised in your submission
18 is the ratio of fixed to usage charges. You are suggesting
19 that ultimately the 60:40 ratio or 60 usage/40 fixed would
20 be amended for the coastal valleys. Presumably then to
21 achieve the same overall ratio across the State you would
22 then have to change that ratio: in other words, increase
23 the usage proportion in some of the other valleys. I am
24 just wondering whether you have a view if that would be
25 appropriate and if it was, where would that best be done? .

26
27 MR IMMARAJ: May I offer two comments in regard to that.
28 The level of adjustment in the other valleys might not be
29 significant because of the volumes we're talking about in
30 the coastal versus the inland. On the one hand, there is a
31 case to say yes, some of the price adjustments could be
32 taken through in raising the inland usage costs.

33
34 The other comment we would offer is that we're
35 prepared to go back and raise this issue with our portfolio
36 Minister with regard to how strictly they want to enforce
37 the level of compliance with that 60:40 ratio and given
38 that each year that could be averaged out, over what period
39 of accounting should that be achieved. Should that be for
40 the duration of the determination perhaps or should it be
41 on an annual basis? The operating licence is silent on
42 that. We believe there is some latitude to strike now.

43
44 MR REID: One of the major items in your proposed
45 adjustments is for changes in accounting standards. In
46 many ways those changes don't increase, if you like, the
47 total cash outflow from State Water but rather shift money

1 between buckets, between capital expenditure and operating
2 expenditure and therefore bring forward the recognition of
3 expenses. How do we reconcile those accounting changes
4 with the imposts that may flow from those on users,
5 extractors of water, given that the overall cash outflows,
6 if you like, that may result from that are different from
7 prior years?

8
9 MR ZANDONA: The changes in our accounting requirements
10 are to comply with Australian accounting standards and
11 international accounting standards. What happened before
12 within a government environment was more related to the
13 availability of capital funding provided by Treasury for
14 that particular item. One of those items is major periodic
15 maintenance. MPM, as the name suggests, is maintenance.
16 Maintenance is opex, not capex. The allowance for it to be
17 treated as catch-up and for major periodic maintenance to
18 be funded under the capital program is something unique to
19 government. It wouldn't have been treated that way
20 regardless of the sourcing of funds. If you happen to get
21 a grant for that purpose from the government as a
22 stand-alone corporation, you would still have to recognise
23 those costs as expenditure as opposed to capital costs and
24 you would recognise the revenue that you have got from
25 funding that.

26
27 Most periodic maintenance is acceptable to capitalise
28 when it is treated as a component asset and there are
29 strict guidelines that apply to using that categorisation
30 because it changes the nature of that expenditure. What it
31 does, in effect, is smooth out that expenditure and avoids
32 spikes to particular valleys through a major periodic
33 maintenance approach. Ultimately, the way it was being
34 handled before was to capitalise it to the asset and
35 depreciate it over a 160-year period average life. That is
36 clearly not an appropriate handling of that type of
37 expenditure because it is a repeat expenditure. It is
38 generally on a cycle. It can be a five-year cycle, a
39 10-year cycle or it might be a 20-year cycle. That
40 expenditure should have been depreciated at a much higher
41 rate.

42
43 If major periodic maintenance had been handled
44 properly, the average write-off for depreciation would have
45 been roughly equivalent to an average spend on that item
46 anyway, but the way it was handled in the previous
47 environment was to actually write it off over 160 years on

1 average and that is clearly not sustainable as a practice.

2
3 MR IMMARAJ: Might I add a comment, Mr Chairman? The
4 two graphs that we put up do propose how we think the costs
5 should be shared and in particular the dam safety
6 compliance capex, which if you look at it under the new
7 practice moves it into opex. We think that that should be
8 dealt with in the same cost-share principle. It should be
9 borne by government.

10
11 MR REID: Thank you.

12
13 MR COX: Your presentation and submission demonstrate the
14 fact that there are some operating expenses that should be
15 recovered from users. Obviously, we will do our own
16 investigation on that. It is quite likely, I suspect,
17 we'll agree that a lot of that expenditure is appropriate
18 to be included and should be paid for by the user. If we
19 do that we're likely to find that operating expenditure
20 totally has been recovered significantly greater than that
21 which was allowed for in our draft determination and given
22 the way that pricing works, that means that prices in the
23 final determination will be significantly greater than in
24 our draft determination. I think your presentation today
25 tends to confirm that.

26
27 We have concerns from users about the price increases
28 already proposed in the draft determination. All this
29 being so, what comments would you like to make or advice
30 would you like to provide as to how we can handle this
31 issue?

32
33 MR IMMARAJ: The two graphs that we put up quite clearly
34 state what is our position with regard to these additional
35 costs. The first graph showed basically with the draft
36 determination the cost shares between government, users and
37 the subsidies. The second graph showed what we have asked
38 for in addition in our opex, but you will notice that the
39 line of cost recovery from the customers has not changed.

40
41 THE CHAIRMAN: So you are basically saying you would
42 like us to allow greater opex expenditure and that the
43 government should effectively pay for it?

44
45 MR IMMARAJ: That is our position at the moment for
46 IPART's consideration. We are placing those costs to show
47 that that is what we strongly and firmly believe is our

1 efficient opex and that is what we would like to put on the
2 table. That line shows that we are not expecting to
3 increase the prices as a result of that.

4
5 MR ZANDONA: I understand there is a lot of pressure on
6 IPART to not increase prices beyond its draft
7 determination. Obviously there is a contrary view out
8 there that they should be much lower.

9
10 THE CHAIRMAN: There is also the pressure on IPART to
11 adopt a responsible methodology which is consistent.

12
13 I would like to thank State Water for its presentation
14 and in the interests of speeding things up, I will ask DNR
15 to come forward.

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1 DEPARTMENT OF NATURAL RESOURCES:

2

3 MR HARRISS: Thank you very much, Mr Chairman. My name is
4 David Harriss. I am the Executive Director of the Water
5 Management Division of the Department of Natural Resources.
6 I have with me Rob O'Neill and Rick Rundle from the
7 department. They are here also to cop any flak.

8

9 Thank you very much for the opportunity to present
10 today and for the opportunity offered previously to be
11 involved in the whole price determination process. Whilst
12 there might be difficulties at different times, in New
13 South Wales we hold the IPART process up as a model that
14 should be applied in the other states. I think all the
15 other States are behind us in the transparency on
16 price-saving costs.

17

18 I will approach this presentation differently from
19 State Water. I think we have covered a fair bit already in
20 our submission, in our various responses, and also in our
21 submission to the draft determination. The feedback we
22 have been getting from the users and others is that a lot
23 of people want to know how we will actually deliver on what
24 we have undertaken to deliver and, if all this works, what
25 are the costs?

26

27 As you would be aware, we originally applied for a
28 cost basis of about \$55m, which was proposed to have about
29 an 85 per cent user-paid share. The draft determination
30 has proposed a cost basis of \$45m with a 66 per cent user
31 share, so I will be going through some of these issues.

32

33 What I intend to do is give an overview. Like State
34 Water, we are a new department. We have been established
35 for about 10 months, having separated from the Department
36 of Infrastructure, Planning and Natural Resources. We have
37 a more definitive focus on natural resource management.
38 Will go through how we will deliver that, how we will
39 address the issues for which we have sought funding, the
40 cost recovery, and how we will address other issues. I
41 will cover some of the major drivers for the future.
42 Hopefully we will be able to demonstrate a businesslike
43 approach that is more developed than previously and I will
44 talk about how we will address our accountabilities.

45

46 The new Department of Natural Resources is responsible
47 for natural resource management, in particular water

1 management in New South Wales. Our services are
2 administered on behalf of the Water Administration
3 Ministerial Corporation - that is under the Minister for
4 Natural Resources.

5
6 We have recently restructured our functional
7 responsibilities. We are still going through a process of
8 restructure, and that restructure is in conjunction with a
9 cost savings project. Most of the work I will be talking
10 about today is work in progress that hopefully will be
11 resolved soon so that we can get on with the job of
12 delivering water resource management through the state.

13
14 Our key commitments are to ensure service levels, to
15 maintain those service levels and to enhance them where it
16 is appropriate. To deliver our functions in that resource
17 management - I love words such as "seamless service
18 delivery areas" - we have created five divisions within the
19 department. They include the water management division,
20 which is solely focused on water management. There is a
21 substantial body of work under that which I will allude to
22 later on. The second division is landscapes, regions and
23 catchment management authorities support. We have a
24 resource access and compliance division. We have a science
25 and information division, and we have a corporate shared
26 services division looking after the financial and corporate
27 management arrangements.

28
29 Those divisions will have a particular focus on
30 delivering natural resource management activities under
31 their areas of accountability. The costs we generate for
32 water management are typically shared between the two major
33 areas, namely, the water management division and the
34 resource access and compliance division. There are some
35 overheads of course being supported by the corporate shared
36 services, which is the focus of our cost reduction process
37 at the present stage.

38
39 A major change from the way in which the Department of
40 Infrastructure, Planning and Natural Resources, the
41 Department of Land and Water Conservation and our
42 predecessors have operated is that we will now be more
43 centralised in our program management with no regional
44 administrations. In fact, as many of you would be aware,
45 the concept of regions is now a thing of the past and
46 regional administrative managements are no longer there.

47

1 What we have to do now is focus on how we are going to
2 deliver surface and groundwater management in the State
3 given our new structure. We are focused on the key
4 functional areas from which we have sought cost recovery.
5 That includes water monitoring, water analysis, modelling
6 components, and more and more importance has been put on
7 modelling to develop cap compliance, to develop our water
8 sharing plans, to say how we will deliver on environmental
9 flow requirements, salinity management, and so on.

10
11 We have water sharing planning, which we are required
12 to do under the National Water Initiative. We have the
13 development of new plans and the implementation of those
14 plans. We also have a significant water reform agenda
15 which has progressed from 1993/1994 with COAG through the
16 New South Wales water reform process, which commenced in
17 1995, and now the National Water Initiative, which
18 commenced in 2004. I suppose one of the major platforms
19 for all of those initiatives is to develop water trading.

20
21 We are also establishing a new business development
22 approach to fund new programs, particularly where those
23 programs are not covered through cost recovery means.

24
25 Under our access compliance division, the regional
26 work units are responsible for licensing which, as you are
27 aware, is fully 100 per cent cost recovered. In order to
28 address some of the issues when we do not have all the
29 resources required to deliver, throughout this whole
30 restructure, we are redeploying our staff to deliver on
31 those functions for which we are not cost recovering, for
32 which there is a user component and for which there is a
33 recurrent component. We will focus our endeavours in those
34 areas.

35
36 What we will have to seriously consider is the
37 question of the work for which there is no user requirement
38 and is fully recurrently funded. We are now going through
39 the process of identifying those programs which we are paid
40 to do and we will get on and do those, but will have to
41 seriously challenge those programs which are not cost
42 recovered other than through recurrent programs.

43
44 Through our business development approach, we also
45 have a focus on seeking additional funds to cover the cost
46 of those works. They are not insubstantial funds. A lot
47 of them are notional, of course. There is the Water Smart

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1 Australia fund of \$1.6 billion, and now the Living Murray,
2 which has about \$1 billion, so we are actively seeking to
3 fully recover the cost of those programs from those
4 sources.

5
6 That will have, hopefully, a minimal impact on the
7 structure of the water management division and access
8 compliance for which the costs determined by IPART are
9 apportioned. So we will be retaining the water management
10 and licensing services. Many of those costs are passed on
11 to users through the bulk water charges or where we are
12 required to, the recurrent funds available to the
13 department will be used to supplement that when there is
14 not 100 per cent full cost recovery.

15
16 We support the transitional moves to full cost
17 recovery, but there will be a shortfall in our base level
18 of user costs, so we will therefore have to seek additional
19 funds from the recurrent funds available to the department.

20
21 We support charging ICDs for their total cost of
22 conveyance entitlement volume. The draft determination
23 provided for a 14 per cent reduction in the user share
24 revenue. That is an area where we have to be a bit smart
25 about how we apportion the recurrent funds available to the
26 department, and that section of the slide just simply
27 clarifies that.

28
29 This next slide pretty much tells you what we do. As
30 opposed to State Water, we support the removal of wholesale
31 discounts for the purpose of natural resource management
32 rather than for the purposes of bulk water supply. That is
33 quite a differentiation when compared with State Water.

34
35 Minimum billing: the current minimum charge on unreg
36 is a base charge on groundwater. There is no minimum
37 charge on regulated licences. We would seek a change in
38 that because, with water trading and the establishment of
39 access rights and the establishment of use rights, there is
40 a potential that there will be many water access licences
41 issued with a zero or very small entitlement for which they
42 are charged. It is part of the National Water Initiative
43 to separate access from use entitlement, so we will see a
44 lot of licences being established to facilitate water
45 trading both within New South Wales and interstate.

46
47 Even though there is a zero allocation on those access

1 licences, they still have administration costs. There are
2 also costs involved in compliance enforcement, maintaining
3 records and maintaining billing. I think we have got that
4 point through.

5
6 As to the increases on water charges they are capped
7 15 per cent of regulated, 15 per cent of unreg and 25 per
8 cent of groundwater and other unreg. We don't believe
9 there is a huge impact on the users. What we have found
10 through the ABARE study is that there is a very small
11 impact, if any, on farm profitability in the short term and
12 probably less in the longer term; that is, the cost of
13 water management charges in proportion to the total farm
14 costs.

15
16 In the future we will focus on water savings.
17 Unfortunately the water savings and reduction in
18 entitlements, particularly groundwater entitlements,
19 reduces our capacity to generate funds, but that is part
20 and parcel of natural resource management. Where we
21 generate savings on regulated rivers, for example, if we
22 reduce seepage and evaporation components, we will be
23 issuing new water access licences so that those savings
24 will be recognised and they can be managed. They will in
25 turn relate to adaptive environmental water conditions.

26
27 The next three dot points on that slide are work in
28 progress that we are trying to get at, which is: Having
29 recovered those savings and having a licence entitlement
30 sitting in the dams, should that water then attract bulk
31 water charges? The water has previously been sitting in
32 the dams, it has previously been released to cover the
33 losses and no charge was made. But now it will be sitting
34 in the dam and it will be released for environmental
35 purposes.

36
37 State Water has a very valid claim that that water is
38 sitting in the dam and it should attract charges. The
39 other side of the argument is that that water has been in
40 the dam, been released and not attracted charges
41 previously. So if the water is going to be used for
42 environmental purposes, for which there is no real
43 financial imperative, we cannot make money out of it,
44 should we therefore have to pay those bulk water charges?
45 If you look at the issues, such as generating
46 500 gigalitres for the Living Murray, a significant
47 proportion of water will now be held in adaptive

1 entitlements.
2
3 Further recent developments: a lot of effort has been
4 going into water trading within New South Wales
5 particularly on the interstate trading scheme. As many of
6 you would be aware, the National Water Commission has
7 withheld 5 per cent of the competition payments to New
8 South Wales until such time as it gets trading across the
9 line with South Australia and Victoria.
10
11 We had to fight very aggressively to maintain the
12 integrity of the New South Wales entitlement system,
13 whereas Victoria and South Australia, who only have a high
14 security entitlement, wished to see exchange rates similar
15 to the currency exchange. Quite frankly, they do not work
16 because the New South Wales general security entitlement is
17 a variable entitlement. You cannot have an exchange rate
18 which provides an average because, in very dry years, we
19 will not be able to supply that water as an average. There
20 will be many times when the water available is less than
21 the conversion factors. I think we have finally got across
22 the line with Victoria and South Australia now agreeing to
23 undertake an interim trading process on 1 July this year
24 leading into a full tagged trading approach commencing on
25 1 July 2007.
26
27 We are also finalising security conversion factors in
28 the regulated streams to enable general security
29 entitlements to be converted to high security entitlements.
30 We are developing mechanisms for benchmarking rural water
31 delivery to irrigation agencies as part of the National
32 Water Initiative. We are working towards consistency in
33 water pricing across the jurisdictions. Again, that is
34 part of the National Water Initiative.
35
36 We are looking at developing baseline assessment of
37 water resources in terms of reliability and quality. All
38 of these are under agreement from the National Water
39 Initiative. We are also looking at enhancing water
40 accounting and reporting within the valleys and
41 establishing environmental water registers, and expanding
42 our metering into unregulated rivers and groundwater areas.
43
44 Typically New South Wales has about 95 per cent, if not more,
45 of its regulated rivers metered. The majority of our
46 unregulated water use is metered mostly in the Barwon
47 -Darling region and we are moving towards increasing

1 the metering from our groundwater extraction, but accepting
2 that the larger users of groundwater are currently metered
3 already.
4
5 Further, we are focusing business development on funding
6 the groundwater structural adjustment program, reducing
7 groundwater entitlements throughout New South Wales.
8 That is a \$110m program jointly funded by New South Wales
9 and the Commonwealth. The cap and pipe the bores program,
10 is again a State and Commonwealth funded program.
11 When looking at upgrading the monitoring bores network, we
12 sought funds from the Australian Water Smart program. The
13 Living Murray, as I mentioned before, was a \$500m program.
14 It has now been enhanced to become a \$1bn program. The
15 wetland recovery plan is \$28.6m and it is a joint
16 State/Government funded program, again under the
17 Australian Water Smart program.
18
19 We will be looking at the New South Wales salinity
20 strategy. As part of getting water trading across the
21 line, the other States insisted that we consider applying
22 the same salinity measures that they use for development;
23 that is, identifying high and low impact zones and putting
24 levies on transfer of water into and out of those zones
25 respectively. New South Wales had previously adopted an
26 alternative approach of assessing every development on its
27 own merits and insisting on site-specific conditions for
28 those entitlements. However, we will have to back away now
29 and look at how we become more consistent with the other
30 jurisdictions.
31
32 Also we are looking at the potential uses of our
33 salinity credit scheme. This scheme has been developed
34 since 1988 under the auspices of the Murray Darling Basin
35 Commission, where it effectively was a salinity credit
36 trading scheme. We will look to facilitate new
37 developments and at being able to develop processes by
38 which we can facilitate the exchange of salinity credits to
39 ensure that the beneficiary or the user is paying.
40
41 We are looking at water efficiency projects. We are
42 still implementing our land and water management plans. I
43 think we have another five years of that. Then there are
44 community water grants and the Aboriginal Water Trust.
45
46 In terms of accountability, I think it has been made
47 pretty clear to us that we will have to be far more

1 transparent and far more accountable. I think that is
2 good. We are looking at forecasting what our activities
3 will be and, in particular, what are the outcomes of those
4 activities; so what are the measureables? We want to
5 include those in the business planning focus.
6
7 We now have to be more accountable to the National
8 Water Commission. We are developing an implementation
9 plan to demonstrate how we will implement all of the
10 components under the National Water Initiative.
11 Performance indicators would therefore, hopefully, be
12 similar to those required under the IPART determination or
13 they would be compatible with what is expected under the
14 IPART determination. Again we are making progress
15 regarding the recommendations which are in the
16 PricewaterhouseCoopers report and Productivity Commission
17 reports which have been undertaken for the National Water
18 Initiative. Just by going through those points, one can
19 demonstrate an enormous increase in accountability that has
20 occurred over the last four or five years as water
21 management in Australia has become higher on the political
22 agenda.
23
24 We are also accountable via the Natural Resources Commission.
25 We have to build on the state water management
26 outcomes program, its targets, and performance indicators
27 within our water-sharing plans. We have to feed into the
28 Natural Resources Committee's statewide standards and
29 targets. Also we will be accountable at DNR and very
30 transparent in our accountabilities to the development of a
31 corporate plan, business plans for each of our divisions,
32 and we now have results and services plans on which we
33 have to report to Treasury.
34
35 We are accountable for cost recovery, so our
36 objectives will be for an efficient and effective service
37 provision, with a strong focus on the service outcomes and
38 linking our activities to outputs which are required.
39
40 That slide is further reiterating our point that if we
41 are not getting cost recovery to undertake a program, we
42 have to look seriously at what programs we actually do.
43 There is an enormous expectation throughout the broader
44 community, as you would appreciate, that we should do just
45 about everything to do with water resource management, but
46 we have to live within our means.
47

1 The water management program will be established as a
2 ring-fenced entity within the department through the water
3 management division. We will make sure that those
4 financial systems in SAP account for that, and that it is
5 incorporated within our corporate structure. That will
6 enable water reporting revenue to be expended by activity,
7 by source and valley. That will be appreciated, I think,
8 by all of our management stakeholder groups, and the
9 reporting regime will start to commence in 2006-2007.
10 Thank you very much.
11

12 MR SEERY: Thank you, David, for your presentation. I
13 have a couple of questions. Firstly, you spent some time
14 in your presentation outlining the structure of DNR. If I
15 understood you correctly, in essence, what you were saying
16 is that the water resource management activities within DNR
17 will be concentrated within two divisions and there will be
18 some overheads from the corporate area.
19

20 MR HARRISS: Yes.
21

22 MR SEERY: I guess in the future we will be able to look
23 at your accounts and look at the costs of those two
24 divisions and be able to identify those costs.
25

26 MR HARRISS: That is certainly the intent, to be very
27 transparent.
28

29 MR SEERY: However, at the moment, a large number of
30 stakeholders have expressed concern to us that DNR is
31 reducing staff by 200 and therefore, in their minds, surely
32 DNR's costs would be much lower than IPART allowed for in
33 the determination. On the other hand, your submission -
34 and I think it was also stated in your presentation today -
35 suggests that IPART's draft finding on your costs is not
36 sufficient to meet the WRM resource requirements. How do
37 you reconcile those two statements?
38

39 MR HARRISS: As I said before in the presentation, what we
40 have to do is work out: here is our revenue base. Here is
41 what we have been paid to do through the cost recovery
42 through the IPART process, or whatever, and we have to
43 focus the staff resources we have remaining in the
44 organisation to deliver particularly on those program areas
45 for which we are receiving funds in.
46

47 If we are losing 100 staff - I do not know how many

1 people have put their hands up for voluntary redundancy; I
2 think today is the last day - and if we are losing those
3 staff resources, then we will redeploy the remaining staff
4 resources to deliver on those programs from which we are
5 actually receiving funding through bulk water charges or
6 from other sources. We will have to look seriously
7 throughout the department at those program areas which are
8 fully recurrently funded.

9
10 MR SEERY: So if I understand what you are saying, David,
11 you have revenue from a pricing process and what you are
12 going to do is allocate resources to match that revenue.

13
14 MR HARRISS: That's correct. Similarly, we have revenue
15 coming in from joint Commonwealth/State programs such as
16 the cap and pipe the bores programs. We have contractual
17 arrangements to deliver other programs. There is money
18 come in for the Living Murray, and the resources associated
19 with delivering those programs will be specifically
20 identified for those programs rather than resources being
21 set aside for program areas which are not funded.

22
23 MR SEERY: Thank you. I am not sure you quite covered
24 this in your presentation, but you did raise with us an
25 issue of the adaptive environmental water licences. Could
26 you explain to me exactly what they are and whether or not
27 you are seeking to have a charge on those licences?

28
29 MR HARRISS: We are seeking not to have a charge on those
30 licences, actually. Currently we have bulk access
31 entitlements in each of the valleys, but what we are trying
32 to do in recovering water for the Snowy and the Living
33 Murray in particular is look at where we can make systems
34 efficiency savings, reduce evaporation.

35
36 Take, for example, Menindee Lakes where, on average,
37 450,000 megalitres is lost in evaporation per year. If we
38 can improve the way we operate the water systems in New
39 South Wales, we might be able to make savings that can be
40 then used for environmental purposes.

41
42 For example, we put water down the Murray from the Hume
43 Dam and with regulated flows during summer, the river
44 is high, whereas naturally it would have been low. What
45 then happens is that it spills into a lot of wetlands and
46 adjacent areas on the flood plain and that evaporates, so
47 we are constantly having to release water to offset the

1 evaporation.

2
3 If we build a series of regulators, we can exclude
4 these high summer flows from those wetland areas and that
5 water will no longer have to be released to offset the
6 evaporation. That would be articulated by way of an
7 adaptive environmental water entitlement like this model
8 and it can tell us what the savings can be. That water is
9 then available to sit in the storage and be released for
10 environmental purposes, for example, to provide topping up
11 at a time when it is appropriate in winter/spring.

12
13 Previously, to account for those losses, that water
14 had to be held in storage and it has been typically
15 considered a systems loss. It is no longer considered a
16 systems loss and it can actually be an adaptive
17 environmental entitlement, which can be released for the
18 benefit of the environment.

19
20 We had not previously considered the relationship
21 between the bulk water charging process and those licences
22 because they have not been licences. As I said in the
23 presentation, there are two views effectively: that water
24 was in the storage, it had to be released to offset the
25 losses, so there was no revenue gained from it, if you
26 like. The water is now staying in storage and can be
27 actively managed and released. The question is: Should it
28 now be charged for? There was not a charge previously, but
29 potentially there could be now.

30
31 It is work in progress. We are trying to work out a
32 policy which determines what should be an appropriate
33 charge. For example, some of that water may well be traded
34 in dry years, in which case, yes, it certainly should
35 attract a charge; but if it is purely there for the
36 environmental purpose and it does not generate any income,
37 the counter-argument is that it should not attract a
38 charge.

39
40 THE CHAIRMAN: I might ask one question. In the past
41 irrigators, have argued that a lot more should be
42 contracted out. That gives a much greater assurance that
43 activities are being undertaken efficiently if they are, in
44 fact, market-tested. In particular, I think I am right in
45 saying that irrigators have suggested that the management
46 of water trading should be contracted out, and I would be
47 interested in your reactions to that. Is there any

1 particular reason why it could not be contracted out?
2
3 MR HARRISS: Certainly components of water trading are
4 already in the marketplace that we do not have any
5 involvement in whatsoever. Our involvement is with
6 tracking the accounts and making sure that any water trade
7 is reflected in the water accounts on a realtime basis.
8 Temporary trading is managed by State Water, and where
9 there is permanent trading, it is currently managed by the
10 Land Titles Office because what we have been constantly
11 asked for was to give security of rights. In terms of
12 water trading, any brokerage or any trading market is
13 certainly in the private domain already.
14
15 THE CHAIRMAN: Share trading, for example, is done
16 entirely by the private sector. In principle, why couldn't
17 water trading be done entirely by the private sector?
18
19 MR O'NEILL: We are developing a water trading register.
20 A large component of trading also goes through brokers,
21 which is obviously not us. Our register will be sitting
22 there and it will be available on the Internet and at the
23 time it becomes activated we may well look at outsourcing
24 the management and administration of that.
25
26 In terms of the licence administration side of the
27 whole of the trading, I would say we wouldn't outsource
28 that. That would be a key role for government's
29 legislative requirements.
30
31 MR HARRISS: I might also add in the business-like
32 approach we've taken to water management now we're also
33 constantly challenging that. Water monitoring is
34 constantly challenging whether we could outsource that. In
35 fact, it is outsourced in Victoria. We recently undertook
36 a survey and most of our clients - all bar one - said that
37 the service provided by New South Wales, which I think is
38 the biggest hydrometric service in Australia, was better
39 than any of the other services provided in any other
40 jurisdiction, particularly Victoria.
41
42 THE CHAIRMAN: Thank you. I am going to call a short
43 break now for a cup of tea. We will resume with the NSW
44 Irrigators' Council in 10 or 15 minutes.
45
46 SHORT ADJOURNMENT
47

1 NEW SOUTH WALES IRRIGATORS' COUNCIL
2
3 THE CHAIRMAN: Thank you very much. We are about to
4 start again. I would like to call upon Doug Miell from the
5 Irrigators' Council to make his presentation.
6
7 MR MIELL: Thank you very much, Chairman. Again, thank
8 you for the opportunity to represent the
9 Irrigators' Council's views here. As you look around the
10 room, there are any number of my members here who will be
11 capitalising on the opportunity to present issues as they
12 see them for their particular valleys. You did say in your
13 introduction you would be looking for your determination to
14 be concluded by the end of August. I was wondering if you
15 could say when you thought that might be applicable - from
16 1 September or 1 October? Is that something you can say?
17
18 THE CHAIRMAN: I can't give an exact date. It wouldn't be
19 1 September - and I haven't gone into this - as there is
20 always a little bit of time to put systems in place,
21 et cetera, but my hunch would be about 1 October if we get
22 it done by the end of August: probably 1 October.
23
24 MR MIELL: Thank you.
25
26 THE CHAIRMAN: That is a hunch.
27
28 MR MIELL: I would like to say that the New South Wales
29 Irrigators' Council reiterates its support for the
30 independent pricing process undertaken by IPART. We
31 recognise that this is a major function of the National
32 Water Initiative. As David Harriss said, it does have a
33 pretty good reputation when stacked up against what is
34 happening in other States.
35
36 We also support the equitable application of the
37 principles agreed in the National Water Initiative and what
38 we and our members will say today will obviously reiterate
39 all the presentations that we've made to this submission
40 and obviously to the one we had last year as well, so if it
41 is not said today don't think we've changed our minds:
42 just refer back to our previous submissions.
43
44 Obviously, there are a lot of issues I want to cover
45 today and I'm not going to cover them all I'm sure. My
46 colleagues will pick up other issues as well. The New
47 South Wales Irrigators Council supports full cost recovery

1 on the basis of them being efficient costs or prudent costs
2 for services that are required, those that are delivered on
3 a fully contestable market tested basis and with an
4 equitable sharing of costs. As we've already heard this
5 morning, the real sense of my members at the moment is that
6 there is a total lack of contestability with respect to far
7 too many and almost all of the services provided by
8 State Water and DNR. We have absolutely no support for
9 inefficient business operations, for services that are not
10 delivered on a fully contestable basis and for upper bound
11 pricing and all it entails.
12

13 If we just dwell on upper bound pricing,
14 clause 66(5)(b) of the National Water Initiative says
15 basically that States will move to lower bound pricing.
16 With respect to upper bound pricing, it says there will be
17 continued movement to upper bound pricing to all rural
18 systems where practicable. We would like to know what
19 "practicable" means because we believe at the moment all
20 we're seeing is a fairly ruthless drive - and we challenge
21 what State Water says - to transfer significant wealth from
22 regional New South Wales, the irrigation groups in
23 particular, to Treasury.
24

25 The National Water Initiative is also very fairly
26 strong on the identification and funding of CSOs. We have
27 seen very little of that identified in any of the
28 submissions. It was raised again this morning.
29 Paragraph 64(5) of the National Water Initiative says that
30 there shall be no perverse or unintended outcomes in
31 pricing. Some of the rises that have been forecast in
32 IPART's draft determination - 92 per cent or 80 or 60 or
33 50 per cent - if they're not perverse, I would like to know
34 what the definition of "perverse" is and if they are
35 perverse, what is not perverse? I think we have a little
36 bit of work to do there to keep ourselves in line with some
37 of those high principles of the National Water Initiative.
38

39 We don't want this IPART process to be a missed
40 opportunity. It must not end up as an attack on irrigated
41 agriculture and importantly irrigation dependent
42 communities. As we go through some of the price increases
43 and the various service levels that are offered, it is hard
44 not to see it in that light. It must not lead to the
45 extraction of monopoly payments on irrigators and again
46 based on what we see and what the submissions have
47 delivered, it is very hard for us not to come to that

1 conclusion.

2
3 It must deliver an equitable outcome relative to other
4 sectors of the community. I think that reflects the move
5 to upper bound pricing, full cost-recovery return on
6 assets, rates of return, et cetera. If that is the policy
7 that governments wish to apply across all of the economy -
8 aged care, child care, transport, you name it - that is
9 fine, we will take our share of the medicine. If it is
10 something that is going to be selectively applied to the
11 irrigation sector because perhaps we're the only ones with
12 a chequebook that might have a capability of delivering it,
13 we will certainly continue to challenge that.
14

15 The affordability issue is a critical one. IPART
16 commissioned ABARE to review this issue and there are a
17 number of my members who will contest what ABARE has
18 come up with. What they didn't show I think, if you refer to
19 ABARE's March commodity bulletin, is the current terms of
20 trade forecast for Australian agriculture. It is in our
21 submission and I think the IPART determination and what we
22 are talking about here really does need to be put in the
23 context of agriculture as a whole in Australia. The terms
24 of trade forecast is not looking particularly rosy and
25 obviously irrigated agriculture is a significant part of
26 that.
27

28 To suggest that the New South Wales irrigation
29 industry can sustain the level of price increase proposed
30 suggests that somewhere this process is missing a reality
31 check. When we look at those pricing processes for
32 regulated rivers from the 13 per cent across to 92, 84, 74,
33 et cetera, that really does beg the question that the
34 disconnect between the circumstances in the bush and what
35 is proposed does not seem to match up.
36

37 If you look at unregulated, I have got those for the
38 valley average and then those for the high conversion,
39 recognising that those on low conversion were getting
40 significant improvements in their circumstance, again,
41 11 per cent increases start to look quite good actually
42 when you compare them against 92, but then you are getting
43 out to 144-type per cent increases. These are just
44 enormous increases and nothing has changed. We are still
45 looking at the same service levels. State Water's business
46 is still large. It is still delivering the water.
47 Basically, what is the punter in the bush going to see and

1 what is their experience? It will have changed little this
2 year than from five years ago.
3
4 Obviously, groundwater is a real mixed bag because of
5 the way IPART has approached it. Basically, we have some
6 people at high-end users, perhaps 144 per cent, down to
7 some of those low-end users who will lose their base charge
8 getting a minus 91 per cent, but again it just shows that
9 we are very thankful for those who are going to see a
10 diminution of their fees, but for those at the top end of
11 the list it is again a significant hit.
12
13 I suppose we could be almost thankful when we recall
14 table 10.2 that State Water put in one of their original
15 submissions, titled "The Unconstrained Prices". I think
16 these particular price increases look almost benign when
17 compared to some of those fairly unwarranted and excessive
18 ones that were proposed then.
19
20 How is this determination going to fit in to what is
21 actually out in the marketplace at the moment? We are all
22 fairly well aware of the commodity price situation for wine
23 grapes in particular, citrus and cotton prices. It doesn't
24 matter where you look, irrigated agriculture is not alone,
25 but for irrigated agriculture the return on the commodity
26 side of things is very depressed. Add that to the fact
27 that we are still well into the drought of record.
28
29 While it might have improved from what it was one, two
30 or three years ago, at the moment we can't say the industry
31 and the State is clear of the impact of drought.
32 Obviously, like the rest of the community, the high cost of
33 fuel is a significant cost for irrigators, especially those
34 using diesel pumps, et cetera, but it is going to flow
35 through to input prices and the price of transport as it
36 relates to moving commodities to the market.
37
38 I have referred to the terms of trade already, but it
39 is a significant issue. Low allocations have been around
40 for the last two or three years and they have gone from
41 zero in the Lachlan for a couple of years running through
42 to just about every other valley experiencing significantly
43 reduced allocations and therefore obviously lack of
44 income-producing potential for those individuals close to
45 100 per cent dependant on irrigation. As we stand right
46 now, looking forward for this year, it can best be
47 described as an uncertain outlook. We have only just had

1 breaks to rain that have not been general across the State
2 but certainly have started, but we are looking at very low
3 allocations or very low levels in pretty much all of the
4 dams. Looking forward, putting whatever IPART proposes
5 into context, it is a price shock that I am sure we have to
6 be very careful does not send a signal to regional
7 Australia, to those small businesses in the irrigation
8 communities, and others, that people are not listening to
9 where they might be.

10
11 Just looking at the uncontested costs over four years,
12 I think I have interpreted all of these prices correctly
13 out of the IPART submissions, but if not, it is probably
14 less worrying about the prices but more the principles. We
15 see that for capex the total for State Water and DNR is
16 \$146m. I have calculated our share will be approximately
17 \$54.8m. For opex it looks like with MDBC, State Water,
18 DBBRC and DNR about \$381m, of which our share will be
19 \$300m. Over the four years we are talking about a half a
20 billion dollar industry in total there, \$527m, of which we
21 are expected to pay approximately \$355.7m.

22
23 The point of putting that up there is - and the point
24 I have already made - that that business is pretty much all
25 uncontested and that's a real thorn in our side.
26 Basically, we don't believe that these businesses are
27 running as well as they could be and the way to test them
28 is to get the market in there to help. We only need to
29 look at the experience of my members in the
30 Irrigation Corporations since they have been corporatised
31 and the efficiencies they have been able to extract in how
32 they run their businesses. Perhaps the same argument could
33 have been proposed to them at the start, "We are doing this
34 as well as possible. It could not possibly be better", but
35 those businesses are significantly different to what they
36 would have been and what they were forecast to have been
37 10 years ago when they were indeed privatised.

38
39 The other issue that we have an enormous concern with
40 is what we are unashamedly calling the transfer of wealth
41 from regional New South Wales, the irrigation community in
42 particular, to the Treasury's coffers and that is the
43 return on assets. I have calculated that again at \$34.6m,
44 but I did hear Dennis this morning quote a number of \$54m.
45 Either way, it is just an obscene amount of money after
46 we've paid the freight for our share of capital, et cetera.
47 This is a dividend extracted from the irrigation community.

1 Put into context, they are the funds that my members will
2 invest in water efficiency programs, on farm and
3 environmental programs and investment in employment. They
4 in turn contribute to the social and economic welfare of
5 the regional communities that irrigation has grown up
6 around. We see that move there, which is the end result of
7 the adoption of upper bound prices, as being an obscene
8 attack on irrigated agriculture.

9
10 Just referring to the issues for State Water, we
11 really have little confidence in the information provided.
12 It is constantly changing. There must be immediate
13 contestability of all services. My members still have no
14 satisfactory explanation for the growth in costs. The
15 business is largely the same as it has always been: it is
16 bulk water. Yet, the costs are continually blowing out.
17 It is simply unbelievable that IPART has refused to impose
18 a significant cost reduction discipline on State Water.

19
20 We heard this morning for some length of time that it
21 does take time to get a business competitive and up and
22 running. We are not so sure that industry should be
23 supporting a government asset while it still has its
24 training wheels on. If the government wants to get the
25 business up and running, it can pay the freight. It will
26 have to get its business operations in order rather than
27 having us as the industry expected to handle perhaps all
28 the inefficiencies and all the learning processes that they
29 go through.

30
31 There was also an additional number of items put up
32 there that I did a quick calculation on, that I thought
33 might have come to about \$10m, for additional points or
34 challenges. I think our starting point in response to
35 that, Mr Chairman, would be just reject it outright and we
36 will work forward from there. Clearly, we have no more
37 information to analyse those than what was on the board
38 there. Basically, we are starting to get a little bit sick
39 of being at the end of the chain. Notwithstanding that,
40 Dennis did say that perhaps the government should pick that
41 up. Perhaps the first point is it should be there anyway.

42
43 If we look at DNR, the big concern there is, as David
44 outlined, that there is another period of internal
45 restructure going on that is not complete, so industry
46 certainly has no idea where that may or may not go, but we
47 have a real concern about DNR's ability to actually deliver

1 its services in a quality way, bearing in mind we are not
2 so sure what resources are going to be left after the
3 redundancies have concluded.

4
5 What did concern us and our take-out message from
6 David's point this morning was that initially they asked
7 for \$100m - I'm just using that number today - a sum of
8 money to deliver a basket of services. IPART said we had a
9 sum of money less 5 per cent. I think it was said that
10 "We will reduce the basket of services to match the
11 dollars." We are not sure that's the right approach. We
12 would be pretty confident it is not the right approach. It
13 is the basket of services for the dollars. That whole
14 issue needs to be thought through in a lot more depth.

15
16 The big question we have for IPART and for DNR is how
17 are the services going to be delivered with what we see as
18 a significantly reduced capacity? We have had discussions
19 with both David Harriss and Richard Sheldrake that once
20 they have finalised their staffing issues, we sit down and
21 talk to them to figure out what their capabilities are and
22 how industry might be able to help deliver the services we
23 know are required to get quality resource management. It
24 is a huge issue.

25
26 We cannot underestimate the actual capabilities of the DNR
27 or the reduced capabilities that DNR will have. One thing
28 that I will just add is that David noted the
29 groundwater structural adjustment program was worth \$110m.
30 Like a lot of other people, David keeps forgetting to add
31 that industry is the third partner in that program.
32 There's a \$50m contribution from industry as well. It's
33 actually a \$150m program, of which industry has contributed
34 \$50m. That is the basis of that and it's something very
35 obviously important for groundwater members that their
36 contribution is recognised.

37
38 We do welcome from both State Water and DNR any focus
39 on transparency and accountability. It is one of the big
40 things that we wish to have IPART focus on - and I'll come
41 to that a little bit later - the service level agreements
42 and the various performance indicators that we believe are
43 essential for any business.

44
45 Moving on to MDBC costs, we have absolutely no
46 confidence in, and I'm glad to see that IPART - I'll
47 paraphrase basically - said they didn't have much

1 confidence in either, the quality of the MDBC data, but
2 basically we can have no confidence in the structure of the
3 MDBC or the DBBRC pass-through costs and it is our view
4 that IPART must reject outright this sloppy approach and
5 demand discipline on behalf of those expected to pay the
6 bill. Basically, send it back from whence it came and say
7 when it's had an efficiency review similar to what you are
8 doing at IPART and DNR that addresses the efficiency, the
9 prudence and the actual requirements of all of those costs
10 then perhaps we can sit down and work out who should pay
11 what share of them.

12
13 At the moment we think it is quite outrageous, when
14 you look at the numbers - it is I think \$70m or \$80m - that
15 we should be expected to pay those when we can't have any
16 confidence in what sort of discipline has gone into the
17 development of them.

18
19 We suggest that there has to be an immediate cap on
20 cost recovery of 100 per cent. We notice there are a
21 number of valleys in excess of 100 per cent. It is our
22 view that industry is not the government's banker.
23 Basically, we want those reduced straight down to
24 100 per cent and we would view any over-recovery as a tax.
25 We think in 2006 business systems and capabilities are
26 there for these things to be reconciled very close to on an
27 annual financial year basis, so that industry doesn't need
28 to be giving any free kicks to government to get their
29 house in order over the life of the four-year
30 determination.

31
32 The introduction of the service level agreements and
33 other performance indicators for both State Water and DNR
34 must be completed before any of the benefits of this
35 determination flow on. I am sorry, we don't believe that
36 in the costs in the course of a four-year determination we
37 should pay the freight and then that somewhere in that time
38 we will get some service level agreements and some
39 performance indicators. We believe that if you were to
40 apply a blow torch to both of these organisations to have
41 those incentives in place before the benefits of the
42 determination flow through then you will start having
43 industry confidence that there is a focus on quality
44 service from day one, not somewhere distant in the future.

45
46 In conclusion, Chairman, in anything like its current
47 form this is a bad outcome for regional New South Wales and

1 one of the most productive sectors of the New South Wales
2 and indeed the Australian rural economy. That is a message
3 we implore you to take on board. It is a very tough time
4 for irrigated agriculture and agriculture in general, we
5 are no orphans in that regard in regional Australia, but I
6 am sure the ability of this industry to cope with the sort
7 of price determination that you have proposed is way and
8 above what was outlined in the ABARE survey. The clear
9 message to irrigated agriculture is that under the guise of
10 the National Water Initiative all governments are simply
11 viewing irrigated agriculture as an easy source of wealth
12 to be plundered and frankly, if that is what they want to
13 do it will send a clear signal to us because I'm sure it
14 will have a very significant negative short-term and
15 long-term impact on regional New South Wales.

16
17 We are an industry that we believe are very efficient.

18 We can get better. We accept the challenge to do better
19 than what we've done in the past and I am sure we will, but
20 the important thing is if we are plundered for resources it
21 really does limit our opportunity to continue to be a very
22 productive driver of social and economic well-being and
23 wealth in regional Australia.

24
25 Finally, Mr Chairman, can I, through you, thank Nigel,
26 Michael, Colin and your other staff for the assistance that
27 they have given myself and I am sure my colleagues in this
28 process. It has been fairly tortuous, it has also been
29 fairly challenging, but it would be a hell of a lot harder
30 if we didn't have the quality of support that we did from
31 your organisation. Thank you very much.

32
33 THE CHAIRMAN: Thank you. Colin?

34
35 MR REID: Thank you very much, Doug. Could I just ask
36 Col Thomson a couple of questions?

37
38 MR THOMSON: Yes.

39
40 MR REID: Just expanding a little bit, the rebates to the
41 irrigation corporations and the question of system-wide
42 benefits is the first issue, and the second issue is the
43 costs for the proposed charge for temporary trades and the
44 point that David Harriss made in relation to the relativity
45 of what's been proposed with South Australia.

46
47 MR THOMSON: I will answer the last question first, Colin.

1 On the issue of temporary trades, in that slide this
2 morning it was interesting to note New South Wales is going
3 to be 275 and South Australia 300. May I add that
4 internally in the corporations of New South Wales the
5 charge in some corporations is zero. Western Murray is the
6 one that I am involved with. We fully costed the cost of
7 transferring water internally and added a margin to it, but
8 for a company we charged \$30. I think if you're going to
9 get that side right you've got to make some other
10 comparisons out there. I think that that is one area that
11 is really open for contestability. I really feel that
12 there are opportunities out there for the community.
13 Someone mentioned this morning about the stock exchange.
14 It is a very similar arrangement. I am sure there should
15 be open competition.

16
17 I might just add that, over the break, someone told me
18 the charge for tourism is \$65. The corporations have
19 contributed quite significantly in the running of the
20 rivers and the Murray is the one I am more familiar with.
21 The daily running of the River Murray relies on information
22 from the corporations. On the Murray, the corporations and
23 the bigger users would probably use about 70 per cent of
24 the water on almost a daily basis and certainly two to
25 three times a week when the pressure is not quite so much
26 on the river. We provide daily water-use figures and daily
27 projections and weekly and monthly projections for
28 State Water and for the MDBC to make their daily releases.
29 The contribution has been absolutely incredibly
30 significant.

31
32 MR REID: My third question relates to the issue that
33 Doug Miell raised about charging other users of the water
34 resources. Obviously the Tribunal, in its draft
35 determination, has made some decisions on the cost-sharing
36 ratios between irrigators and the community more broadly.
37 I just wonder how practical it is to charge all those other
38 users and whether the cost of the administration of such a
39 scheme would, in fact, be greater than the charges that
40 could be recovered and whether the cost-sharing approach as
41 proposed by the Tribunal is the preferred option.

42
43 MR MIELL: You could be right about the costs being
44 greater than the reward. I think the first thing we have
45 to do is acknowledge that other water users exist and go
46 through the exercise to identify who they are, and perhaps
47 what they are getting, so that the wider community does

1 know that there is a broader benefit to the resource than
2 that just used by irrigators.

3
4 It would be a great start to have that identification.
5 Then from that, we could soon identify whether or not there
6 are some groups that we can get efficient cost recovery
7 from. Otherwise, it throws it straight back to the
8 government to have a better quality understanding of the
9 CSO required. At the moment, nobody wants to buy the
10 water. You will recall a couple of years ago that the
11 Australian Conservation Foundation did an economic study
12 on the Murray which identified \$1.6bn of non-agricultural
13 benefits out of the Murray. That started the process of
14 identifying who those users might be. That is the
15 direction we suggest you could start off.

16
17 Also, on a similar vein, could I respond to
18 David Harriss's comment this morning about adaptive water,
19 Our first response to that is we believe that State Water
20 should have the ability to receive a revenue stream for
21 every megalitre of water it handles, irrespective of who
22 the owners are - that is the first point. Then, if it
23 happens to be adaptive water, it is consuming some of State
24 Water's management resources. It is not just sitting up
25 there of its own freewill without any consumption of
26 resources. That is the starting point we would suggest
27 with respect to that particular issue as well.

28
29 MR REID: You raised some issues on the veracity of the
30 ABARE analysis. I was wondering if you wanted to expand on
31 that a little.

32
33 MR MIELL: Col Thomson may want to speak to that.

34
35 MR THOMSON: Yes, this has been a pet of mine. We go to a
36 number of hearings on a whole range of issues, here, and in
37 the agricultural industry, including wages and even
38 insurance and other things. The same statement is put out
39 every time: "We have looked at this and the impact of this
40 wage increase, or this insurance increase, or even fuel
41 increase will not have a dramatic effect on your business."

42
43 When you are running a business out there and all
44 these things are going on conjunctively, the impacts are
45 quite significant. So David Harriss is probably correct;
46 ABARE may say that the impact of water pricing will not
47 send us all broke. We out there are very conscious of

1 the fact that all these things put together have a very,
2 very significant impact on the operation of our businesses.

3
4 MR MIELL: There is also the question of perception. Let
5 us just use the example that you have in your draft
6 determination of Western Murray water costs rising by
7 29 per cent. As soon as that hits the marketplace as a
8 final determination and we have to go to the market or
9 somebody goes to the market and is told, "This is what you
10 will get over the next four years?", the first thing is
11 that will not have a positive impact on people's investment
12 thoughts, productivity - anything. It will straight away
13 have an immediate depressing effect through the entire
14 regional community. So perceptions might become reality
15 rather than reality driving what actually happens. There
16 is a real issue there of how these things are marketed -
17 not just the actual impact of the numbers, but just the
18 perception of what could be happening.

19
20 MR REID: Could you also expand a little bit for me on the
21 volume of trading that is occurring and the price at which
22 water is traded?

23
24 MR MIELL: I looked at the DNR site. I think it was for
25 2004-2005. It identified 1,600 or 1,700 trades. Obviously
26 each one of those trades is valuable to the purchaser and
27 the seller. The value will vary, and some of those values
28 are actually listed on the DNR website. Again that varies
29 depending on the time of year, the commodity, general
30 security, high security, whatever it might be, and that is
31 determined by the market.

32
33 I think we should be cautious not to expect that there
34 will be hundreds of thousands of dollars of water trades.
35 At the moment, with temporary trades, it is 1,600 in New
36 South Wales. That is not what you would call - excuse the
37 pun - a very fluid market; it is a fairly thin sort of
38 market. Permanent trades will probably be somewhat less
39 than that.

40
41 Each one of those is important. We have to get it
42 right. We have to get the processes and controls right,
43 but we are not talking big volumes at the moment. I don't
44 know that there is anything that I can see that suggests
45 that it will double or treble in the immediate future, but,
46 business circumstances, commodities, significant droughts,
47 all those sorts of things play a part in what will happen

1 there.

2
3 MR THOMSON: Could I make a comment on that too? One
4 of the problems of the industry out there is that people tend
5 to confuse the prices at which water trades at and the cost
6 of providing water to the foot valve. I think the price of
7 the water out there in the market is totally irrelevant.
8 The price to provide water to our foot valve should be the
9 price that provides water to our foot valve. The price of
10 water to the market has no connection.

11
12 THE CHAIRMAN: You mentioned public perceptions and so
13 on. We have received some submissions that criticised us for
14 not setting the price of water high enough, precisely
15 because there is a public perception that water has been
16 traded at much higher prices than are in our draft
17 determination. In other words, irrigators are prepared to
18 pay quite a lot more for water than the price of water at
19 the foot valve.

20
21 MR MIELL: I agree with the points that Col Thomson made,
22 and I am sure a lot of my colleagues would also want to
23 expand on the reasons for that. But, yes, there are
24 various other points of view in the market and we respect
25 those views.

26
27 MR MURRAY: Can I just follow up on that: if that is a
28 perception, it is due to a lack of understanding. Maybe
29 that is something that people are prepared to address. The
30 price that temporary water is catered at it is effectively
31 a rent for a capital item. The price for delivering the
32 water, the price charges that we are talking about today,
33 are a delivery fee. They are totally disconnected.

34
35 Now if people have that perception, well, that is an
36 education thing that we may have to address. However, as
37 far as your process go, am sure you understand that they
38 are completely disconnected and should not come into your
39 thinking at all.

40
41 THE CHAIRMAN: We certainly based our pricing on
42 recovering the cost of storing and delivering the water.
43 We aim to make it a fair pricing system that covers only
44 the efficient cost of storing and delivering the water, but
45 it is a full cost recovery principle. There might be
46 exceptions to that in particular circumstances, but it is
47 full cost recovery including the cost of capital.

1
2 I think when the argument is run that full cost
3 recovery is a price that can not be afforded by the
4 irrigator the public view is different. They say, "Hang
5 on, the irrigator can afford it because they are paying a
6 higher percentage on more water at an even higher price."
7
8 MR THOMSON: I do not want to spend too much time on
9 this, but I think you need to study the circumstances,
10 Mr Chairman. A lot of people out there aren't buying
11 100 per cent of their water to grow a crop. In most
12 instances, they only have a base licence and they are
13 prepared to pay sometimes even quite high prices, but only
14 probably for 10 percent of the water. You cannot really
15 say they spend \$100 per megalitre to grow their rice crop;
16 in fact they do not. If you average it out, it might be
17 significantly less than that. You have to take everything
18 into consideration when you are making these judgments.
19
20 MR COX: I have just one question and I think this is for Doug.
21 You mentioned David Harriss' remarks about what they
22 are going to do and the amount of water management with the
23 money they get from us, from the fund that is basically
24 what was said. Do you have any concerns under that
25 arrangement? Which is of value to your members and how
26 should the Tribunal think about that issue before
27 finalising its determination?
28
29 MR MIELL: It is almost saying, "We will go back to
30 square one to see what will be put on the table as the
31 priority issues." The question then is what will have to
32 be dropped off to get to that point? It just raises a
33 whole pile of doubts about what are we getting for the
34 money that we will be providing.
35
36 THE CHAIRMAN: Can I follow up on that question, Doug. If
37 I understood your presentation correctly, you were
38 practically inviting us to tie the timing of future price
39 increases to the evidence that the services were being
40 provided - is that a fair interpretation? - making, in
41 fact, the future price increases conditional on evidence
42 that the services were being provided?
43
44 MR MIELL: The starting point is the service level of
45 agreements and the performance indicators. How will these
46 two organisations be held accountable? At the moment I
47 think your determination says that, at some time through

1 the course of the next four years, if that is where you end
2 up with the determination, we will work through these. To
3 us, they are the key levels of accountability: are we
4 getting that value for money?
5
6 What I was saying was before you start providing any
7 of the benefits of this determination, those service level
8 agreements, those performance measures and indicators, and
9 indeed even what sort of compliance regimes might be put
10 in, should be set. Once they are negotiated and they are
11 established, once they are in place, then the benefits can
12 start flying through. From day one, we can see there is a
13 real accountability driver in the delivery of quality
14 service, not as we have found over our past experience.
15
16 There were so many question marks around
17 reconciliations of past determinations made by IPART that
18 we have no idea whether we have paid money for services
19 that have been delivered, whether in full, in part or not
20 delivered at all, or whether the money that was asked for
21 point A was given to point X. We need to get some of that
22 good robust accountability in so that we have confidence
23 that the services that we are paying for are being
24 delivered.
25
26 MR COX: So you want to know what the money does buy.
27 That's a start.
28
29 MR MIELL: That would be a great start.
30
31 THE CHAIRMAN: As I understand it, you don't want the
32 price to rise.
33
34 MR MIELL: That is a better start,
35
36 MR THOMSON: Now we are getting onto the same wavelength
37
38 THE CHAIRMAN: On that point, we had better call it quits.
39 Thank you very much for your presentation, and I will now
40 ask Murray Irrigation to come forward.
41
42 MR CLEMENTS: Before Murray Irrigation come forward, I
43 would refer the Tribunal to the presentation of the New
44 South Wales Irrigators Council. I would also refer the
45 Tribunal to the presentation made by Namoi Water. I will
46 not endeavour to cover the body of that work. What I would
47 say is that today I have heard what I believe was a

1 statement made in keeping with section 2 of the 15 matters
2 to be considered by the Tribunal under its Act. Section 2
3 reads:

4
5 In any report of a determination or
6 recommendation made by the Tribunal under
7 this Act, the Tribunal must indicate what
8 regard was had to matters set out in
9 subsection 1 in reaching that determination
10 or recommendation.

11
12 We heard today a concern expressed on behalf of IPART that
13 the agencies were struggling with their budgets. I think
14 that that statement was made under section 2. In that
15 section referred to there is another matter that we would
16 raise and that is the protection of consumers from abuses
17 of monopoly power in terms of prices, pricing policies and
18 standards of services.

19
20 I did not hear a clear statement on that today and we
21 would like it either in writing to Namoi Water or in the
22 final determination that there is a clear statement for
23 each of the water sources, be they groundwater, unregulated
24 or regulated, that IPART is satisfied that that particular
25 consumer group has been protected from the abuse of
26 monopoly power.

27
28 In keeping with that we would also like to see,
29 section 24FB, "Directions as to Government Policy",
30 applied, and it states that:

31
32 1) In exercising its regulatory functions
33 the Tribunal must give effect to any
34 current government policy that has been
35 communicated to the Tribunal, certified
36 under government policy by the relevant
37 Minister or the Premier.

38
39 Now, this is New South Wales legislation. It does not
40 refer, I believe, to COAG or to Commonwealth legislation.
41 It goes on to say:

42
43 (2) For the purpose of the section, the
44 relevant Minister is the Minister who
45 administers the provisions of the
46 legislation relating to the grant of the
47 relevant operating licence, licence or

1 authorisation.

2
3 (3) The Tribunal is to make each such
4 policy communicated to it and such policy
5 communicated to it and certificate received
6 by it publicly available.

7
8 In combination with the statement on protection of our
9 rights, and consumers' rights against the abuse of monopoly
10 power, we would like to see those policies directly
11 operated on, with particular reference to chapter 3 of the
12 Water Management Act: how is it that regulatory services
13 are suddenly being put before the Tribunal? I think that
14 this is important.

15
16 A determination was made previously by IPART that no
17 pricing signal pre-1997 infrastructure would be used by
18 Treasury, that it would be lower-bound pricing. In fact,
19 that determination ruled that lower-bound pricing would
20 apply to rural infrastructure in New South Wales, in
21 keeping, as stated by the Tribunal at that time, with the
22 1994 COAG agreement.

23
24 NWI simply states in its preamble that it is built
25 upon the platform of the 1994 agreement and that where
26 practical, we will go right for upper-bound pricing. If
27 there is no adherence to the policy, the policy is not
28 transparent, and if, as a group of consumers, we are not
29 protected from the abuses of monopoly power - that includes
30 agencies fronting up with a very non-detailed activity
31 statement, non-detailed information on costs and services
32 delivered, or clear reference to the legislation - I do
33 not know how IPART can make a clear-cut statement that we
34 are being protected from the abuses of monopoly power.

35
36 I think we need to know how we got upper-bound pricing
37 and we need to know the impacts of that. In keeping with
38 that, I would also say that the attempt to look at the
39 social impacts in the determination recommendations is not
40 adequate.

41
42 The ABARE study is an inadequate report. In the Peel,
43 it included cotton and corn. There is no cotton or corn
44 production in the Peel River area, but the ABARE study
45 talked about cotton or corn. Even if the study were
46 accurate, it is inadequate with regard to social impact. I
47 simply wish to put those matters on the record today.

1 Obviously they are matters that we will be following up on
2 later.
3
4 MR MURRAY: Michael Murray from the Gwydir Valley
5 Irrigators Association. There are just a couple of quick
6 points I would like to raise. We heard this morning from
7 Dennis Zandona from State Water that, effectively, State
8 Water, when it was corporatised, inherited a dog, and now
9 they want to fix it up. That is fine, but it should not be
10 up to us to pay to fix it up.
11
12 It was mentioned that Dennis was suggesting that a lot
13 of this should be picked up by government subsidy. If this
14 works need to be done, yes, we agree it should be funded by
15 a government subsidy. We cannot have irrigators being
16 expected to pay for a very fast train when, effectively at
17 the moment, we have something between a steam engine and a
18 rattly old diesel.
19
20 I want to look at two particular examples of that.
21 One of them is to do with the bill-paying system. You
22 would all be aware that, at previous hearings, I raised
23 that fact that it took State Water 12 months to get a
24 billing system in place. You will be glad to know they are
25 now billing people. One of my members spoke to me
26 yesterday and said, "We have 25 bills from State Water and
27 we have to manually process all those individually through
28 BPay. They have not set up a customer service number which
29 would allow us to make just the one deposit into those
30 accounts."
31
32 From their own business point of view, our members
33 have the inefficiency of having to make 25 payments and
34 incurring a 50-cent charge for making each of those
35 payments, and surely there must be similar efficiency at
36 the State Water end. This is after a new billing system
37 has been developed. So we certainly do not have the very
38 fast train; we may have the rattly old diesel that I used
39 to go home from boarding school on.
40
41 The other area I wish to look at relates to temporary
42 transfers. State Water, in its submission, marked this
43 down as a \$350,000 a year cost-setter, processing
44 approximately 1,600 applications a year, or something like
45 \$178 an application. Now, I have done temporary transfers.
46 I have delivered them and it certainly did not take State
47 Water over half a day to process those. Correct me if I

1 am wrong, but as far as I am aware, there are really only
2 three key checks that need to be done: is the water in the
3 account? Are their financial accounts up to date; and is
4 the water physically deliverable? Anyone with a decent
5 system can process those within 10 minutes.
6
7 As irrigators in the Gwydir Valley, we also believe
8 that, yes, there should be efficient costs for the
9 transfers and there should be full cost recovery. We
10 believe that is probably in the order of \$20 or \$30, but we
11 certainly do not believe there are any more costs
12 associated with processing a transfer of 2,000 megalitres
13 than there are with processing a transfer of 2 megalitres.
14 The work is exactly the same.
15
16 There is concern on the DNR side of things with the
17 removal of base charges for groundwater. Particularly in
18 the Gwydir Valley - I suspect this is the case in other
19 valleys as well - we have a very large number of
20 groundwater licence holders with very small licence
21 holdings.
22
23 If the base charge is removed, DNR will not recover
24 from those people the absolute minimum costs required in
25 servicing those accounts. It will not cover the billing.
26 It will not cover the basic metering. It will not cover
27 basic compliance or basic monitoring. There must be either
28 a base charge or a minimum charge, and I think that
29 argument could be extended to both regulated and
30 unregulated water.
31
32 Now, it should, of course, be revenue neutral, but
33 what we have seen particularly demonstrated with the
34 removal of the base charge on the groundwater is a huge
35 subsidy being applied to the smaller licence holders and
36 being picked up by the larger licence holders. It is just
37 another blow to those larger licence holders who have been
38 seriously impacted by the current reforms on groundwater.
39
40 Over cost recovery in unreg: at the moment I think
41 the Gwydir figures suggest that we are supplying 107 per
42 cent, but we will have a glide path down; yet at the same
43 time we will see other people's charges go up by 25 per
44 cent a year or 15 per cent a year. Surely if it is good
45 enough to go up by 15 or 25 per cent a year, a reduction of
46 7 per cent straight back to full cost recovery for unreg is
47 certainly warranted.

1
2 With regard to environmental water, I was very
3 disappointed to see that while DNR acknowledges that some
4 stakeholders have raised it as an issue, that is as far as
5 it went. There was no discussion as to the charging of
6 environmental water. The position of the Gwydir Valley
7 irrigators group is that if that water is being stored in
8 the dam and being managed by State Water, it should be
9 charged against.

10
11 The argument raised by David Harriss about efficiency
12 savings not being subject to charging does not stack up.
13 Currently, with those delivery losses that he is hoping to
14 make savings on, the cost of storing that water and
15 managing it, is effectively picked up in the regulated
16 usage and fixed charges. So the irrigators are currently
17 paying for that and if it is to go across to the
18 environment, the environment must pay for it.

19
20 Finally, Mr Chairman, you mentioned earlier on that
21 you were looking for consistency across IPART. I would
22 suggest that you use the CityRail model - an organisation
23 with 22 per cent cost recovery, no increase since August
24 2003, and an average increase in fares of 2.9 per cent. We
25 would live with that, thank you.

26
27 THE CHAIRMAN: I will now call on Murray Irrigation to
28 come forward.

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1 MURRAY IRRIGATION LIMITED

2
3 MR ELLIS: Chairman and Tribunal, ladies and gentlemen,
4 thanks for the opportunity to speak here today. I am
5 Stewart Ellis, the new Chairman of Murray Irrigation
6 Limited. This is my first physical exposure to the IPART
7 process, so it is interesting to actually see how it works.

8
9 With me today I have Jenny McLeod, who would be well
10 known to you all. Jenny is manager of our environmental
11 policy and communications section. I am also pleased to
12 welcome here today two relatively new directors, and they
13 are David Hunter and Leigh Chappell. They are here to have
14 a look at the process as well.

15
16 I put to you that there is an urgent need to revisit
17 IPART's draft determination on bulk water prices in the New
18 South Wales Murray. This draft determination will increase
19 Murray Irrigation's bulk water price by 79 per cent over
20 the next four years. Our bulk water account will increase
21 by \$5.3m over the four years of the determination to
22 \$11.9m. That is on top of what I would submit is already a
23 fairly substantial bulk water bill anyway.

24
25 When Murray Irrigation was formed in 1995, we incurred
26 an increase in bulk water prices then of 102 per cent, so
27 our bulk water prices have moved along fairly substantially
28 over the years. This dramatic increase will deliver a
29 significant price shock to irrigators, and they are already
30 subject to difficult circumstances caused by the extended
31 drought. The proposed price increases cannot be justified
32 as Murray irrigators already pay a fair share of the
33 efficient cost of the River Murray system.

34
35 There are just a couple of key points I wish to make.
36 There has been insufficient investigation of the costs
37 associated with the MDBC including the Commission's
38 operation on River Murray Water; therefore, IPART cannot
39 justify its decision to pass those costs straight on to
40 irrigators. The MDBC's cost are not subject to either
41 competition or regulation, and there is no incentive for
42 the Commission to be efficient. IPART needs to publicly
43 address the prudence and efficiency of the MDBC's costs and
44 the user share of efficient costs before passing those on
45 to irrigators.

46
47 Also, new NWI-type initiatives announced by ministers

1 should not be funded by irrigators; namely, things like the
2 fish passage from the Hume Dam to the sea; remote operation
3 of the barrages and construction of salt interception
4 schemes. Also River Murray Water and MDBC costs are
5 increasingly being driven by growing community demand that
6 river regulation produce amenity value and enhanced
7 environment for the Murray River. So IPART needs to
8 demonstrate that irrigators are not largely or fully
9 funding those activities.

10
11 I would say that no other government service provider
12 could impose cost increases of that magnitude without
13 public outrage and certainly robust debate from customers.
14 Having put those points to you by way of introduction, I
15 will now hand over to Jenny, who will run through a brief
16 presentation.

17
18 MS McLEOD: Thank you, Stewart. Good afternoon, and thank
19 you for the opportunity to speak specifically about our
20 concerns.

21
22 I want to make five key points in this presentation,
23 Stewart has mentioned some of them already. Our first
24 point is the failure of the current determination to
25 investigate MDBC costs. The fact is that MDBC costs have
26 escalated. The MDBC is a group monopoly, but customers or
27 people who are actually paying the bill, apart from New
28 South Wales Treasury, have not been involved.

29
30 I want to talk a little bit about the structure of
31 MDBC, which does not lead to efficiency, in our view. I
32 also want to talk about what are the things that are
33 actually driving the cost escalation in MDBC costs, and
34 finally, I want to talk about how those costs are allocated
35 to users.

36
37 IPART is well aware of our concerns about MDBC costs.
38 The Tribunal has actually recognised that both through its
39 issues papers and in previous determinations. MDBC costs
40 are approximately 80 per cent of the user share of the New
41 South Wales Murray costs. Our essential argument is that
42 you have not looked at these costs, for whatever reason you
43 may not have looked at them, and we do not believe it is
44 appropriate that you pass those costs on to irrigators in
45 the way they are delivered to you without having
46 investigated them.

47

1 The determination process has not been able to
2 demonstrate whether these are efficient costs, whether a
3 fair proportion has been allocated between government and
4 irrigators, and also whether or not a fair proportion of
5 those costs has been distributed across valleys in the
6 Murray Darling Basin.

7
8 Before agreeing to pass on these costs to irrigators,
9 IPART needs to establish whether these costs are prudent
10 and efficient and appropriately allocate those costs
11 between governments and users and of the user share,
12 between the valleys and the basin.

13
14 Just by way of example, New South Wales payments to the
15 MDBC in 2001 were \$18.8m. In 2005 New South Wales paid
16 \$27.6m to MDBC. These prices were agreed to by the
17 New South Wales Government and I would argue with no
18 input from the customers who are actually expected to pay a
19 proportion of those costs through their water account.
20 New South Wales is seeking to recover those increases or a
21 large proportion of them from water users and to reiterate
22 the point that Stewart made, that sort of cost escalation
23 in a service provider would actually result in quite
24 significant outrage in terms of the expectation that users
25 pay for something in circumstances where they have had very
26 little input into that cost increase. We would argue it is
27 actually monopolies abusing their power.

28
29 This is a graph of our water account versus
30 Murrumbidgee's water account based on a normal allocation
31 year and the change that is going to occur. I would like
32 to make a few points about this graph. The first point
33 isn't that Murrumbidgee should be paying more. I want to
34 try to demonstrate some of the issues associated with MDBC
35 costs and why they are needed to be looked at before you
36 pass them on to water users.

37
38 Up the Y-axis on the graph is our water account. This
39 line here is where we sit now. Murray Irrigation is in red
40 and Murrumbidgee Irrigation is in blue. This is what we
41 are going to pay this year based on a normal irrigation
42 year. The difference here relates to how MDBC costs
43 previously were allocated and the fact that we pay for our
44 conveyance and Murrumbidgee doesn't.

45
46 Based on your last thorough determination you said
47 that both the Murray and the Murrumbidgee would be at full

1 cost recovery based on a basket of costs and annual pricing
2 assumptions. Since that time we've seen MDBC costs
3 escalate, as you've identified. Now we've seen those costs
4 being passed on, according to your methodology, largely to
5 the New South Wales Murray and the consequence of that is
6 that by the end of this determination period, based on a
7 normal year, Murrumbidgee's bill will be \$6m and ours will
8 be \$12m. This big difference here is largely MDBC.

9
10 The point I want to make is that both Murray and
11 Murrumbidgee Irrigation deliver more or less a similar
12 volume on farm. Both are not very far from two large
13 storages which provide their water supply, but Murray is
14 picking up all the costs of the very expensive
15 infrastructure associated with supplying the whole of the
16 Murray water resource into South Australia and I think
17 there's a strong argument that some of those costs need to
18 be shared more widely, but secondly, that the big growth in
19 costs is being driven by a whole lot of political decisions
20 which I don't think irrigators should be being asked to pay
21 for.

22
23 The next point I wish to make is that the MDBC
24 structure doesn't lend itself to being an efficient
25 structure because it isn't subject to competition or
26 regulation. IPART can't regulate MDBC but they can make
27 decisions about what they pass on to irrigators and what
28 share government pays. In the 2000 determination IPART
29 employed PricewaterhouseCoopers to review capex and opex
30 costs and that determination did have a look at the costs
31 associated with River Murray Water. They found that the
32 annuity for dams for MDBC storages was about 60 per cent
33 greater than the relative costs for State Water and their
34 renewals were actually 100 per cent greater than
35 State Water. Their structure suggests that it isn't
36 particularly efficient, their costs are not particularly
37 efficient, but you haven't investigated them.

38
39 The next point we make is that we have really a
40 circular institutional structure and decision-making
41 structure which doesn't help this process of ensuring
42 customers have input and that costs are efficient. This is
43 a slide which shows the players in the decision-making
44 process. We have the ministerial council, up on my
45 right-hand side, up in the corner, and the chairman of that
46 is Peter McGauran. We then have commissioners who are
47 directors from state agencies. The ministerial council and

1 commissioners make decisions about what the MDBC does and
2 how much money they get. We have New South Wales Treasury
3 and we have DNR and State Water. This is how the money
4 flows. The ministerial council makes a decision; MDBC gets
5 a certain amount of money; New South Wales pays according
6 to a formula. New South Wales also pays DNR and
7 State Water.

8
9 State Water is contracted to River Murray Water to
10 perform certain things. Over on the side is the
11 cost-sharing formula about who pays for capex and opex
12 associated with River Murray Water. There's money going
13 from River Murray Water to DNR to do service contracted
14 activities and to State Water. Then down here are the
15 irrigators who are asked to pay their water bills to
16 State Water to pay for things that MDBC is doing,
17 State Water is doing, DNR is doing and the decision making
18 is right over on the other side in terms of political
19 decisions, commissioners and New South Wales Treasury
20 paying.

21
22 One of the things that I think is making this whole
23 determination process really difficult for IPART and water
24 users and State Water is that a lot of water decisions are
25 inherently political and I think it couldn't be more so
26 than in the Murray. The ministerial council is a political
27 organisation. They make a lot of political decisions.
28 Increasingly, we are seeing their decisions are driving
29 costs up, but they're actually being driven by community
30 demands for more amenity, better environmental outcomes and
31 not necessarily demands associated with the requirements of
32 irrigators.

33
34 In addition, we have River Murray Water which is the
35 commercial arm of MDBC. They operate the river. We have
36 postage-stamp pricing. We have costs for running River
37 Murray Water all pooled together and shared according to a
38 cost-sharing formula that was changed to the disadvantage
39 of New South Wales in the late 1990s and to the advantage
40 of South Australia based on not what's the actual cost of
41 doing things in each State, but a combination of the amount
42 of water we divert and the reliability of our water supply.

43
44 We actually see this perverse situation where
45 regulation in South Australia and requirements for
46 navigation are actually driving quite a lot of costs, but
47 because their diversions are lower and because of the

1 formula that New South Wales have agreed to, New South
2 Wales ends up picking up a large share of those costs.
3 They are only paying 24 per cent of the operating costs and
4 18 per cent of the capital, but that doesn't actually
5 relate to what are the costs that are driving River Murray
6 Water's operation.
7
8 What is the solution? What are we suggesting IPART should do?
9 Firstly, we are suggesting you look at establishing what are
10 the efficient costs of operating River Murray Water
11 and that Murray water users who are very
12 major beneficiaries of that infrastructure should be paying
13 the efficient costs of the New South Wales share of
14 operating the Murray headworks structures, from both an
15 opex and capex point of view. The Murrumbidgee Valley
16 should be picking up the costs associated with Maude Weir
17 and Redbank Weir in the Murrumbidgee Valley. I understood
18 they were in the MDBC bucket and at the Griffith meeting
19 I thought Abel said they were currently in the Murrumbidgee
20 bucket and they were going back to the Murray.
21 Essentially, we are saying Redbank and Maude Weirs should
22 be in the Murrumbidgee's bucket.
23
24 When we come to the cost associated with operating the
25 river in South Australia and those structures, they should
26 be shared across the tributaries in New South Wales because
27 it is a New South Wales Treasury commitment to fund those.
28 Those activities are not just a function of our water
29 diversions; they're actually a function of the extractions
30 from tributaries as well.
31
32 In relation to water resource management - and they
33 are the things that are in DNR's cost bucket - our argument
34 for a lot of those costs is that they are policy-type
35 decisions, they're driven by a lot of politics, and our
36 argument is that the community should be paying through the
37 taxpayer. We have previously argued that and you've
38 obviously disagreed. If you are not going to allocate them
39 to the taxpayer they should also be allocated across New
40 South Wales because those costs are as a result of
41 requirements for integrated land and water management in
42 the Murray-Darling Basin. They're not solely the
43 responsibility of Murray irrigators. Obviously, if
44 irrigators are going to pay for some of those costs we need
45 to pay for a chunk of them because we are major extractors,
46 but there are also other major extractors in New South
47 Wales that should be paying.

1
2 Finally, in conclusion, I think there is a strong
3 argument for you to revisit your determination in relation
4 to the New South Wales Murray. IPART's role in protecting
5 consumers is vital. We are exposed to the politics of
6 water. We are being asked to pay an increasing share of an
7 increasing basket of costs that are being driven by a wide
8 range of community interests. Governments should be paying
9 for those community interests and policy initiatives and
10 irrigators should be paying for the services that relate to
11 efficient costs and those costs should be shared equitably
12 between water users across the Murray-Darling Basin. Thank
13 you.

14
15 THE CHAIRMAN: Thank you. In the interests of time, do
16 you want to ask your questions?
17

18 MR SEERY: Yes, I have one quick question. I'll make it a
19 double-barrelled question so I can get two in and they both
20 relate to MDBC costs. Firstly, you talked about the
21 Maude Weir and the Redbank Weir and how you believe that
22 those costs should be allocated to the Murrumbidgee. Are
23 there any other costs associated with River Murray Water
24 that you believe should be attributed to the Murrumbidgee?
25

26 The second part of my question is other than some of
27 the costs in South Australia are there any other activities
28 that River Murray Water undertakes on the Murray that you
29 believe should be attributed to government rather than
30 users or should be attributed to other valleys?
31

32 MS McLEOD: In answer to your first question, I am not
33 quite sure where they have put Maude and Redbank, but they
34 should be to the Murrumbidgee. In relation to the issue
35 should Murrumbidgee pay any more or other costs, what I am
36 essentially saying is that the costs for River Murray Water
37 that involve infrastructure in South Australia need to be
38 shared more widely in New South Wales and so by default
39 Murrumbidgee would pick up some of those costs because
40 they're a major water diverter, but so should the other
41 tributaries that contribute to flows in South Australia.
42 Does that answer your question?
43

44 MR SEERY: Yes.
45

46 MR ELLIS: I know this is outside your jurisdiction, but
47 we would also argue the Goulburn system should be

1 contributing as a tributary as well. That is not here;
2 that is part of our argument elsewhere.
3
4 MS McLEOD: In relation to other River Murray Water costs,
5 we've said in our previous submissions that commitments
6 that are made by governments for the Living Murray process
7 that may result in costs being incurred by River Murray
8 Water - and I think an example is fish passage - should be
9 costs that are borne by government. If you read the media
10 releases from the ministerial council about government's
11 contribution, "This is what we are going to fund", would
12 you not then expect, as somebody reading it, that New South
13 Wales was then looking to recover a share of those costs
14 from water users through their water charge, which is,
15 I understand, exactly what they're doing? Does that answer
16 your question?

17
18 MR SEERY: Yes.

19
20 THE CHAIRMAN: Thank you very much.
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1 MURRUMBIDGEE IRRIGATION
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3 THE CHAIRMAN: I would now ask the Murrumbidgee
4 Irrigation people to come forward.
5

6 MR TUCKER: Mr Chairman, members of the staff of the
7 Tribunal, thank you for the opportunity to present today.
8 Just in summary, I'll be talking a little on the impacts of
9 the draft determination, some cost trends in relation to
10 the draft determination, the price path, some other impacts
11 and issues and some concluding statements.
12

13 The existing bulk water charges for our company
14 represent about \$4.5m at the moment and the draft
15 determination pitches those for next year at \$5.9m which is
16 a 34 per cent increase and they now represent about
17 25 per cent of our charges to our irrigators in a typical
18 account. Notwithstanding the statements in the press about
19 how moderate the charges were in the Murrumbidgee Valley,
20 they were sheeted home largely to our companies, so the
21 typical broadacre farmer is now looking at a \$3,000
22 increase in their water bill and a typical horticulture
23 firm about \$500 for, as was mentioned earlier, absolutely
24 no improvement in services: day 2 looks like day 1.
25

26 Interestingly, although horticulture has a lower
27 increase there, it is probably one of the areas of more
28 concern at the moment given the current commodity crisis in
29 both grapes and citrus where we are seeing large amounts of
30 grapes either going into mothballs or being removed and
31 likewise with citrus. This is a graph we presented last
32 time. It has been modified now with the draft
33 determination in mind. The line through the centre of the
34 graph is where we are at the moment. What has happened is
35 that our company has improved its real costs, so that there
36 has been a real reduction in costs and in fact a nominal
37 reduction in costs as well. At the same time government
38 costs and bulk water costs have been escalating and the
39 projections going forward give an indication of just the
40 impact that that has had on our company.
41

42 Again, although we've nominated in this graph a
43 flat-lining of our costs, we are hopeful that we might have
44 a real reduction in costs going forward as well, but it
45 seems the more we do that the more other people try and
46 pass on their costs to us.
47

1 Murrumbidgee Valley was already at full cost recovery.
2 We are now at 127 per cent of full cost recovery.
3 Obviously, we are expecting a 27 per cent improvement in
4 our services in the Murrumbidgee Valley. Interestingly,
5 State Water Corp and DNR have won the discount debate
6 despite no arguments in favour of the Griffith hearing, so
7 they have removed the effective cross-subsidies, as they
8 called them, but given that we're over full cost recovery
9 at 127 per cent and some valleys are under-recovering, it
10 is quite clear that IPART are prepared to tolerate
11 perpetuating valley cost subsidies at our expense.
12
13 Effectively, what this determination does is reward
14 State Water Corporation and DNR for their refusal to
15 provide adequate data over the years and that is both to
16 IPART and to customers. This represents a preparedness to
17 sponsor waste instead of sound investments and it will
18 obviously have an impact on things like on-farm expenditure
19 in our regions.
20
21 The issue of DNR job shedding was raised this morning.
22 It is an important one. The projections were made prior to
23 the recent announcements of redundancies. It would be nice
24 to think that some of those cost savings will be passed on
25 in DNR's revised submission. It doesn't appear as though
26 that is been the case. We would like to know what sort of
27 service reductions are in line for our customers in light
28 of the redundancies.
29
30 One thing that appears to have either been ignored or
31 not known by IPART in the draft determination is
32 State Water Corp's intention to move to quarterly billing
33 in advance instead of annual billing in arrears. This is
34 in fact a price increase of 2.5 per cent or \$100,000 to our
35 company. Discussion of that in the draft determination was
36 conspicuous by its absence.
37
38 In respect of conveyance licences, we acknowledge the
39 need to meet delivery costs on the conveyance licences, but
40 it must be based on a true share of costs within the valley
41 and the independent study did not address the cost shares
42 appropriately. We also acknowledge the issues raised this
43 morning by Doug of the continuing drought, the worst this
44 century for our valley and we are by no means out of it,
45 and the trend in reduction in real farm incomes and
46 particularly the commodity crisis being experienced by some
47 of our customers.

1
2 Some concluding statements - it was interesting to
3 note that your Victorian counterparts thought it was
4 unreasonable to look at price increases in Goulburn-Murray
5 water and in fact reduced bulk water prices and yet IPART
6 seem unwilling to do the same, even when the supporting
7 data is either implausible and/or missing. As a
8 consequence, we will be taking steps to protect our
9 interests and to hold State Water accountable, firstly,
10 through the CSC process, but more importantly, to start to
11 drive greater contestability of services and increase the
12 level of privatisation in the ministerial corporation and
13 State Water. We have no choice.
14
15 In the interim, we will be continuing to press for
16 data on customer services and delivery service, continuing
17 the drive for efficiency costs, specification of services
18 and cost drivers and certainly looking for ongoing evidence
19 of a 27 per cent increase in levels of service.
20
21 I just want to conclude, before handing over to my
22 chairman, Dick Thompson, on the issue of to discount or not
23 to discount. At present that is what the Murrumbidgee
24 effectively looks like. As the bulk water manager we pick
25 up about half the costs in Murrumbidgee Irrigation and the
26 681 other customers pick up the other half of the costs.
27 The question that we'd like answered, which will be the
28 foundation of our investigations going forward, is let's
29 just say there were two customers, Murrumbidgee Irrigation
30 number one and number two, both picking up half the costs.
31 What sort of business would you need to deliver to two
32 customers? I suspect you could probably get away with it
33 with a dozen staff and a spreadsheet to manage them.
34
35 If you look at our costs as a company, we have about
36 185 staff at an average cost of about \$85,000 per staff
37 member, so for something like \$1m you could probably run
38 State Water. We are paying \$4.5m and the rest of the
39 valley is paying the other half. Where on earth are the
40 costs going? I will now hand over to our chairman.
41
42 MR THOMPSON: Thank you, Brett. I just want to reinforce
43 a couple of the points. It is over 10 years - probably 15
44 - that I have been promised financial accounts out of the
45 department or, as it is now, State Water. We still haven't
46 seen any that you can rely on. All we can look at is what
47 has happened under privatisation with

1 Murrumbidgee Irrigation. We've gone from over 400 staff in
2 1989 now to, as I think Brett mentioned, about 185.
3 We have accused irrigators up in the irrigation areas as
4 having been subsidised. Clearly, we now have been able to
5 demonstrate that all previous subsidies were going to an
6 inefficient government department. The staff who are there
7 now are doing more work with greater satisfaction. It is
8 clearly not the people who were the problem. It was the
9 system. The other point is as to Murray-Darling Basin
10 costs. We don't have a problem with Redbank and
11 Maude Weirs' costs being charged to the Murrumbidgee, but
12 I don't believe we get any other service from the MDBC.

13
14 THE CHAIRMAN: Thank you. Are there any issues you
15 want to raise?

16
17 MR REID: I wanted to clarify the issue of the quarterly
18 billing that has been introduced that you say you're paying
19 in advance. Is that the fixed charge? Presumably, you
20 can't pay the usage.

21
22 MR TUCKER: My understanding is that all charges will be
23 quarterly billed in advance and I am not sure of fixed
24 charges.

25
26 MR ZANDONA: Just to clarify, quarterly billing will be
27 reduced from the next financial year and it will involve
28 quarterly in arrears for the first full year and for every
29 subsequent quarter, so quarterly in arrears. At the end of
30 September we will be billing for the quarter from 1 July to
31 30 September and the invoices will go out towards the end
32 of October.

33
34 MR TUCKER: Only for fixed charges?

35
36 MR ZANDONA: For fixed and usage.

37
38 MR IMMARAJ: We've written to every customer on this
39 matter.

40
41 THE CHAIRMAN: Thank you for your presentation.
42
43
44
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47

1 MACQUARIE RIVER FOOD & FIBRE

2
3 MS BENNETT: Thank you very much for allowing me to
4 address you. My name is Meg Bennett, and I am here on
5 behalf of Macquarie River Food and Fibre. Michelle Ward
6 who would normally be representing us had a time crisis.
7 Actually, Ella, her baby, had a time crisis. I asked
8 Michelle to hold on but she couldn't, Ella came first, so
9 both of them are not here.

10
11 The main issue that I want to talk about is flood
12 mitigation costs of Burrendong Dam. That is the main
13 issue. There are some DNR points, but it really comes down
14 to the costs of flood mitigation at Burrendong which
15 haven't become obvious or been picked up as you've gone
16 through the determination. Part of that is IPART's lack of
17 recognition of value based costs. I then wanted to touch
18 on the lack of IPART requirement for transparency or
19 efficiency of costs.

20
21 What are the key messages from the Macquarie Valley?
22 We would really like State Water to provide IPART with a
23 break-down of the costs attributable to the
24 flood mitigation zone at Burrendong Dam: that is, the
25 capex and opex associated with the storage. This was
26 glossed over by State Water at the Dubbo hearing in
27 February. There was very little said on it. As I said, it
28 is not something that IPART picked up on.

29
30 We ask for cost sharing with the government for flood
31 mitigation given that a third of Burrendong is for flood
32 mitigation and for IPART's identification and recognition
33 of Burrendong flood mitigation as an individual purpose and
34 structure with a unique valley based cost. Users are
35 vulnerable to DNR's approach to pricing as well as lack of
36 rigour and transparency. State Water and DNR are still not
37 required to provide adequate evidence to demonstrate
38 efficient costing.

39
40 A third of Burrendong Dam is for flood mitigation. It
41 functions as a multi-purpose dam. It wasn't built for
42 irrigators. It wasn't built around irrigation. It was
43 actually built after the 1950s floods, of which there was a
44 series in the Macquarie Valley, to protect the towns.
45 We really want you to recognise that of that rather large
46 dam irrigators only get to use two-thirds of it. A third
47 is totally not there.

1
2 What was said at the Dubbo hearing by State Water was
3 that when there's a flood it has a relatively small cost.
4 We are trying to make the point here that it is its purpose
5 that is of significance here: the ongoing operation and
6 maintenance of the costs of the dam flood mitigation
7 function.
8
9 If you actually took away that third, you would be
10 taking away a lot of the costs involved, so it would be a
11 third smaller without flood mitigation. There wouldn't be
12 the need for the radial spillway gates. That is clearly
13 identifiable and attributable to flood operation gates.
14 They're expensive items to maintain and upgrade. The
15 associated flood mitigation infrastructure is a massive
16 expense. It is the top third of the dam wall. There is
17 the foreshore maintenance of a large area of dam. If you
18 had no gates, less wall, less foreshore land it would
19 result in less capex and opex.
20
21 The point is - and I won't dwell on this - in the 1971
22 flood and in the 2000 flood there were stuff-ups with the
23 flood mitigation and irrigators built their own flood
24 protection. Adding insult to injury here is that we are
25 paying for flood mitigation in the Burrendong Dam and in
26 two floods the irrigators have felt that there was very
27 little done for irrigators and they have actually had to
28 take things into their own hands and protect their own
29 assets in both those significant flood mitigation projects.
30 The prime driver for building Burrendong Dam was the
31 protection of towns and not irrigators, so the irrigators
32 are protecting them, the point being they are a major cost.
33
34 Just briefly, we are saying that flood mitigation
35 should be categorised as a use and allocated its own
36 portion of total capital maintenance, storage, delivery and
37 operation costs at Burrendong. We feel that flood
38 mitigation is the responsibility of the government and not
39 the irrigator, and the fact is that it is such a large dam.
40
41 If it is a case of recognising individual valley-based
42 costs, which it very well may be, individual valleys have
43 different structures. Applying the same cost sharing
44 across the board does not allow for identification of
45 individual structures and purposes and an across-the-board
46 approach causes misallocation of charges.
47

1 We would like IPART to recognise valley-based pricing.
2 Well, it does recognise valley-based pricing, but we would
3 like it to recognise valley-based costs. The two prime
4 examples, and unique examples, for us are the Burrendong
5 Dam and its multipurpose function, as well as environmental
6 water. I could not stand up here in front of you all and
7 not mention environmental water in the Macquarie Valley. I
8 know environmental water has been mentioned by others, but
9 the 160 megalitres of environmental allocation is another
10 unique thing.
11
12 Those are the reasons that we are saying: please, ask
13 State Water to have a look at that, and then come back to
14 you, and we do not think it is fair that we pay for that
15 flood mitigation.
16
17 The DNR issues: I was not able to be here for that
18 part of the presentation this morning, but we certainly
19 know that in the Macquarie figures from DNR, there were
20 mistakes in the figures. We addressed it at a regional
21 level, but still nothing came up. We addressed it at the
22 State level and the regional level, but it did not actually
23 show itself. The PB Associates study could only show
24 costings for \$395,000 in a year, so where is the other
25 \$1.3m? I was asked to make the point that Macquarie Valley
26 costs are higher than other valleys and the Macquarie usage
27 is half that of the Lachlan; yet the charge is higher in
28 the Macquarie - why?
29
30 It has already been mentioned this morning that there
31 are decreasing staff numbers in DNR. We cannot get anyone
32 to answer the phone in our area at the moment. It all goes
33 to answering machines. Instead of putting increased staff
34 numbers in there - they had increased staff numbers in
35 their proposals - we have decreasing staff numbers. I
36 think we have had about 12 go in the last two weeks.
37 Obviously the loss of corporate knowledge is a really big
38 issue there too. There is already an issue of failing to
39 meet the minimum standards of reporting and I cannot
40 imagine what it will be like from now on. Plus a really
41 big thing here - DNR and State Water do this well in our
42 area - is that there is no formal consultation process for
43 customers, absolutely nothing, and that is a very difficult
44 thing to deal with.
45
46 Really and truly, and I have been doing a bit of
47 corporate governance work lately, there is a concern about

1 the lack of transparency and accountability. Who makes DNR
2 accountable for expenditure? That is why we look to you,
3 IPART, for that answer. Any other organisation can be
4 actually confronted with corporate governance issues, so I
5 don't understand why companies or organisations like DNR
6 are not.

8 In conclusion, we would like IPART to set a goal
9 whereby it ensures a minimum standard of efficient and
10 transparent costing by DNR and State Water, that that be
11 achieved, and that there be an accountability requirement -
12 I would really like to see this in place - subject to an
13 IPART review and audit. It is a corporate governance
14 issue. We are responsible and made responsible for
15 everything that we do; yet we are dictated to, to a certain
16 extent, and nobody has to totally answer, unless it is
17 through the Tribunal. You do a great job, but we would
18 like to see more.

20 We think that IPART should recognise individual
21 valley-based costs. I am saying that just from the point
22 of view of Burrendong, in this case, and State Water should
23 provide IPART - and Macquarie River Food & Fibre - with an
24 adequate breakdown of all the costs attributable to the
25 flood mitigation zone in Burrendong Dam.

27 It is not just about a flood. It is about the fact
28 that the purpose of that dam is flood mitigation. It is
29 costing the irrigators and we do not feel that we should be
30 paying for that. We see that as a government cost. We are
31 quite happy with cost sharing, but we do not have any usage
32 of that dam. We are not allowed to use that one-third for
33 irrigation storage and we are paying a considerable price
34 for that flood mitigation. Thank you very much for
35 allowing me to present to you today.

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1 STATEMENTS AND QUESTIONS FROM THE PUBLIC

2

3 THE CHAIRMAN: Thank you. Are there any comments from
4 the floor?

5

6 MR DOYLE: My name is Bob Doyle. I am an irrigator on the
7 Paterson and I am on the Paterson Valley Customer Service
8 Committee representing the Paterson. I am also chair of
9 Coastal Valleys CSC. We have put in a submission, and we
10 just want to make four key points. There have been some
11 big issues discussed today and there are some big
12 irrigators and big water users representing their interests
13 today.

14

15 In the scheme of things, the coastal valleys area is
16 quite small, particularly the three small dams on the
17 Paterson and in the south coast and on the north coast. In
18 this draft determination, the coastal valleys did not rate
19 much of a mention. The north and south coast will be
20 completely buggered by this draft determination. There
21 will be no irrigation left if we continue down the path
22 that is proposed. It will kill off any capital
23 improvement through this next determination period and it
24 will lead to the major irrigators, being dairy farmers,
25 ceasing production if we continue down the same process.

26

27 The Coastal Valleys CSC has put together a proposal to
28 suggest that there is an opportunity to minimise the
29 community service obligations that will be required by
30 Treasury to keep operating the coastal dams. There is a
31 need on the north coast and the south coast to cap the
32 prices. If we continue down the path proposed for the
33 north and south coast, it will result in the ceasing of the
34 irrigation industry.

35

36 We have argued that, to cap the price, it can be
37 capped to the Hunter price path, which is another coastal
38 valley dam system. That is already basically managed under
39 the Hunter and the three coastal dams are all managed at
40 the moment under the one management structure.

41

42 There is an issue for the three small dams and their
43 operating costs. If we go down the path of the draft
44 determination as it has been written, a broke irrigator
45 will not provide any income to State Water and that will
46 not help our Treasury. If we think about the big picture,
47 the three coastal dams are going to have a use in the

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1 future and that infrastructure has to be protected. It is
2 important from our point of view to find a balance between
3 the charges and being able to keep the irrigation industry
4 viable.
5
6 If it is possible to get to a point of capping the
7 north coast and south coast dams to the Hunter, we believe
8 that the coastal area would be better served by a 60/40
9 entitlement usage charge. We have always argued that. It
10 is not agreed by all individuals on the coast, and I have
11 spoken to Nigel about this and many submissions have come
12 in saying that hat they are quite happy with the basic
13 price in the draft determination.
14
15 The CSC process has been operating since 1999. In
16 that process, we have gone to a lot of trouble to try and
17 understand the State Water business. There are a lot of
18 sleepers on the Hunter, on the Paterson, and on the north
19 coast. There is a reasonable amount of sleepers on the
20 south coast.
21
22 The proposal we are putting up would actually increase
23 the revenue to State Water from irrigators. As I say, it
24 is not something that will ever be totally in favour with
25 all the irrigators in the coastal valleys, but we believe
26 it is the only way the irrigation industry can survive into
27 the future. It must be recognised that on the Paterson,
28 the Brogo and Toonumbar, the costs will never be recovered;
29 the dams are just too small; but if we cap prices to the
30 Hunter and we go down the path then of fixing 60 per cent
31 entitlement, 40 per cent usage or some sort of figure in
32 that sort of area, the cost to the irrigators goes up, but
33 the cost to the active irrigators does not become
34 prohibitive.
35
36 We ask IPART to consider the coastal dams on their own
37 merit. We are only a small number of irrigators and we
38 only use a small amount of water in the scheme of this
39 State, but the impact on the individual irrigators in the
40 coastal valleys will be quite severe.
41
42 Another point - and this has been covered by some of
43 the other valley representatives - is: do not forget the
44 unreg and the groundwater. In particular there, we are
45 talking about, as has been discussed, DNR's transparency.
46 DNR keeps talking about wanting to be transparent, but
47 there is no transparency. Even when DNR was part of the

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1 CSC process, it was never totally cooperative. The unreg
2 customers and the groundwater customers on the coast are
3 small water users and they are smaller water users than the
4 reg customers, and, in the scheme of it, the reg customers
5 are very small State Water customers.
6
7 THE CHAIRMAN: Can I ask you to come to a conclusion,
8 please.
9
10 MR DOYLE: From our point of view, we would ask IPART to
11 consider with the regulated customers, the north and south
12 coast, to look at capping their prices to the Hunter price
13 path and also to consider a 60 per cent entitlement, 40 per
14 cent usage. Thank you.
15
16 MS KERR: Deborah Kerr, from the Ricegrowers Association.
17 I want to make a couple of points. I will start off with
18 the cost proposed for the transfer of water. Whilst other
19 people have made comments, I would like to reiterate those.
20
21 The cost has no bearing or relationship to the volume
22 of water traded. As such, it is inappropriate for IPART to
23 make a recommendation to base charges on those who may
24 trade more water than those who trade less water; in fact,
25 the cost may be substantially more for the small parcels of
26 water than for the larger parcels of water.
27
28 In addition to that, the systems that are in place may
29 be ineffective or may increase the cost of actually doing
30 the actual transfer. A perfect example of that is
31 interstate trade where a ricegrower in New South Wales
32 might purchase water from South Australia. To actually
33 effect that, the water trader from Adelaide drives to New
34 South Wales to undertake the trade. In this day and age,
35 that is a joke. We need to make sure that the systems we
36 have in place are actually workable. If they are not, and
37 they are not cost effective, then we need to put those
38 services out to contestability in the private sector.
39
40 The other comment I wanted to make was to reiterate
41 the comments made by Murray Irrigation about MDBC costs.
42 For ricegrowers in the Murray Valley, there will be a
43 significant increase in the charges that they will incur
44 over the price determination. It is inappropriate for
45 IPART to accept a pass-through scenario when it has not
46 done due diligence in ensuring that those costs are
47 efficient and prudent.

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1
2 The MDBC, as pointed out by Murray Irrigation, does
3 not have any incentive to be efficient or prudent and the
4 cost-sharing ratios agreed at a ministerial council level
5 have no bearing on the principles that IPART applies, nor
6 do they have any bearing on the water used by Murray
7 irrigators. That point is important because it is a
8 determination of how New South Wales ends up with the cost
9 shares, as Murray Irrigation pointed out.

10
11 New South Wales Murray users pay for their average
12 water use plus one-third of South Australia's dilution
13 flow. That is how the cost sharing is worked out. It is
14 not just some arbitrary, "New South Wales will pay that
15 amount," but it is based on average cost shares plus
16 one-third of South Australian dilution flows. Effectively,
17 New South Wales Murray users are paying for some of the
18 water that South Australia gets.

19
20 Comments were made earlier about the price of bulk
21 water charging and the cost of temporary traded water.
22 Some comments were made as to why that should not be used.
23 As a perfect example, you used in your draft determination
24 some average seven-year figures for Murray Irrigation for
25 temporary traded water. I think the price was \$69 a
26 megalitre.

27
28 During the drought, the people who were paying near
29 the price of temporary water were mainly dairy farmers who
30 had in place programs 12 months ahead of the drought and
31 were required to buy water at those high levels to keep
32 cows alive during the drought. To use the average price of
33 water for somebody like a ricegrower for traded water is
34 really inappropriate and has no bearing on the cost of
35 delivering water. I think the argument that irrigators are
36 prepared to pay those sorts of traded water prices and
37 that, therefore, they should incur higher bulk water
38 charges is inappropriate.

39
40 The final comment that I would like to make is on
41 environmental water. The association has long supported
42 parcels of environmental water incurring fixed and variable
43 bulk water delivery charges. DNR used the example of
44 previously there may have been losses that were sent down
45 the system and they did not incur charges. You heard
46 Michael Murray's response to that which I agree with.
47

1 The other factor that comes into it is the change to
2 applying a licence to the environmental water. There is
3 also a change in the characteristics and the rules applying
4 to that water. It can now be stored over, carried over in
5 the dam and, in some cases, it is substantial volumes of
6 water. The Barwon/Milawa price allocation is a perfect
7 example of that. In the Murray/Murrumbidgee Valley, a
8 small proportion of high security water used to be either
9 used or handed over at the end of the year. Some of that
10 water is now carried over as an environmental allocation.
11 I think IPART needs to start at least setting some
12 principles in this determination for environmental water,
13 and I might leave it there.

14
15 MR BURNS: Arthur Burns from the Hunter Valley Water Users
16 Association and also the Coastal Valleys Customer Services
17 Committee. I would like to support what Bob Doyle was
18 talking about, but there are a couple of particular issues
19 relating to the Hunter. Bob talked about three small dams,
20 on the Paterson - the Lostock Dam, the Brogo Dam and the
21 Toonumbar Dam, and the fact that there just would be no-one
22 standing if the overall charges that have been asked for
23 were applied, and then who pays for it, as the last speaker
24 asked.

25
26 As far as the Hunter is concerned, Lostock is paying the
27 same price as the Glenbawn Dam and Glennies Creek Dam.
28 The two systems are not linked whatsoever, so the Hunter
29 irrigator is cross-subsidising the Paterson. We have no
30 argument with that, but we do believe, because they are not
31 interrelated whatsoever, that you need to take out of the
32 Hunter costings the cost of Lostock, and then bring the
33 smaller dams down to the Hunter price. As the COAG
34 agreement says, there should be a clear and open
35 transparency from government CSOs. That is my first point.

36
37 The second point I wanted to mention relates to the
38 security premiums. We are in the position that half of our
39 water is used by one unit, a power station. It does not
40 have a high security licence. It has a major utility
41 licence and that is virtually untouchable. We are
42 currently in the position that today there will be an
43 announcement - I expected to have heard it by now - that we
44 will receive an allocation of general security of between
45 8 and 9 per cent of our normal entitlements. The dam will
46 still have in it 39 per cent capacity of the irrigation or
47 the total consumptive water usage. There is another 20-odd

1 per cent, being the flood storage that has been referred to
2 there.
3
4 The costs in the Hunter are purely and simply the
5 maintenance and operation of the dams. The only delivery
6 charges involved is for 3 megalitres. All the rest is the
7 dams. We strongly believe that it is important that the
8 high security, low security prices be determined, that
9 those who have the percentage of the dam usage are the
10 people who should pay that percentage. Consequently it
11 should be at least 3 to 1, which is in the water storage
12 plan, the water sharing plan. I think the figures in your
13 determination say it is 2.2. We think it should be 3 to 1.
14 State Water has submitted it should be two years. We think
15 it should be really looked at. In fact, in the case of
16 Macquarie Generation, they have two years put aside, which
17 is regarded as the lowest worst drought on record. They
18 also have a carry-over of another year until the dam drops
19 to 25 per cent. So they really have close to three years
20 water that can be put aside.
21
22 I wish to make a very quick final point on the
23 affordability referred to in the ABARE reports. ABARE
24 referred to the fact that a 10 per cent increase would not
25 have a great effect on the profitability of farms.
26 Certainly the problems for dairies have been mentioned two
27 or three times today. Yesterday ABARE announced officially
28 that it expected a 1.4 cents a litre decrease in milk costs
29 for the coming year.
30
31 Last night I had dinner with the general manager of
32 Murray-Goulburn, which is the biggest cooperative in
33 Australia. He said straight out - he announced it at the
34 meeting I was at - that there would be 2.9 per cent cut in
35 their charges as from tomorrow, so it is an issue. Thank
36 you very much.
37
38 MR PARBERY: Richard Parbery, Deputy Chairman Bega
39 Cheese. Michael, thanks for letting us have a hearing in
40 January/February where we were able to present our own
41 particular case. Unfortunately, on reading the results of
42 those hearings, we obviously were not very professional in
43 presenting our case to you because we seem to be poles
44 apart on the result.
45
46 It does concern me that on page 126 the draft report
47 states:

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1
2 The Tribunal believes that the ABARE study
3 demonstrates that bulk water costs are not
4 a major factor in determining the
5 profitability of farms. The profitability
6 of irrigation farms is more significantly
7 influenced by a range of other factors such
8 as global commodity prices, domestic
9 interest rates, fuel prices and climatic
10 conditions ... While an increase in bulk
11 water costs would have a minor impact on
12 profit on farm profits, the Tribunal notes
13 that it is not a key factor in determining
14 whether farms remain financially viable
15 businesses in the long term
16
17 I really do find that an extraordinary statement. We have
18 made some strong presentations explaining how it works
19 on the Brogo. Based on what the other gentleman over there
20 said, we are in a similar position with the size of the
21 dams. The simple fact is it is a material cost. ABARE
22 has come out with its costs and noted a profit of about
23 \$39,000. They have taken the percentage increase on costs.
24 They should perhaps take the percentage increase on profit
25 and see what the result is. It is very, very dramatic.
26
27 Another thing that is happening at the moment is that
28 unless there is some sort of capping - and we have this
29 100 per cent increase plus CPI over four years - it will
30 stop any other infrastructure planning. No-one knows where
31 they are going with it now. We presented figures to IPART
32 before in regards to full cost recovery which actually
33 bankrupted everyone on the Brogo. Although it is 100 per
34 cent now every four years, will it be 150 per cent in the
35 next four years, et cetera?
36
37 We have submitted further, we are very concerned
38 about the community service obligation and a variety of
39 other points have been presented back to IPART. We realise
40 it is a difficult job that you do, but it really does
41 concern us when we get statements in the draft report
42 saying that you do not believe the cost of water will have
43 a material effect on the running of our properties. I will
44 now hand over to other speakers. Thank you.
45
46 MR GUTHRIE: My name is Steve Guthrie. I am also on the
47 Coastal Valleys Customer Service Committee and also a

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1 member of the Bega Irrigation Committee. I just want to
2 support what Richard Parbery says. We have already had
3 some substantial increases of water charges on the Brogo
4 River already. We had something like 12 per cent and then
5 15 per cent, and now we are looking at something like
6 another 100 per cent increase over the next four years. In
7 our particular situation, we are going to go from something
8 like \$6,000 a year to \$12,000.

9
10 Some of the fellows who were talking about the Murray
11 Darling areas would have to realise that although we are
12 such small irrigators, we have small dams and fewer
13 irrigators, it may not really cost a lot to run those dams,
14 but we need to have an understanding that these costs
15 cannot be all allocated to the farmers because, as Richard
16 was saying, it would have a significant effect on our
17 profit. ABARE predicted profits of something like \$39,000
18 in our dairy industry and with the increases, it could be
19 something like \$14,000 less. If you take \$14,000 from
20 \$39,000 profit, it is a significant amount of money.

21
22 Our suggestion is that we should cap the prices
23 fairly. It is a fairly serious issue at home. As
24 Richard Parbery said, it is a community service obligation
25 in our particular town. Bega Cheese is a very effective
26 contributor throughout the economy in the Bega Valley and
27 irrigation is very important to provide the throughput to
28 the Bega factory. I will just leave it at that. Thanks
29 very much.

30
31 MS RIX: My name is Cheryl Rix and I am the general
32 manager of Western Murray Irrigation. I will be very brief
33 as I think the Murray Valley has been well covered by
34 Murray Irrigation. I would like to confirm our support for
35 State Water's recommendation in relation to the high
36 security premium for the Murray, being the 1.17 rather than
37 IPART's proposed 1.5. That will make a substantial
38 difference to our pricing because at the moment we are
39 looking at a 92 per cent increase over the next five years.

40
41 My second point also supports what a lot of other
42 people have been saying. The ABARE study didn't come into
43 our region at all for our farmers. We have dried fruit
44 farmers, table grape farmers, along with citrus and wine
45 grapes. A recent study in our area actually predicted that
46 average incomes will be down 30 per cent this year and in
47 certain cases between 90 and 100 per cent where contracts

1 are not being honoured by the wineries. There will be no
2 income, there will be no profit and there will be no wealth
3 to transfer to the government.

4
5 This is probably my area of greatest concern. I don't
6 think you should underestimate the impacts on the social
7 fabric of our communities. The mental health of a lot of
8 our growers is very, very precarious and I haven't been
9 telling them about this IPART pricing review because I
10 think it's just another knock for them and it will be a
11 serious knock. Please think about all of the farmers
12 around those kitchen tables having to deal with this
13 pricing increase.

14
15 You were talking about where water will end up.

16 I know a lot of our growers are looking to having to sell
17 their water to survive and it is going to end up in
18 Victoria and South Australia from our area. It won't even
19 be retained in New South Wales. Thank you very much and
20 I hope you reconsider some of those outcomes.

21
22 MR IRVIN: My name is Barry Irvin and I am the chairman of
23 Bega Cheese. I thank IPART for the opportunity to speak.
24 From my perspective, I have been involved in the dairy
25 industry for a great many years and have been involved in
26 water for a great many years, but as the pressures have
27 come on in other areas, others have stepped up to take an
28 involvement. I have sat here today and listened to all the
29 submissions and I have to say that I strongly endorse the
30 speakers who have spoken from the various irrigators'
31 councils and streams in what they have said, but I am going
32 to speak a little bit about the Bega Valley. It is small,
33 as Richard has said, and we are not a large, significant
34 user of water like some of the other areas, but I have to
35 say that I feel that the people in the Bega Valley and
36 indeed the dairy industry on the south coast of New South
37 Wales probably have an entitlement to feel exhausted.

38
39 When I sit and listen to State Water and to a lesser
40 extent DNR, I can't help but feel monumentally frustrated.
41 I can't help but feel for the future of our industry in the
42 Bega Valley and I want to emphasise just what our industry
43 means to the Bega Valley. The Bega Valley is a small
44 valley with a famous brand name, but it has about 20,000 to
45 30,000 people. It is fast becoming a retirement village
46 for Melbourne and to a lesser extent Sydney. It has one
47 industry and that is the dairy industry and that industry

1 employs 1,000 people. Fortunately, that industry is a
2 cooperative. The 100 farmers of the Bega Valley own that
3 industry and therefore, if you like, the community service
4 obligation that Bega Cheese has to its area and what we do
5 is great. The prosperity that we have created for our
6 region is enormous.

7
8 I have to say that the viability of our cheese
9 factory, the viability of what we actually do, is closely
10 linked to irrigation. The reality is that 60 per cent of
11 our milk comes from irrigated farms and that a great many
12 of those irrigated farms are on the regulated stream that
13 is the Brogo. Those people have gone through deregulation
14 and been told to get more efficient, to work more
15 effectively, to get ready for having to compete in a fully
16 exposed marketplace, even though they're extraordinarily
17 weak sellers in that marketplace, but they're also weak
18 buyers.

19
20 One of the other things they were told when dairy
21 deregulation came around was that, of course, they would
22 benefit from competition in other areas. It would see them
23 receive cheaper resources, maybe cheaper electricity,
24 maybe, indeed, cheaper water, but in fact what have they
25 seen? They've seen that they're actually weak sellers.
26 What do they hear? They hear, "We're sorry we are
27 inefficient. We will get there eventually. We are not
28 very efficient at the moment. That is not our fault; that
29 is somebody else's fault." Whether it is State Water or
30 whether it's one of its legacy organisations, the truth is
31 that they have had plenty of opportunity to be efficient
32 and they should be efficient today. DNR is the same. We
33 can't protect ourselves against that because we have no
34 alternative. The Brogo River users have no alternative.
35 They have to buy water and they have to accept rulings.
36 The reality is that the first submission was for a
37 800 per cent increase. The guys that spoke from the other
38 end of the coastal dairy industry said it right. At that
39 level nobody will be left.

40
41 The community service obligation will not be
42 recognised. I don't think it has been recognised. If you
43 want to shut down a community, if you want to shut down an
44 industry, that is fine, keep going down that path, don't
45 recognise the community service obligation. The biggest
46 thing that worries me is that there's an enormous resource
47 put into justifying why people should pay and why it should

1 be farmers that pay and I am not sure that the equivalent
2 resource is put into working out exactly what the
3 socio-economic impact of that is. I am absolutely certain
4 in fact that that is not the case.

5
6 It is very dangerous that that is overlooked. It is
7 particularly dangerous for our industry on the south coast.
8 We need surety as farmers. We need surety as an industry.
9 The biggest concern that we have, which the other speakers
10 have said, is that the 100 per cent increase is
11 devastating. The fact that in four years time we might see
12 these guys back with an 800 per cent or a 1000 per cent
13 request for an increase is what really scares us. We need
14 some real security about what that means if we are to
15 invest and if we are to continue to engage in things like
16 river health management and all those other things which
17 are so much of a benefit to the community. Thank you.

18
19 MR CLEMENTS: I would also like to concur with those on
20 the coastal rivers who have inappropriately sized storages.
21 In the Namoi catchment area we have the Chaffey Dam on the
22 Peel system and it is an inappropriately sized storage for
23 cost recovery. It was built at a time when the only
24 considerations when building these water storages were
25 flood mitigation and regional development. There was no
26 concept of cost recovery, let alone full cost recovery, let
27 alone the debates we are having today.

28
29 Interestingly enough, in the policy papers, not the
30 cherry-picked areas that the Treasury loves but in the
31 other areas that we seek to bring forward, there are
32 statements that inappropriate decisions by government in
33 terms of policy and investment need to be considered as
34 legacy costs and developed into a CSO. These are
35 inappropriately sized storages. There's nothing the people
36 on those storage can do about it. They have long-term
37 investments, they have debt, they have all the
38 responsibilities of people in business and they cannot
39 change the fact that a government built a storage with a
40 view to regional development and flood mitigation and then
41 decided to go to cost recovery. That is not something that
42 we can change.

43
44 What can be changed though is that the policy areas
45 that allow inappropriate legacy decisions to be considered
46 as a CSO should be examined fully and should be given some
47 debate and discussion and actually turned into a CSO.

1 I hear today people being apologetic for the fact that they
2 need price capping. They should not be apologetic. It is
3 an inappropriate decision by government. Government has
4 successfully manipulated processes over a number of years
5 to turn this into us being apologetic for the fact that we
6 can't pay the full price. Government made inappropriate
7 decisions and these should be turned into legacy cost via a
8 CSO.

9
10 With respect to Keepit and Chaffey Dams, the simplest
11 method I can show of the inappropriate level of decision
12 making on the part of government is that at the end of this
13 four-year determination Keepit water will be half the price
14 of Chaffey water. That is the difference in the
15 appropriateness of the decision making. It is an easily
16 identified CSO and it should be attributed to New South
17 Wales Treasury and we shouldn't be required to apologise
18 for asking.

19
20 MR THOMSON: Col Thomson from the NSW Irrigators
21 Council. Just continuing what John said, it is an interesting
22 subject. John is talking more about - as were some of the
23 other speakers - these bathtubs that were put in years ago,
24 in a lot of cases for political reasons. I think you can
25 extrapolate that further out, Mr Chairman, and have a look
26 even at the bigger dams.

27
28 I just wonder what dams like Hume, Dartmouth and
29 Burrinjuck would look like today if we'd actually sat back
30 50 or 100 years ago and said, "We're going to build these
31 dams for pure economic reasons and we're going to get an
32 economic return on them." There was never any intention of
33 doing that. Now we've turned around and decided we are
34 going to get an economic return on them. It is not
35 difficult to argue that that isn't going to be the case,
36 but we should take into consideration that we are actually
37 trying to get an economic return on something that was
38 never designed to get an economic return on in the true
39 sense of the word.

40
41 THE CHAIRMAN: I should intervene at this point to remind
42 you that all capital expenditure prior to 1997 has been
43 removed by IPART determinations.

44
45 MR THOMSON: I understand that, Mr Chairman, but I just
46 wonder today what the dams would look like if we'd sat back
47 years ago and designed the dams for the reason we are using

1 them for today.

2
3 THE CHAIRMAN: I am sure they would be different. The
4 point is that you're not being asked to pay the return on
5 and of the capital of dams that were built before 1997.

6
7 MR CLEMENTS: With the greatest of respect, I think you've
8 missed the point. The point is that the operating costs of
9 these structures are inefficient because they are
10 inappropriately sized structures. It has nothing to do
11 with --

12
13 THE CHAIRMAN: I do recognise that. I think you equally
14 need to recognise that you're not being asked to pay the
15 return on and of the capital where dams were built prior to
16 1997. I do recognise your point that the dams may be more
17 expensive to operate or maintain because they were built
18 the wrong way or are too big or whatever. I do recognise
19 that. I think you equally need to recognise the other
20 point.

21
22 MS FURNESS: Lee Furness, Murrumbidgee Private Irrigators
23 and Murrumbidgee Groundwater Preservation Association.
24 Just on something completely different, the groundwater
25 people in this submission are asking for a review of the
26 cost-share arrangements. We noticed for surface water that
27 the cost-sharing arrangements were 17 to 50 per cent but
28 for the same programs on groundwater they are 100 per cent
29 and the consultant's report actually did suggest that there
30 were some problems with trying to figure out how much that
31 should be. They suggested between 70 and 100 and we are
32 just asking for some consistency between the cost-sharing
33 arrangements with a view to surface water and groundwater.

34
35 THE CHAIRMAN: Unless there are other comments that I
36 have missed --

37
38 MR IMMARAJ: Would it be possible to answer a couple of
39 the questions, Mr Chairman?

40
41 THE CHAIRMAN: Yes. There is someone behind you who
42 wanted to say something.

43
44 MR MURRAY: Thank you, Mr Chairman. If one thing has
45 come out of today's hearing - and it is something that a lot of
46 people have raised in the past - it is that we have all
47 asked for the transparency of the financial model and the

1 ability to audit the performance of the determination
2 against what actually occurs. That has been promised at
3 every IPART hearing every time and it has never been
4 delivered and everyone knows it has never been delivered.

5
6 I want to know what IPART can do to ensure there are
7 some teeth to this process. If we could walk away today
8 knowing that in four years time we would actually be able
9 to track the performance of this determination against what
10 was promised, what was delivered, we would be a lot more
11 comfortable about the whole process.

12
13 No-one in this room wants to see State Water as an
14 unviable organisation. We need it to exist. We want it to
15 exist well and effectively. I want Abel bouncing out of
16 bed of a morning and delivering that water, but we've got
17 to have confidence in it. If you can make sure that they
18 actually provide that robustness to the process, I think we
19 would all be very grateful.

20
21 THE CHAIRMAN: I will let Abel acknowledge the last bit.

22
23 MR IMMARAJ: I have just a few points of clarification.
24 One is on the temporary transfers. We do spend a lot more
25 effort in making sure that the larger transfers have more
26 due diligence checks. The ones that take an hour to travel
27 and transfer, for example, we are logging, but we have
28 found in the last couple of years people do put their
29 transfer application in and continue to use their water.
30 At the date of the actual transfer we find that they have
31 actually gone into the red. On the advice of the customer
32 service committees we have put in place some measures and
33 that adds to the costs. I think there is a distinction
34 between the small transfers and the large transfers.

35
36 The other issue is with regard to the environmental
37 water. In our submission we have asked that IPART consider
38 that full charges fixed and variable be levied on AEW
39 licences, adaptive environmental water licences, as well as
40 licences created for water savings. We believe they're
41 fully chargeable because they are fully tradable.

42
43 With respect to flood mitigation at Burrendong,
44 we have confirmed that water users do get the benefit of
45 the flood mitigation zone capacity where water is stored
46 within that and there is a case study which shows that
47 access to that water stored from a flood mitigation event

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1 has been made available to water users.

2
3 THE CHAIRMAN: It has been suggested to me that I should
4 see if DNR had any particular thing they wanted to respond
5 to before I close.

6
7 MR O'NEILL: I would just like to make my apologies for
8 David. He had to step out on an urgent matter. We would
9 like to thank IPART, of course, for inviting us along today
10 and we would like to thank the stakeholders too for coming
11 along and being open and frank on all of the issues. We
12 appreciate that. There were a lot of issues raised. David
13 covered a few of them in his earlier presentation, but I
14 think it is useful if we reiterate two of them.

15
16 Firstly, there was the issue of the effect of the
17 cost-savings program on our ability to deliver. As David
18 said, what we've done is realign the organisation into five
19 program areas: that is, the water management division, the
20 resource access and compliance division, the science and
21 information division, corporate services, corporate shared
22 services, I think it's called, and landscapes and CMA
23 support.

24
25 Most of the cost recoverable activities come out of
26 the water management division, of course, and some out of
27 the resource access and compliance division. As most of
28 you seem to know, today is the last day actually for people
29 receiving voluntary redundancies to walk out the door. We
30 are actually in the middle of this process, as you all
31 know.

32
33 What we have been doing in the last few weeks is
34 undergoing a knowledge transfer strategy to try and
35 preserve any knowledge that we might want to maintain.
36 What we've also been doing, though, is trying to rebuild
37 teams with a functional responsibility and an
38 outcomes-focus responsibility. In doing so, we've actively
39 been doing the redeployment exercise we've also been
40 talking about. I am currently negotiating with other
41 divisions for actual staff to be within the water
42 management division and these negotiations are ongoing.
43 We haven't resolved them all yet.

44
45 Of course, our aim there is still to deliver on as
46 many of our water management responsibilities as we can,
47 some of which are fully cost recoverable and some of which

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1 are not. At this stage it is looking like we will be able
2 to deliver on all of our ones that are fully cost
3 recoverable. As I said, it is still early days yet and we
4 are in the middle of the process, but generally the
5 voluntary redundancies appear to be coming from other areas
6 and they are targeting certainly corporate services.
7 They're a lot less of an impact in water.

8
9 Looking forward, I think generally we are going to be
10 okay, but having said that we still need to - starting
11 Monday, effectively, when we really know the team that is
12 remaining - see what we've got left on deck and make sure
13 we do review our activities carefully. I think Doug from
14 the New South Wales Irrigators Council suggested there
15 should be some consultation on the cost recoverable
16 activities, which ones are the most important ones and if
17 we need to, to prioritise delivery of those. I think that
18 was a reasonable suggestion and we would look into that.

19
20 What I will do now is hand over to my colleague,
21 Rick Rundle. He is going to talk about the second category
22 of questions and issues, which is the
23 accountability/reporting side of things.

24
25 MR RUNDLE: Just quickly on the systems, what we were
26 putting across was that the incremental costs to
27 State Water of those system losses were actually extremely
28 minor costs, not to the extent of the full bulk-water
29 charge for releasing that water. The fact is the water is
30 there now. I just wanted to get that point across. It is
31 a marginal cost.

32
33 Secondly, on the reporting side, it is something that
34 comes up and I have seen this over the years. We are in
35 the process of developing a reporting system, believe it or
36 not. We have the new reporting water management profile in
37 place which replaces the old product and sub-product we
38 used to use and that was quite an exercise in itself and
39 that is what we use in our final submission. We are going
40 to build on that. We think that is basically a pretty good
41 profile of our water management activities. We certainly
42 did need that with the changes that have gone on within the
43 Water Management Act and following the National Water
44 Initiative. We needed to update the products and that
45 process is in place.

46
47 Of course, in developing a recording system it is not

1 so straightforward - just taking your existing financial
2 system and having a separate set of subsidiary orders of
3 account. You cannot do that because there is a cost
4 attribution process. We have to allocate costs to valleys
5 and water resources to activities. That doesn't naturally
6 fall out. We have been asked to do this within our
7 financial system, to integrate it within the latest SAP
8 upgrade, which is going ahead now, and we intend to
9 complete the exercise in 2006-07 and look at some
10 preliminary reporting part of the way through the year as
11 best we can. That process is in train. I thought I would
12 pass that on. It is not hearsay. It is actually
13 happening.

14
15 To reiterate what Rob said about the functions we are
16 dealing with in terms of the restructuring, it so happens
17 that WRM, water management, is a core function of the
18 organisation. We said that in the submission and that is
19 still the case. Those four core functions do equate
20 essentially to the functions that are subject to cost
21 recovery. It is not as though we're deliberately
22 allocating resources to an area in which we are going to
23 get funding via the pricing process.

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1 CONCLUDING REMARKS

2
3 THE CHAIRMAN: Thank you. I would just like to say a few
4 words. I am not going to be able to answer every point
5 that has been raised today and in some cases neither would
6 that be appropriate because the Tribunal needs to go away
7 and consider its position and needs to undertake further
8 investigation.

9
10 I would like to begin by thanking you all for your
11 participation in this process. We are conscious that it
12 makes quite significant demands. It makes very significant
13 demands on the two water agencies themselves, which
14 State Water referred to I think in its opening remarks. It
15 does make significant demands upon them. It also makes
16 demands on irrigators. Some of you are relatively big and
17 have a secretariat, but there are other little ones, like
18 the Bega Valley, which obviously can't afford to put the
19 resources in. We are very conscious of the demands that
20 makes upon you.

21
22 The first point I wanted to make is that the gentleman
23 from the Namoi said there was a need to protect irrigators
24 from the abuse of monopoly power and that is of course
25 precisely why IPART exists and why we are going through
26 this process. I am conscious that it is a difficult
27 process - it is difficult for us as well as for all of
28 you - and it may not be perfect in protecting irrigators
29 from the abuse of monopoly power, but that is the purpose
30 of the process. Fundamentally, we are seeking to achieve a
31 proper sharing of efficient and prudent costs between
32 government and the irrigators.

33
34 How do we establish what are those efficient and
35 prudent costs? It would be better if we had better
36 information. I think we all recognise that, including the
37 agencies themselves. They are on a promise to deliver and
38 I will come back to that promise in a minute, but it is an
39 imperfect world and we have to take the information as it
40 is. We do push for more information.

41
42 How do we establish what are efficient costs? Where
43 businesses are outsourced or contracted out, I think we are
44 all more comfortable in that situation that we have a
45 degree of efficiency. I empathise with the suggestion that
46 a business should be market tested at least. That said, it
47 is not the function of any regulator to interfere with the

1 management of a business. At the end of the day, it is for
2 a business to manage itself and not for the regulator to
3 say how that business should be managed or to direct how it
4 should be managed, but we would be more confident where
5 various activities were outsourced.

6
7 In view of that, we do try to employ consultants who
8 examine the business fairly obtrusively, I believe, in
9 terms of trying to accomplish what are efficient costs. In
10 this particular instance, the consultant is limited by the
11 historical information systems and so on, and I would hope
12 that the next pricing determination will be better. My
13 predecessor said exactly the same sort of thing, I
14 understand, with a degree of cynicism, but I would hope that
15 it will be better in the future.

16
17 I would like to say that where we have been most
18 helped by irrigators is where you have put specific
19 proposals to us. It is matter of concern and not a great
20 deal of help when we are told that it is simply
21 unbelievable that IPART has refused to impose a significant
22 cost reduction discipline on State Water. We are much more
23 helped when we get specific proposals such as we got, for
24 example, in relation to the sharing of costs in the Murray
25 and such as we got in relation to Burrendong Dam, such as
26 we got where a specific proposal was put on the three
27 coastal dams and on the way coastal water prices should be
28 capped.

29
30 By the way, we did cap Bega Valley's prices; it is
31 just that you do not like where we capped them.

32
33 MR PARBERY: That's correct.

34
35 THE CHAIRMAN: We did take the point they were to be
36 capped; it is a question or where they are capped. But
37 where we get specific proposals - one example is the
38 proposal to tie the price of coastal water to the price to
39 in the Hunter - we will certainly reflect them. We will
40 also obviously reflect on the proposal from State Water to
41 re-examine their operating costs, and we will do that
42 seriously.

43
44 I think, in fairness, given what we have heard today,
45 we need equally to re-examine what is the appropriate
46 charge for water and water transactions of water. 275 is a
47 lot higher than sort of back-of-the-envelope cost of water

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1 by irrigators, and certainly it is lot higher than most of
2 us pay for our share transactions, and they involve a
3 similar sort of transaction, from where I see it. You may
4 want to dispute that, and that will be good. That is not a
5 bad starting point as far as I am concerned.
6
7 We have had a number of specific things put to us
8 today. We have noted them and we will definitely address
9 those issues in looking ahead. Can I just say that quite a
10 lot of the specific points went to who pays rather than the
11 total. That is easy for most people in this room if he who
12 pays is the government, but maybe it is a bit difficult if
13 he who pays is another irrigator or irrigators, and the
14 irrigators have raised that point, but we will be examining
15 that.
16
17 Finally I want to reiterate that we really have been
18 assisted right throughout the process by everybody in this
19 room and today has just continued that tradition.
20
21 I am sorry; I should have mentioned one other thing
22 about realising on promises to improve performance. This
23 is a really difficult issue, I think. I do not pretend to
24 be a total expert on regulation. I didn't start being a
25 regulator till 18 months ago and I am still learning, but,

26 as far as I am aware, no regulator has made price increases
27 contingent on performance. I cannot see another way of
28 covering that; otherwise you are still in the world of
29 promises to deliver. The only power the regulator has is
30 to tie the price increase to the performance.
31
32 I would like to take that on notice. We will
33 seriously think about that. I just warn you that it is not
34 something that has ever been actually done, as far as I am
35 aware. As I say, we will seriously think of that. The way
36 we would have to look at it is somewhere within the price
37 path, which is four years. If we only did a one-year
38 determination, then one could just say, "Right, this is
39 what your condition will be. You will not get it next year
40 unless you deliver better information." StateRail might
41 find their lives more difficult in future, just by the way.
42
43 But when we have a four-year price path - there are
44 big advantages in having a four-year price path for all of
45 us; given the burden of going through the process of
46 determining the prices, there is a big advantage in the
47 four-year price path - then it become more difficult,

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1 somewhere within that four-year price path period, to say
2 "Hang on, have you delivered on what you have promised?"
3 That is something that we will think about.

4

5 Again, as I have said, I would like to thank you all
6 for your participation. I perceive that it is probably
7 impossible to satisfy everybody with a price determination,
8 but we know the things we need to address. Thank you very
9 much.

10

11 AT 1.45PM, THE HEARING ADJOURNED ACCORDINGLY

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