INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF RURAL WATER CHARGING SYSTEM
HEARING

Tribunal Member

Mr James Cox, CEO

Mr Peter Boxall, Chairman

Members of the Secretariat

Ms Amanda Chadwick, Ms Chen Chou, Alex Kelty and Ms Joyce Tapper

Held at Level 8, 1 Market Street, Sydney

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THE CHAIRMAN: Thank you very much for coming and I would like to welcome you to this public hearing into the rural bulk water charges in New South Wales.

I am Peter Boxall. I am the chairman of IPART and on my right is Jim Cox, the chief executive officer and a full-time tribunal member.

For this afternoon's session IPART's secretariat is represented by Amanda Chadwick, director of water; Chen Chou, program manager and Alex Kelty and Joyce Tapper, both analysts within our water team.

Under the terms of reference for this review we are examining two key issues: options for the billing of bulk water charges that might be better matched to physical cash flows and options for determining the New South Wales government's cost share for the Australian Competition and Consumer Commission's determined bulk water charges in New South Wales. We will also be considering options around the need to maintain an explicit government subsidy for basin valleys that are currently below 100 per cent cost recovery of their user share of costs; that is, for example, the Peel Valley.

We held workshops in Griffith and in Narrabri in June to get an idea of stakeholders' views early in the review process and to inform our discussion paper. We are grateful for the effort that stakeholders have made to assist us by attending those workshops, as well as attending the hearing today. We released our discussion paper on 26 June, which includes our preliminary recommendations for this review. Written submissions are due on 10 July.

Today's workshop is an opportunity for stakeholders to understand, to seek to clarify and provide comment on the discussion paper. I would also like to thank all those who have agreed to participate here today. We consider this to be a very important part of our investigation. Before we commence proceedings I would like to say a few words about the process for this hearing.

You have available an agenda which indicates the order of proceedings today. The IPART secretariat will give a short presentation on the key issues for discussion in today's session, then we will have presentations from

stakeholders. At the end of each presentation we have 10 minutes for questions and discussions. The presenter will take questions from IPART first and then questions from the floor and I note that we have set aside five minutes for each presentation and we will try as much as we can to stick to that.

I would like to start by inviting each participant at the table to introduce themselves for the record by stating their name and organisation they represent. I will then ask Chen Chou to introduce the first session. Maybe you can identify yourself when you start your presentation by giving your name and the organisation that you represent so that the recorders can pick it up. Thank you.

The first presentation is an overview by Chen Chou from IPART. Chen.

MS CHOU: Yes, thank you Peter. Thank you everyone for attending this afternoon. I would like to just briefly take you through the preliminary views as outlined in our discussion paper so that we can focus the discussion this afternoon. Today is a chance for us to also understand what you think of our views that we have expressed in the discussion paper and anything that we have missed that you feel we should consider for the final report. With that in mind, let me just take you briefly through our preliminary views.

First of all, we have done some preliminary analysis on the link between water availability and customers' cash flows. We understand that water availability is highly variable and it varies across time, location and depending on what kind of security of water you have and depending on your profile, customers respond to water available differently. So how do we design the tariff structure or other policy options to respond to the different cash flow issues of customers and when those issues arise how do we respond to them?

Just on our preliminary views on the price structures or other policy options, we consider retaining the existing tariff structure for both State Water and the Office of Water to be a good balance between - share the risk between customers and State Water and the Office of Water. So what does that mean specifically? For State Water that's a 40:60 fixed to variable ratio plus a volatility allowance and for the Office of Water that means a 70:30 fixed to variable ratio. We also believe that a conditional deferral of fixed charges would offer customers an additional flexibility, if you will, to actually respond to times of low water availability. So the deferral of fixed charges when there are times of low water availability would offer customers a reprieve, if you like, during those difficult times and the design of that conditional arrangement still requires further work and we are seeking stakeholder views on that.

In terms of government cost shares, we consider that the 2010 determined cost shares for the State Water determination should be carried forward to the first price determination by the ACCC. It is our view that State Water should present their price submission based on the 2010 determined cost shares and then we would review those cost shares in the 2017 pricing submission. So in our workshops held in Narrabri and Griffith stakeholders have expressed the view that there should be a role for an independent body, for example IPART, to look at the cost share arrangements. So we believe this option satisfies the need for independent review, plus it also means it is slightly more administratively efficient not to look at the review for every price determination but rather every second price determination.

A review of cost shares means reviewing the cost sharing ratios, the cost allocations and the activities. Just to, I guess, emphasise: the New South Wales government need to agree to the cost shares prior to the price submission to the ACCC.

Lastly, in relation to valleys not at full cost recovery, under our terms of reference we have been asked to look at ACCC determined charges. So this means valleys that are in the Murray-Darling Basin and the valleys that are in the Murray-Darling Basin that are not currently at full cost recovery, that means the Peel Valley. Our view is to increase the average bill by 5 per cent per annum and with the remaining costs covered by a CSO but we are seeking stakeholder comments on this issue and I am sure there will be some discussions around this issue. Are there any questions, issues so far?

THE CHAIRMAN: Any questions? Do people know what a CSO is? Yes? Community service obligation paid by the

government.

Any questions for Chen, any comments at this stage? There will be plenty of opportunities. Thank you very much, Chen.

We will move on to the Murray Irrigation and we have Jenny.

MS DAVEY: We had Jenny, unfortunately Jenny's flight got cancelled this morning so the understudy has had to step in. My name is Perin Davey.

THE CHAIRMAN: Thank you, Perin.

MS DAVEY: Firstly, thank you for the opportunity to present at today's hearing. In making this presentation we will not be covering all of the issues in the discussion paper, they will be covered in full in our written submission, where it is relevant to our interests and knowledge. There are some points that we do, however, want to focus on.

Just by way of background, Murray Irrigation is an unlisted company. We are a not-for-profit company with a board of directors which includes six shareholder directors elected by our irrigator shareholders. We supply irrigation water, stock and domestic water and bulk water to four towns through nearly 3,000 km of gravity-fed earth channels over an area of nearly 750,000 hectares in southern New South Wales. We currently supply water to around 2,300 individual properties which are operated by approximately 1,200 unique farm businesses and in 2011/12 our customers diverted 900,000 megalitres through our system.

Bulk water charges made up of State Water and the NSW Office of Water charges are a major cost to our business and therefore to our irrigator customers. In 2012-13 government fees will represent 20 per cent of our fixed fee revenue, 56 per cent of our variable fee revenue and 35 per cent of our total revenue. The total government costs are forecast to be in the vicinity of $10 million and along with wages are our largest cost components. So we support this review and we consider the outcomes of it to be critical to the next determination of State Water's regulated water charges.

While our preference is that IPART continue to regulate State Water's charges, this review does provide a critical opportunity for the New South Wales government to continue to influence in a positive way the next determination, even through the ACCC process.

Our comments today are based on a preliminary reading of the discussion paper and it does need to be recognised that due to the time constraints we have not developed our responses in accordance with our usual practices, through the board of directors.

The points we would like to make: the consideration of assumptions for consumption forecasts. This issue was debated in the last determination and assumptions about forecast deliveries are very important to the fees, particularly where a large proportion of the revenue recovery is from variable fees. The change to a 20-year rolling average at the last determination did reduce forecast consumption in the Murray Valley significantly. Murray Irrigation supports in principle the rolling average, however, it is important that with the significant and increasing use of environmental water, that this water is recognised and its use is recognised and included in the consumption forecast.

The tariff structure: Murray Irrigation supports State Water maintaining the current tariff structure of 40:60 fixed to variable. We believe that this shows the lessons that we learnt through the drought, where there was a need to reduce the fixed costs to the irrigation farm businesses in times of low to zero water availability, so we support the continued application of that tariff structure.

We support the continuation of the cost shares as proposed by IPART and the inclusion of these cost shares in State Water's submission to the ACCC, along with the New South Wales government contribution for the government share. While Murray Irrigation supports the continuation of these cost shares, we note that there are a large number of free riders, for want of a better terminology, who are not paying for the services received from regulated river systems and by the free riders we refer to stock and domestic users, riperian floodplain protection, tourism and recreational users. We believe that there is an

opportunity for State Water and the NSW Office of Water tariff design to address some, but clearly not all, of these issues and we will go into further detail on these issues in our written submission.

We support the current valley-based pricing model. With regard to the consideration of larger customer rebates, we note IPART introduced these, or a form of them, when it first commenced regulation of bulk water and the case for large customer rebates has been put and argued through various determinations. Our rebate at Murray Irrigation is significant and the removal of this rebate would result in significant fee increases to our customers. We believe the argument for reduced costs and efficiency savings as a result of the establishment of our business to both State Water and the NSW Office of Water remains and the complexity of State Water's business, including water management, billing, et cetera, is significantly reduced by our aggregation.

We are aware that customers such as the Commonwealth Environmental Water Holder would like the same benefits provided to them, however, we point out that there are a couple of points of distinction, namely, that we only divert water from two points of supply and therefore we are less complicated than the needs and the wants of the Commonwealth Environmental Water Holder and we also provide a service to customers that if we weren't in existence State Water would have to meet, whereas the Commonwealth Environmental Water Holder is only servicing their own needs.

With regards to River Murray Water costs, Murray Irrigation wants to raise concerns through this hearing about the abject failure of the water charge infrastructure rules to achieve the objectives of the Water Act 2007, which include achieving pricing transparency and respective water storage and delivering irrigation systems and cost recovery for water planning and management.

The water charge principles also require consistency across sectors and jurisdictions where entitlements are able to be traded. However, under the current water charge infrastructure rules the ACCC is not able to regulate the MDBA and River Murray Water costs because the MDBA does not strike a charge. The ACCC is also not able to regulate the bulk water chargers paid by South Australian irrigators because they do not pay them. Instead we have the ACCC regulating New South Wales and Victoria, who were already regulated prior to the Water Act. State Water has advised us that the ACCC may not even be able to regulate the River Murray Water component of State Water's costs.

The River Murray Water costs are, in effect, the single largest component of Murray Irrigation's government bulk water charges but you can only reach this conclusion by a very convoluted path. There is no transparency in the current arrangement. It is impossible to have any view of the efficiency and prudence or the extent to which River Murray Water is actually separated from the MDBA. What we do know though is that their business costs have risen dramatically.

So at the same time Murray Irrigation is required under the rules to provide detailed historical information about costs, five years of forecast expenditure and revenue, five years of forecast fees and prices, a description of our services and a five-year plan of our capital investment program, as well as having a consultation process to provide our customers with an opportunity to comment on all of this. So it is remarkable that a not-for-profit company with part-time directors elected by customers, has to go through all of this process while we have a large government authority that results indirectly in a bill to our customers in the order of more than $6 million but is subject to minimal scrutiny.

So we seek two things from IPART through this process. The first is to ensure that the basin's irrigators only pay their fair share of the efficient costs of the MDBA and also to identify opportunities with government to ensure the MDBA are subject to scrutiny and input from customers. Thank you for this opportunity.

THE CHAIRMAN: Thank you very much, Perin. Any questions?

MS CHOU: Hello. Can you tell us a little bit about the price structure for Murray Irrigation in terms of fixed to variable ratio?

MS DAVEY: I would love to. Jenny would have been in a far better position to. We have just put our new pricing fee schedule out and it is available on our web site, so if I could direct you to that and we will also cover it in our

written submission.

MS CHOU: Thank you. Maybe if you can also cover this issue around - we put in our preliminary views a conditional deferral of fixed charges where there is no water availability.

MS DAVEY: Yes.

MS CHOU: But in the case where the customer is a member of an irrigation corporation, what needs to happen for that deferral to be passed on to the customer of the irrigation corporation.

MS DAVEY: Okay, I will pass that on.

THE CHAIRMAN: Are there any other questions? Are there any questions from the floor for Perin? No? Thank you very much. Next we have Lachlan Valley Water. Mary.

MS EWING: Thank you. I am Mary Ewing, executive officer from Lachlan Valley Water. I have half a dozen slides to speak to. Thank you also for the opportunity to speak today. Lachlan Valley Water represents 650 surface water and groundwater users in the Lachlan Valley, including Jemalong Irrigation Limited.

We want to speak only to four key areas, we will cover more in our submissions but we want to talk about the impact of low water availability, policy options, tariff structures and cost shares.

At the Narrabri workshop there was discussion about the percentage that water charges represent as a percentage of farm costs and we acknowledge that that varies widely across valleys and that in the Lachlan, for example, it is not above about 8 or 9 per cent, so we acknowledge that the Lachlan may not be typical because there are many mixed farms in our area. However, I guess the key point is that regardless of the percentage of farm costs, the charges must reflect the pricing principles, user pays and efficient costs.

So in terms of the impact of low water availability and what is the appropriate way to analyse the impact of availability on cash flow, our view is that it is a sequence of two or more successive years of low allocations that actually triggers hardship for farmers and impacts on cash flow.

Hopefully you can see those figures but the Lachlan suffered significantly from the impact of drought from 2001 onwards and I think that sequence of general security allocations illustrates what we are saying about the sequence, that once you start to have repeated years of either very low or zero new availability of water, then our view is that is when you need options for either deferral or if it is extended for three years or more we think that deferral is actually no help and you need to move into a drought-relief policy.

In terms of triggering a hardship policy for conditional deferral, our suggestion would be two successive years of less than 5 per cent new allocation and trigger repayment once allocation has reached 20 per cent. Our experience was that deferral for a very short period actually did not address a problem because people had no capacity to repay. So the turn-on-again-off - or bringing charges back to bear - also needs to be triggered by water availability.

We say that deferral of charges is one option but once you get to three years it actually needs a drought assistance and policy response. Our view is that a hardship policy does not actually negate the need for State Water to manage their own risk through a reserve fund or sinking fund and, in fact, if State Water is prevented from doing that by government policy, the risk should not be transferred to water users.

Going back to our point about charges need to be efficient and user pays, policy options like Murray Irrigation, we think that State Water and NSW Office of Water could reduce their revenue risk by broadening their customer base and that our view is that where additional services are required by other users, require State Water to, as we said there, maintain water accounts, to track releases, to consult with other agencies or committees to operate structures, that that is the type of service that is typically provided to licence holders and that that should trigger a charge to other either basic landholder rights or discretionary environmental water that is requiring those additional services.

In terms of tariff structures, our members quite strongly support the high variable cost. We see that as encouraging efficient operation as opposed to a 90:10 type of cost ratio and it also assists in cash flow management because the capacity to pay is matched with water availability, so we do support State Water offering two pricing options. Obviously we would prefer 40:60 and 80:20 or we accept that there needs to be some more work done and some modelling around where those two options should sit and what the charges should be.

We accept that in those pricing options costs and risks for State Water need to be priced into each option; that individual irrigator choice at the start of the pricing period - and you have got to stick with your choice for the whole pricing period - and also that licence holders need to nominate all their licences to one option or the other. We feel that if people can change during the period or can nominate some option - licences to one and some to the other, there is an opportunity for people to, I guess, gain within the --

THE CHAIRMAN: Within the system.

MS EWING: Yes. We support that as an option to assist irrigators' risk management. We think there are a range of risk management options out there. Clearly irrigators have the ability, with continuous accounting and carry-over, to manage some of their own supply risk. Conditional deferral may be another option for some, we think pricing options are another option of the suite that is already available.

Finally on cost shares, we support the IPART interim proposal. We would welcome periodic review, we think it is transparent and a logical clear framework to follow. Thank you.

THE CHAIRMAN: Thank you very much, Mary. Are there any questions from IPART?

MS CHOU: Can we just go back to the start of your presentation just around the proposed triggers. You said two successive years at a 5 per cent allocation and repay once allocation reached 20 per cent. Can you just expand on why you think that is appropriate and I guess the impact on cash flows for irrigation.

MS EWING: Yes. With the availability - and we accept this varies across valleys and the northern valleys generally have greater access to either continuous accounting or a high percentage of carry-over - but our view is that an irrigator can manage through one year of very low or zero allocation through managing their water account. By the time you get to the second year, most people will have exhausted those reserves. In terms of saying "less than 5 per cent", from our point of view 2 per cent of allocation is worth as little as zero. So we would be concerned if the trigger was two years of zero and then you get a zero, 2 per cent, another zero. I think to all practical purposes people would be in a similar position of having three years of zero but if two zero years was chosen as a trigger, they would not have access to a conditional hardship policy.

THE CHAIRMAN: Thank you. Jim?

MR COX: Mary, I was interested that you wanted irrigators to have a choice. I know you support variable charging, you thought there should be some options. I was wondering if you can talk about what you thought the advantages of them might be, given that in our discussion paper we thought that options would be rather complicated.

MS EWING: I think that we would suggest limiting it to two options, so basically 40:60 and a much higher percentage of fixed charges. We could see that for some water users, such as the Commonwealth Environmental Water Holder, they may prefer to use a high level of fixed charges for certainty and consistency of budgeting, whereas highly active irrigators would probably prefer the 40:60 option where if you have got water, you are making money, you might be paying a bit more for your usage charges in that option but it is matching to your cash flow better. We did circulate these options to our executive and there was support among our executive for some flexibility.

THE CHAIRMAN: I guess another thing you could do would be divide the customers into two groups: one in one basin and one in the other basin but not give each of them a choice.

MS EWING: We prefer to have a choice.

THE CHAIRMAN: Other questions? Chen?

MS CHOU: So you don't think when you have got 5 per cent of allocation, water trading is an option for people to mitigate some of the low water availability issues?

MS EWING: It is an option to mitigate but probably not manage completely. Again, the feedback from our board was once you get below 10 per cent, that is when there are significant difficulties.

MS CHOU: Thank you.

THE CHAIRMAN: Mary, I was just wondering if you could clarify your proposal on the after two years it is relief but after three years it is some form of drought assistance. Drought assistance is broader than just three years without water. Dry-land farmers would get it for a number of years without rain. Is that a separate issue or is that something that is sort of tied in to this review?

MS EWING: The Lachlan actually had fixed charges waived three times from 2002 to 2010 as a result of successive years of zero allocation and that is the type of relief we look at. Once you have had three successive years of no water, there is no water left to trade in accounts either, so that is the type of policy we are looking at. We realise that is a government policy and not within the framework of IPART.

THE CHAIRMAN: Amanda.

MS CHADWICK: Mary and Perin, in both of your presentations you have raised the issue of basic rights holders and stock and domestic right holders and whether or not the charges should be applicable to them and whether or not that is an issue that we should be considering in this review. I just wanted to put on the table that that was an issue in front of us in the Office of Water price review in 2010 and IPART at that point recommended that a policy framework be developed by the Office in time for the next price review. So within the terms of reference that we are currently considering, that would probably be the sorts of things that we would be considering and that it is probably not a central issue for us today. Thank you.

THE CHAIRMAN: But you can still talk about it if you want to.

MS EWING: I might lose the opportunity to emphasise it.

MS CHADWICK: We know it was a central issue there.

THE CHAIRMAN: Any other questions, comments? Any questions from the floor for Mary? No? Thank you very much, Mary.

THE CHAIRMAN: Next we move on to Macquarie River Food and Fibre. We have Michael and Susan.

MR BENNETT: I am Michael Bennett from Macquarie River Food and Fibre. I will let my learned friend lead off from this one. She is an expert in certainly handling the discussion and questions.

MS MADDEN: I am Susan Madden, the executive officer with Macquarie River Food and Fibre. Macquarie River Food and Fibre represents the regulated river licence holders on the Macquarie River from an area Burrendong Dam downstream to the Macquarie marshes and that includes riparian licence holders as well as members of the seven off-river irrigation schemes. We also represent the aquifer access licence holders in the lower Macquarie groundwater sources.

We thank IPART for the opportunity to participate in this review and certainly welcome what is honouring a pre-election commitment of the New South Wales government in taking this up. We will go into more detail, obviously, in our written submission on the detailed questions that have been asked by IPART in the discussion paper but I will use today as opportunity to provide a bit of general feedback on what has been raised and some of the specific issues that we see in the Macquarie Valley.

First of all, I would like to highlight some of the changes to the structure of the Macquarie Valley irrigation industry in recent years and flag that this is likely to have implications for both consumption in the valley and consumer cash flow.

Currently IPART have been working on a general security entitlement in the Macquarie Cudgegong related river system of about 623,000 megalitres general security entitlement. It is worth noting that in recent years the Commonwealth and State Governments have been active in the

market and are recovering water for environmental purposes. So to combine with that they have either purchased or are committed to purchasing around 171,000 megalitres of general security entitlement, which is about 27 per cent of the valley's general security entitlement. So the behaviour of the environmental water holder is likely to be quite different to that of our normal irrigation industry. That is something we would like to flag as something to be looking at when considering consumption forecasting.

Macquarie River Food and Fibre did not support and still doesn't IPART's recommendation in the current determination to move toward a 20-year moving average of historic IQQM for consumption forecasting. We were and remain in favour of using the full data set of IQQM modelling, believing that that longer-term averaging is the better way to go and I think that the change that we see in the industry and the water that has now moved to the government environmental water holder strengthens the case to return to the full IQQM modelling, particularly as they update that to recognise the behaviour of the environmental water holder. So they are now building into the model the Macquarie marshes as a user of entitlement and so we believe that IQQM modelling is the best way to reflect consumption or to determine that in the absence of perhaps a crystal ball.

Just to give an example: the impact to the Macquarie of the change to the consumption forecasting approach that IPART used in the previous determination was our long-term average reliability based on the long-term IQQM is around 52 per cent. The approach that IPART used brought that down to about 41 per cent, so that was a significant impact for our valley. Since the previous determination the MDBA have updated their modelling to include the drought sequence, so they have used from 1895 to 2011, I believe. So over that period they have now captured the recent drought data that brings reliability down from about 52 per cent to 50 per cent, still well above the 42 that was flagged by IPART. That is one issue that we would like to see addressed.

Moving on now to cost shares and tariff structures. Macquarie River Food and Fibre supports in principle continuation of a two-part tariff with a differential pricing. Our preference as representatives of the traditional irrigators agricultural sector is maintenance of the current fixed variable ratio. We believe that the risk to State Water was in fact overstated in the last IPART determination and we do not support the volatility allowance that sits beside the current fixed variable ratio.

We do note the assessment that IPART have undertaken in the discussion paper, in particular referring to table 7.6 which outlines the assessment of options against the criteria. We feel that it is worth pursuing price choice. In terms of the fixed variable ratio as Mary Ewing flagged, probably two choices would be enough. From the table and assessment on 7.6 I feel that IPART perhaps ruled that option out too quickly. It seems to be on the basis of it being more administratively complex but I think it is worth perhaps looking at some further options there, particularly as we are now talking about large water users in terms of state and Commonwealth environmental water holders who may benefit from a second choice.

MRFF is in favour of a continued role of IPART in determining cost shares, however, we believe that there are three key areas that have a material impact on water users in the Macquarie Valley that need to be revisited. I will go through them one by one but there is an opportunity to do that either through cost shares or through expansion of the user or customer base.

The first of that is the environmental water allowance, which is a planned volume allowance for the environment in the Macquarie Valley that was specified in our water sharing plan. It is a 160,000 megalitre allowance. It is not technically a licence, it is an additional allowance, an entitlement that the government has since brought back but it is a significant volume, it has the same characteristics as a general security entitlement, in that it is able to be stored and called on and therefore requires active management by the delivery agency.

As mentioned, that is 160,000 megalitre volume equivalent to a general security customer. So using the 2011 entitlement and usage charges just applied to our normal general security entitlement in an average year, we would have a cost to a general security licence holder of about $8.50 per megalitre in an average year system and variable charges. If we brought in the environmental water

allowance into that requirement, that would reduce that $8.50 by about 20 per cent to about $6.80. So it would have material effect there and we think that that needs to be revisited.

The other two key areas - one has been raised - is the stock and domestic riparian landholders, tourism and recreation. If it is administratively complex to bring those in under a widened user base, then there is perhaps an opportunity to deal with it through cost sharing and through CSO.

The other one in the Macquarie is the flood mitigation of role of Burrendong Dam, which is quite unique. It is a bit different to the other valley dams in the state in that one-third of the capacity of Burrendong Dam when it was built was for the purpose of flood mitigation. We do accept that the current cost share allowed for 50 per cent government share of flood mitigation but we don't believe that that is all-encompassing for what we are talking about at Burrendong Dam, where there is other capex and opex that is not fully captured there. We will provide some more detailed example of the case in our written submission. That is covering cost shares and tariff structures.

Just going on to the issue of a policy for hardship: Macquarie River Food and Fibre feels that there are several issues there, that there is a separate issue of what becomes a drought and assistance measure and we are in favour of the current government policy for waiving the fixed charges and believe that that probably should be dealt with as a drought policy/drought relief mechanism, as opposed to dealing within the determination process.

They are our key points. Just to conclude, some of the remaining or outstanding issues that we saw from the previous determination was as mentioned, that the risk of State Water and the Office of Water has been potentially overstated. As Mary also mentioned, that if there are government impediments or impediments in place through the treasury process, that prohibits State Water being able to manage their own risk and that should be an issue that is put forward to government and not put on their user base. I will conclude with that and I am happy to take any questions.

THE CHAIRMAN: Thank you very much, Susan. I actually have a question which follows on the last point, so I will use my seniority to jump in.

On the volatility allowance which was in the last determination, just to clarify, is it Macquarie's position that you don't think there should be a volatility allowance or do you think that the one that IPART put in their determination was too large?

MR BENNETT: No, we don't think they did, we think that they can manage the risk without that. They have very high WACC compared to other regulators.

THE CHAIRMAN: So basically your thinking is that there shouldn't be any volatility allowance.

MS MADDEN: Yes. We believe it was overkill in the previous determination. They addressed IPART --

THE CHAIRMAN: We just need to keep in mind that if there is a fixed charge to the irrigators, that means all the risk is shifted onto the irrigator from State Water. If there is a variable charge 60:40, some of the risk goes back to State Water and away from the producer. We just need to keep in mind whether that should be in the pricing regime or not. There is another issue about how much but I think that is just a point which occurred to me during your presentation.

MS MADDEN: There is also an efficiency driver in having a high variable charge in State Water's running of their business.

THE CHAIRMAN: Yes. In the traditional building-block approach or approach to IPART's pricing we try to base the price as much as possible on the efficient cost, we are not trying to get users to pay for inefficient costs. Inefficient costs where they exist are the responsibility of government. Chen?

MS CHOU: Just a question. You mentioned that the recent drought had a huge impact on the irrigation industry. Can you tell us a little bit about how irrigators are managing water differently now as opposed to prior to the drought?

MR BENNETT: I will start that one. Well before the drought there tended to be a boom-bust economy where they

used all the water as soon as they had it. With the introduction of carry-over, which Macquarie was the first to get carryover, then they tended to manage their water over a series of seasons so they could manage their capital structures, their employment structures over time and that really hasn't changed. I think when they came out of the drought they adopted the same strategy, that they manage water over time. So that was not looking to one big year, they were looking to run their seasons for three years and then build a portfolio of risk.

MS CHOU: Do you find they are diversifying a little bit more?

MR BENNETT: No, they really follow the market. So whatever is the highest return they follow that and luckily they are not in fixed horticulture, they are in industries where they can mirror and at the moment cotton is the predominant industry, there is probably 95 per cent of water used.

THE CHAIRMAN: Jim?

MR COX: Yes. Like Lachlan, you are keen to offer irrigators choices. I guess when we are thinking about that one difficulty is how do you offer a choice between the fixed and variable charges in a way that is fair both to State Water and the irrigator because you can easily think of an arrangement in favour of the irrigator and be disadvantageous to State Water and vice versa. Have you given any thought as to what a fair basis might be to offer these choices?

MS MADDEN: Our thinking behind offering choice was to also accommodate a major new water holder in the valley and thinking about a move to the ACCC where they may be looking at a higher fixed charge. Overall our preference is to do what we can to maintain a higher variable charge. So as part of that thinking we thought there could be an opportunity to further explore price choice that might benefit State Water and both sets of customers.

MR BENNETT: I think with State Water's sophisticated financial systems they should be able to work out the differences in costs between the two different pricing regimes.

MS MADDEN: I think as Mary said, if it was limited to two choices and licence holders needed to make that choice upfront, that would assist in simplifying the process.

MR COX: I guess it is not only cost, it is also risk which is the issue and we'll have debate about it. If your members were to be offered choices, you think that most of them would choose the high variable charge, is that correct?

MS MADDEN: Yes.

MR COX: I have just one other point you raised, which is the consumption forecast. That is obviously something we debated at great length in 2010, as you will recall. It will be interesting to note how consumption has gone against those forecasts in your valleys in the first couple of years in the current determination. I think it would be interesting information for us to have.

MS MADDEN: I guess as a comment on that, again we are looking at a couple of years, whereas our argument in being in favour of the longer term IQQM is you will see massive variability within a four-year determination period but in the water industry we need to be able to average that out over a much longer time period.

THE CHAIRMAN: Are there any other questions? Any questions from the floor. No? Thank you very much, Susan and Michael.

Next we move on to Bega. Ken.

MR GARNER: Thank you. Ken Garner and I represent Bega Cheese and also the Bega Valley Waters Users Association, which is made up of irrigators on the regulated Brogo River and unregulated rivers on the far south coast. We were not able to attend the workshops and appreciate this opportunity to cover our main concerns. I will cover three specific issues. We also welcome the New South Wales government commitment to maintain IPART's role as the regulator for coastal valleys and we look forward to working together towards practical solutions to pricing in those regions.

Bega Cheese also has a strong interest in the outcome of this process. One of our fundamental activities is

converting local raw milk into Bega Cheese branded products and for that to continue we need to ensure that we have viable and sustainable milk haul. Over 70 per cent of our local milk supplying farms have irrigation to some degree. We want to see an outcome that enables farms to invest in their future, the future of the local community and the future Bega Cheese coming from milk produced in the Bega Valley, therefore we require a sustainable, long-term pricing model.

The terms of reference regarding examining ways that billing might better match physical cash flows by varying time for the water bills in relation to farm cash flows, varying the rates of variable charges, options of differential fixed charges, options for differential variable charges and the and use of modern telemeters. To use an overused analogy - and if you will bear with me - this is no more than moving the deck chairs on the Titanic for those on the Brogo River. Due to the target of full cost recovery we are sinking currently at 10 per cent per annum plus CPI and we will not need to have - taken on board 100 per cent cost recovery before we completely sink.

The combined NOW and State Water charges for Brogo River are moving us in this determination from $34.93 per megalitre in 2010 to $53.63 per megalitre in 2014 and that includes an average CPI. Brogo is currently at 50 per cent cost recovery from users and agreed government cost share, so we still have a fair way to go for cost recovery.

We appreciate that IPART restricted increases to 10 per cent per annum plus CPI in the last determination but that is just helping us to sink slowly and we believe that assuming if we have the same conditions applied on us as the Peel Valley, which is a 5 per cent increase, that that will just prolong the uncertainty as we move towards full cost recovery.

A problem we see with the current system is that one determination cannot put restrictions on the next determination and we feel that needs to be resolved. We would like a government CSO that is locked in with just CPI's future rises. We are already nearing the maximum level that farmers can find sustainable and we are now seeing decisions being made at farm level to stop or reduce irrigation usage. The other big issue is the farmers will not invest in the future putting new or more efficient irrigation systems if the threat of full cost recovery is always looming.

We believe that the current approach needs a complete overhaul and moving the deck chairs is not going to be that solution. We need to formalise and lock in a CSO from government that gives a future to coastal irrigation. No change will mean that long-term users will forego or be forced to quit irrigation and all those costs will be forced back onto government to manage the dam.

The second issue I would like to cover on the Brogo Dam is that of uncontrolled flow water and how it is charged. That water is available to users when the dam is spilling. At that point the dam is transparent as the water is just passing through. We need to remember that the Brogo River is a short coastal stream. From the head waters to the coast it takes about three days for the water to move through the system.

The current pricing mechanism is that users pay full variable charges to access that water. On current water prices that makes it very expensive. It gives no incentive to users to build off-stream storage or make better use of that resource and what I think will be most useful for them is to average down their water price and I would also add a revenue stream where there currently is no revenue stream. We would like to see uncontrolled flow water to price at just NOW pricing, as State Water incurs very little or no cost in delivery of that water.

The final issue I would like to raise this afternoon is to do with the unregulated Bega River. We are just flagging this as a concern because we are not quite sure what the impact of it will be. The Bega River has a hydro dam at the top of it at Cochrane Dam which is operated by Eraring Energy. If generation assets are privatised across the state, then this dam will be privatised and we do not know the impacts that that will have on cost to users and cost shares with government and access to the resource and we are also attempting to negotiate a form of water sharing agreement for water held in that dam for irrigation purposes rather than just hydro use and again we are not sure what impact privatisation will have. Our preferred option is to have all those issues addressed and resolved and locked in with binding agreement prior to

privatisation.

In conclusion, we would like to seek support in a CSO on Brogo that caps water pricing into the future, permanently capping it; only apply NOW rates to uncontrolled flows on the Brogo River; and investigate the impacts of Cochrane Dam privatisation on cost shares and water access for Bega River water users. Thank you.

THE CHAIRMAN: Thank you very much, Ken. Any questions? Chen?

MS CHOU: Yes. We understand your views on the price cap but in terms of your views around the price structure options and different options did you want to elaborate on that?

MR GARNER: We are reasonably comfortable with those. That is not the big threat for us. The big threat is moving towards full cost recovery. Those thing, as I said, are ultimately minor issues when you take that into consideration to full cost recovery.

THE CHAIRMAN: Any other questions? Jim.

MR COX: I think the most interesting plus the most important point you have made was that we are now reaching the limits of what farmers are able to pay and willing to pay and they are moving out of irrigation agriculture. I would be interested to have more evidence and more discussion about that or just some understanding on what is happening on the south coast.

MR GARNER: We can help provide that.

THE CHAIRMAN: Any other questions from the floor? No? Thank you very much.

We now move to the NSW Irrigators' Council. We have Andrew and Stefanie.

MR GREGSON: Thank you very much, Mr Chairman.

Mr Chairman, I am delighted to advise that Brett Tucker, the CEO of State Water, and I had a bet before the hearing today as to which of us would adopt the Craig Emerson approach and sing our evidence to you. I am very pleased to advise that it was Mr Tucker's loss and he will be providing a musical interlude for you later this afternoon.

THE CHAIRMAN: Thank you for the early advice.

MR GREGSON: NSW Irrigators' Council is the peak group representing some 12,000 water access licence holders right across New South Wales. Of course a number of our very valued members are with us in the room today and have provided advice to the hearing which we certainly won't be contradicting.

I would also like to acknowledge the presence of the Gwydir Valley Irrigators Association and the Hunter Valley Water Users Association, both are here today and also members of the irrigators' council. We have some 26 members from right across New South Wales and as a peak group you appreciate that the time frames that you have been faced with have also been difficult for us to ensure we consolidate the view. That said, we will be doing, as you have, our best to meet the time frames that have been placed upon you.

Can I take this opportunity, Mr Chairman, and congratulate your team on having put this together in a fairly short space of time, particularly their efforts in visiting both the northern and the southern basins to ensure the message was taken to regional communities as well as here in Sydney.

I will be introducing Stefanie Schulte, our economic policy analyst, in just a moment. My role today is to tell you all that we agree with as far as the ACCC is concerned and as a result I will be fairly brief.

The irrigators' council has been heavily critical of the proposed ACCC process from the moment they set foot in the water sphere. It is our opinion that they have perfected the art of listening without hearing a number of consultation papers that they put into public arena which we engaged with and responded to was phenomenal. We were largely comprehensively rejected on each and every one of those and it has been our very publicly stated opinion that the ACCC process not only has neglected to provide what the National Water Initiative contemplated, it will in fact provide the exact opposite of that: a perverse outcome

that results in an uneven playing field.

As has been alluded to already, particularly by Perin, the ACCC rules will apply in New South Wales and to a certain extent in Victoria. They will not apply in South Australia at all and as a result we end up with an entrenched position of unequal pricing across state borders; exactly what this process was meant to avoid.

As a result I would ask you to turn your attention to the third of your terms of reference, "Potential impacts to customers of future pricing arrangements". We will reiterate this in our written submission. We would be very grateful if you would, as the pricing tribunal, again advise the government of your concerns in respect of the ACCC process and we are aware that you have some concerns, particularly in respect of price sharing and community service obligations but we would be most grateful if you could point out the inequities that are inherent within the ACCC process when compared against the IPART processes in which we have engaged to date.

With that, it is my pleasure to hand the tribunal over to Stefanie Schulte, our economic policy analyst.

MS SCHULTE: Thank you, Andrew. Thank you, of course, for the opportunity to speak today at this public hearing and we also want to mention that we value very highly the involvement that we can provide to IPART's review process of the rural water charging price framework.

We want to focus our comments slightly more on the ACCC and also the impact of the ACCC on future price determinations. A move towards the ACCC, in our opinion, will bring greater risk cost and uncertainties to consumptive water users right across New South Wales, an outcome that we believe is undesirable and in our understanding a second-best option. I guess sharing many of our members' concerns, we would express our preferences to maintain IPART as a regulator of rural water charges independent of the ACCC.

If there is no alternative to having regulation undertaken by IPART, we would strongly advocate for a coherent consistent and transparent water charging framework that can sit alongside the ACCC regulation. This framework itself has to incorporate a sensible approach to cost sharing, a workable tariff structure and the treatment of valleys that do not currently recover their costs and of course, most importantly, it has to consider customer impacts, something for which the ACCC didn't have a mandate for.

It also has to provide sort of counterbalance to the rigidity and the counterproductive ACCC framework and this is to say that the framework itself has to be meaningful. If there is no substantial changes that are proposed, given the substantial negative outcomes that we currently face, we do not believe that the objective of the review has been achieved.

In terms of specific extract to the discussion papers, I guess we want to keep in the framework of Chen of addressing our views or preliminary views on the tariff structures, the cost shares and the valleys that do not currently recover costs. In general we welcome the set up of a framework for cost sharing, as well as tariff structure and optimal design will be important to achieve a workable solution for all consumptive water users in New South Wales. However, we do not - and we have expressed this in our last submission - we do not agree with the proposed cost shares and we would like to see them revised. I of course point to many of our members who have raised concerns regarding changes of the cost shares previously.

We also support an attempt to assessing the link between water availability and cash flows, however, we would like to raise that there is more than one input that has to be taken into consideration and, of course, timing of water availability will be also just as crucial as total allocation.

We do disagree with the tariff structure or the assessment of the tariff structure in that a 40:60 approach will provide us with a fair sharing of risk between consumptive water users and State Water. We feel that the trading of two undesirable outcomes: on the one hand either having higher fixed charges or having lower fixed charges but more price variability, both outcomes which we don't believe are desirable.

We also do not agree with the current proposed cost shares, as I have highlighted, we will make of course more

detailed comments available in our written submission. We also do not support the assessment of the proposed viable solution for valleys that do not currently recover costs. A progressive increase in prices will not alleviate the problem altogether.

I guess we believe this is a fantastic opportunity to conduct a review in light of the overall impact of the ACCC and believe that this review has to also reflect the negative impacts that the ACCC has for consumptive water uses in the state. Thank you.

THE CHAIRMAN: Thank you very much Stefanie and Andrew. Are there any questions?

MS CHADWICK: Thank you very much. It is a somewhat awkward position, as a price regulator, to be in the position of comparing two regulators and it is not necessarily a good thing to be too liked by your regulated entities.

In terms of your comments on cost shares, I understand your reservations that there are some areas of the cost shares that can be improved but am I right in understanding that the irrigators' council supports that there is a continuing case for cost shares and that you are in fact suggesting that those cost shares are reviewed every price review, as opposed to our suggestion that they are reviewed every second price review?

MS SCHULTE: Overall we strongly support a framework for cost shares that is in place. We would have hoped that the review was earlier, such that this current or this next determination could have been used to reexamine those cost shares, which you have clearly stated "We have some reservations". However, we do not necessarily see the need to have them reviewed every single determination. So in relation to option 2 that Chen was indicating, we were just hoping that the first review of those cost shares would have been earlier and then subsequently potentially after two determinations.

MS CHADWICK: I think I understand that the continuing principle of --

MS SCHULTE: Yes.

MS CHADWICK: In terms of the tariff options trade-offs, I understand your concern about the variability of usage prices under the water infrastructure charge rules but in terms of the tariff options included in our discussion paper, are you supporting a two-part tariff - some part fixed, part variable - and how does that relate to the 40:60 that we have put forward?

MR GREGSON: With the 27-member council in a fairly short space of time I don't think that we can definitively answer that question for you at present.

MS CHADWICK: We look forward to your submission. I think I understand your view that moving slowly towards cost recovery in the Peel is not the option that you would support. Is there an option you would like us to consider?

MR GREGSON: Not in this instance of the Peel obviously, the coastal valleys which of course have been considered separately to this, one of the key components which we support of the IPART process is your capacity to determine impacts on users which is precluded from the ACCC process. So with user impact being set aside, all that a 5 per cent or any other nominal figure glide path is going to achieve is a glide path to certain destruction.

THE CHAIRMAN: Thank you, Amanda. Any other questions or comments? Thank you very much.

We now move to State Water and we have Brett and Lisa.

MR TUCKER: Thank you, Mr Chairman.

I am Brett Tucker, the CEO of State Water and Lisa Walsh, corporate affairs manager of State Water.

Mr Chairman, members of the tribunal, thank you very much for the opportunity to present today some of our views on these matters. I have also listened to the views of our valued constituents, including Andrew, I might add.

State Water is obviously acutely interested in the outcomes of this review and particularly the issues of tariff design and cost shares. Given that cost shares are largely the gamut of government policy, we will not say too much in the way of comment on cost shares but we will focus our attention on the issues of tariff design and in particular

volatility and its impact on the business or the potential removal of that volatility allowance.

In respect of our objectives going into the issues of tariff design, they are probably not all that surprising. First and foremost, tariff design is about facilitating State Water's financial viability and as part of that maintaining our investment grade credit rating. I don't think it is in anyone's interest, including water users, for State Water to be a nonviable business in terms of service and effective long-term asset management.

Next in terms of our priorities there is really the latter of the ones that were presented on slides today and it is broad customer support. In trying to achieve that we are conscious of the fact that we need to be transparent and simple in the models that we choose. So further along the lines of customer support: prior to the announcement of this review State Water had begun a process of consultation leading up to the ACCC submission that we have in 2013 on the issue of water pricing. As part of that we presented to our customer service committees, a number of which we have throughout the state. We also held a pricing forum in February of this year involving two of the customer service committees but also our top 20 customers by revenue. There is some overlap between those groups but some differences as well and we have been providing written updates regularly to the CSCs in that forum as we develop some of our modelling around the issues.

In light of this review and other government reviews, we decided to postpone further engagement with our customers on this matter until the outcomes of this review are known. I would certainly intend to continue that process leading up to the ACCC's submission in April or May next year.

The fact that our revenue streams or sales figures in New South Wales are highly volatile is no surprise to anyone in this room, I am sure. The graph that I have presented here is IQQM modelling going back through history but a number of years of actual data as well in the latter part or the early part of this century.

I think what sets water availability apart in Australia from other countries is not just the variability of supply but the unpredictable nature of that variability. The last sequence we went through, the last 10 or so years of drought, were both extreme in the sense of their length or duration but also the severity and there is no doubt coming out of that period our users were under some strain, as was the business of State Water.

Just putting that into some context, the next graph we have presented just paints the picture of our volatility relative to some of the major urban utilities. Down the bottom of this graph you can see the statistics for Hunter Water, whereby the allowed sales under the determination versus the actual sales achieved over those years were broadly similar, not much difference to all of them. Sydney Water in the middle of this graph: something around maybe 10 or 15 per cent less than the allowed sales in the determination. For State Water - the top line and the other blue line - you can see a substantial difference between what was provided for in the determination and what actually was achieved. Some 15 to 20 per cent of projected sales took place over that period, including the latter two years under recording of sales where we had full storage and high resource availability.

So from a revenue perspective on the next graph you can see the impact that has had on the business. The cumulative difference between allowed revenue recoveries and actual revenue recovery is some $83 million over the period demonstrated on that graph. As identified previously, the last two years - 10/11 and 11/12 - took place in high resource availability years. So we can see that it is a complex regime that determines the demand for and therefore the revenue availability for this business, not just related to water availability but irrigator demand and crop types and commodity prices as well.

The other unknown factor that we have in here, Mr Chairman, is the Commonwealth and the state are now our third biggest and fifth biggest customers by revenue. What we have no understanding of, being such new entrants in the market, is their behaviour over time and whether or not they will exhibit the same behaviours as the irrigators from whom they purchase the water, so that is quite a significant unknown and risk for this business.

Of course revenue volatility flows through to profitability and our financial performance is directly

related to water deliveries. I think one of the interesting points that came out of our key users' forum was the recognition by most within the room that at the end of the day the same risk exists across the state in terms of water availability and revenues and most of these risks are beyond the control of both State Water and its customers. What is important is how we share this risk and we had some earlier discussion around the volatility allowance versus perhaps a fixed pricing regime. Ultimately we can accommodate as a business everything from one extreme to the other but it requires a commensurate understanding of the risks that we are taking on in doing so and I will perhaps touch on that a little later.

You can see from this graph that our profitability was in fact severely eroded from 2007 to 2010, remembering also in those years they still involved substantial contributions from treasury towards our being on target as a result of dam safety work and their contribution to assets. So my understanding is that State Water would most likely have been back to treasury for an equity injection had there not been a break in the drought when it did occur. Certainly it was a difficult period for all of us and we are certainly not suggesting the farmers did it easy in that period either. I think it was a period in history we would like not to repeat.

This brings me to the point, I guess, of now a shift across from one regulator to another and Andrew touched on some of the concerns that they had regarding the ACCC's approach to this task. I guess we also have some concerns.

The three principal areas of concern related to our income are on the left-hand side of this graph and they relate to the volatility allowance, the equity beta and the tax allowance pre-tax versus post-tax WACC. Cumulatively on the right-hand side you can see that there is a potential impact of some $11 million on this business, irrespective of any efficiency dividend that might or might not be requested from ACCC, just through a shift in the regulator. The issues that we focused on today are volatility allowance and the equity beta but the shift from the pre-tax to a post-tax weighted average cost of capital is also quite significant for this business.

I think it is also worth highlighting here that whilst we can reduce volatility risk in this business, the likely result, in our view, from an ACCC perspective is that the outcome will be a higher fixed cost regime for our customers. What we have heard from our customers is some are supportive of that sort of regime but the majority are probably not and in fact more in favour of the 60:40 that we currently have. It is also worth noting that the volatility allowance that we currently have would be likely to be inappropriate under the ACCC regime because of this relationship with the weighted average cost of capital also under some risk of change.

Our preliminary thoughts, Mr Chairman, on the issues paper to date: setting aside our customers' interests, clearly the easiest and most effective way to ensure our financial viability is to move to a high fixed charge regime to reflect our high fixed costs. We are very conscious of the fact that our customers broadly would not be supportive of that approach.

Ultimately, as I mentioned before, we can completely de-risk the business of State Water, or as much as possible. We can take the lowest weighted average cost of capital outcome that ACCC might deliver, we can remove the volatility allowance but none of this is possible, in our view, unless we also deal with the issue of risk and as long as we are taking 60 per cent of the revenue risk of particularly the change in resource availability, then I think you put the business at risk unless we deal with those issues of a volatility allowance.

In order to move away from an advocate to ACCC - a shift away from a high fixed cost regime, then in our view we require a ministerial direction to propose a tariff design that creates volatility risk and subject to the above points the tribunal's proposed 40:60 regime we are supportive of, as long as the revenue volatility allowance and deferral arrangements are able to meet our financial viability objective.

We certainly acknowledge the option of a choice in tariffs. In fact, we advocated it as one of the options that we might consider at the pricing forum we held in February. It was particularly strong on advocating that option having had discussions with the Commonwealth Environmental Water Holder, who was lamenting that their relationship with treasury was at times tested by the variability of the cost each year as a result of high

variable charges and that they in fact would prefer a stable cost base each year. So I think it would suit some customers more than others. I guess what we have to weigh up is the administrative complexity of having perhaps a small group of customers on one tariff design and then the vast majority on another but we are certainly willing to look at it, Mr Chairman.

We also encourage all of our stakeholders to get involved in this process. We are keenly interested in the outcomes and we will certainly feed the outcomes of this into our own consultation process with customers and our submission to the ACCC. Thank you, Mr Chairman.

THE CHAIRMAN: Thank you very much, Brett. Any questions?

MS CHADWICK: Thank you very much for a very compelling presentation. One of your slides addressed the question of one aspect of the ACCC's rules whereby the usage price would be adjusted annually to take into account the water sales. You appear to be suggesting that that wouldn't be a full compensation for the risk in revenue. Could you elaborate a little bit on that.

MS WELSH: I think what you are referring to is, I guess, within the ACCC infrastructure charge rules the ability to do what is effectively an annual reset of the usage charge. Our experience is that if that annual reset was to be exercised during another drought, what would be the flow-on impact to usage-based prices would equate to a price shock, which is also one of the things that the ACCC has clearly stated that it wants to avoid and State Water as a responsible business also would like to avoid adverse price shocks on its customers. So whilst I think that it is a mechanism which is available to mitigate some of the risks, the practicality of implementing that means that there is only so much risk that that mechanism can mitigate sensibly, I believe.

MR TUCKER: I might just add, if I can, thank you Mr Chairman, that I think the sort of price revenue cap model works well for something like an open utility where there is only a small variation in the annual usage. Perhaps also in the Victorian context where they have a much higher security average high security availability than in New South Wales but the sorts of fluctuations that we have seen as a business, I think Lisa's comments are quite poignant, that there is only so much that you can manage through changing variable pricing each year to accommodate that.

MS CHADWICK: The other question I was going to ask is: your response to the conditional hardship provisions, that package of revenue volatility 40:60 and conditional hardship provisions, do you have any comments on those or should we look forward to your submissions?

MR TUCKER: As I understand it, and I have not been in State Water long enough, the last time it happened for the Lachlan we had two years of price relief.

MS EWING: Three over eight.

MR TUCKER: Three years. I think during that time a CSO was provided to State Water to manage the impacts. I think on that basis we would be broadly supportive of that arrangement.

MS CHADWICK: Thank you.

THE CHAIRMAN: How about the arrangement where it is a deferral of the charge?

MR TUCKER: Yes, we are actually doing some modelling at the moment on how that would be or potentially costed into the business a deferral arrangement allowing valleys to defer for a period until the appropriate trigger levels are reached, so we are certainly looking at that as an option.

THE CHAIRMAN: Any other questions? Jim?

MR COX: Yes. One thing I think you ought to think about is the relationship between the volatility allowance and the WACC because that has come up as an issue several times today. It seems to me the volatility allowance is really about the risk that water will not be sold because of natural circumstances and these are typically different sorts of risks than the one compensated for in the WACC, which are about risks arising from the economic fluctuations. I think we all ought to I think be clear about what risks are being allocated to which mechanism so we have the right set of mechanisms to cater for all the risks, to allocate them reasonably between customers of State Water.

THE CHAIRMAN: Indeed, thank you. Andrew?

MR GREGSON: Thank you, Mr Chairman. Brett, you have addressed part of the discussion that was held during the course of the last determination I think is important as we move through this process. In terms of risk allowances, various mechanisms were set in place. It was our opinion that the new consumption forecasting model also largely addressed risk and you might recall that we had objected based on the strength of the managing director of Murrumbidgee Irrigation's outstanding submission; that double-dipping was inappropriate and that it would result in an over-recovery with a new consumption forecasting model.

You presented a graph that showed consumption versus forecast consumption. Have you got some data on the last couple of years where the new consumption forecasting model has been in place and is the gap between the two considerably lower?

MR TUCKER: I will answer the last part first and ask for Lisa's help on the first part.

This year as an example: the projected water sales and the current determination are an average of 4,600 per year. Despite full storages last year and this year, I think this year we will get to 4,300 and the previous year was some 3,900. So the consumption, notwithstanding the high resource availability, has been nowhere near the predicted availability.

MS WELSH: Andrew, in relation to the first part of your question, our argument to IPART at the time of the 2010 determination was that the use of the IQQM in relation to cost recovery for usage charges was incorrect; that it resulted in perverse outcomes as a result of that inaccuracy. So we were arguing to change the consumption forecast, firstly to come up with what was a more accurate forecast and I think the first two years of this current determination would certainly indicate that 4,400 is a lot closer and more correct, if you like, than the previous 5,500 gigalitres. We also argue that the risks associated with the tariff design should be dealt with separately. So the first part was let's get the average number right and let's deal with the risk, then secondly we deal with the risk associated with the tariff design separately, which is ultimately what IPART chose, in their wisdom, to do.

THE CHAIRMAN: Thank you. Lisa or Brett, would you care to elaborate a little more on some of the administrative issues if we have an option in terms of the charging regimes?

MR TUCKER: Thank you, Mr Chairman. I think the critical issue that has been touched on perhaps by Mary and that is the arbitrage as it potentially exists in a trade regime, trying to tag trade such as you understand when people have sold franked or unfranked water in respect of fixed charges would be a challenge. Other than that, I think any billing system ultimately can be made to fit with the tariff regime that we've got in place, so I think that is less of an issue. I am more concerned about the opportunities of gaming around the either high fixed or low fixed regime.

THE CHAIRMAN: Thank you, Brett. Any other questions for State Water? Questions from the floor or around the table? No? Thank you very much for the presentation.

Now we move on to the Peel Valley Users Association and first we have Laurie.

MR PENGELLY: First of all thank you to IPART for allowing Peel to once again make a presentation to the tribunal.

I would like to concur with Ken's thoughts on the issues where we've basically said that a lot of the issues raised in the discussion paper pale into insignificance compared to the pricing and the situation they are in.

The pricing process that has been in place today has clearly failed the south coast, north coast and the Peel and it hasn't done a lot of good to some of the other inland valleys as well.

Those of you who have gone through this document will clearly understand that the Peel is not up to full cost recovery and something may need to be done about it but it does not tell us much about the actual situation in the Peel - whether we can afford to pay, are we being fairly treated and do the Peel's charges meet the Commonwealth Government's pricing objectives and principles? That, I think, is a very critical issue. In other words, do we

resolve - and this is section E of the statement on page 35 of this discussion paper:

Commonwealth Government pricing and objectives and principles:

(e) avoid perverse or unintended outcomes.

I put it to you that we will demonstrate that this is happening and needs to be changed.

We have a series of charts which hopefully will demonstrate this. The charts themselves are not new to IPART, they generated quite a few of these at the end of the last round but I would like to go through some of them. All of them are mine because I didn't reread IPART's determination until I was looking for some information.

What I did to demonstrate the perverse nature of the pricing that is in place now is combined State Water's and NOW's regulated river charges, the 2012/13 prices - that is the bill that is going to come from this year - for a 500 megalitre general security entitlement and a 60 per cent usage, so that we could have a look to see what a water bill would be in one of the other valleys and what it is in the Peel.

What I did was compared it with the Murrumbidgee and the Peel. This is the graph (indicating). There are no prizes for guessing which one is the Peel. A person with 500 meg general security licence in the Murrumbidgee using 60 per cent of his water will pay $2,731 this year, in the Peel it will be $14,159 and all of the other valleys in this pricing round will fall somewhere in between those two figures, as I will show you later.

I point out that 1 megalitre of water, whether it is used in the Murrumbidgee or the Peel, will generate approximately the same amount of lucerne hay or the same amount of milk in both valleys. The pricing for the Peel cannot possibly meet the Federal Government's objectives of having no perverse price implications. That, in my view, cannot be considered to be anything else but that. Does any one of the other valleys wish to take on our charges? Probably not. So that means they are definitely unfair.

We will go onto the next graph, which is this one (indicating). I chose this one because Tamworth Regional Council has a high security entitlement of 16,400 megs. On occasion they use about 8,000 of that from Chaffey Dam. Most of those share the water use from a dam called Dungowan Dam which is unregulated and Chaffey Dam but on occasions they use 8,000 megs from Chaffey, so that equates to 50 per cent water usage.

The one on the left is the bill for the Murrumbidgee. In other words, a 16,400 meg licence, 50 per cent water usage. The bill that they would receive is $102,090. Tamworth Regional Council will cop a bill for $701,346; a slight increase. The problem with this is it is grossly unfair that the people and the residents of Tamworth pay such an impost on their water relative to what other valleys do. For example, a young family trying to raise their children in Tamworth, such as my daughter is, has to cope with all of the other increases in prices that are occurring, plus a price for water which she should not have to bear. Do Coles pay more for their workers in Tamworth than they do in Murrumbidgee? I doubt it. You can go on with all of the other things like electricity, schooling, hospitals, et cetera, et cetera, et cetera and we have gone through all that before. Those sort of figures clearly show that there is a perverse pricing in the Peel and we do not meet the Commonwealth Government's criteria along those lines.

The next graph is the same scenario, the 500 meg entitlement, 60 per cent usage for NOW and State Water across each of the valleys in this determination and they are ranked in order of increasing payments. They start off at the Murrumbidgee, Murray, Border Rivers, Gwydir and progressively increase by what appears, when you look at the graph, to be small amounts until suddenly you realise that the Gwydir is paying twice the Murray, twice the Murrumbidgee, Lachlan is more than that, the Namoi is worse and most of the other valleys are miles worse off. What the document doesn't say is what is a definition for a perverse outcome. That's right, "perverse" is the word that is used. What is the definition for it? I put it to you that if a valley is paying more than double what another valley is paying and that other valley hasn't got some unusual circumstances to cause it to have a low price, then that is a perverse outcome. I consider that anybody paying more than twice what the Murrumbidgee and Murray is,

is paying far too much and it is a perverse outcome and does not meet the Commonwealth Government's criteria for pricing. You can see that from those graphs.

What I did then was to calculate where we would be if there was uniform state-wide pricing over these valleys on NOW's charges, State Water's charges, so the same revenue would be generated. We have X number of dollars we want to generate, I have recalculated it and surprise, surprise, the general security charge for an entitlement is $4.30. The high security charge is $6.03 and the usage charge is $7.91. If you put your finger on that graph between the Murray and the Border Rivers is just about there (indicating), that is where the pricing would be, just above the 4,000 line. It is $4,523. That is what every valley would be paying and the government - State Water and NOW would be getting all the money they would normally have got. I added actually 20 per cent to the Peel, so it was at full cost recovery in that. IPART can confirm these figures. Initially when I looked at it I thought "No, that's too low, that's nowhere near the average" but when you consider the volume of entitlement in the Murray and the Murrumbidgee, there is 65 per cent of the general security entitlement down there, 80-something per cent of the high security entitlement and in terms of the 20-year rolling average, they have 75 per cent of the usage. So that is why that figure finishes up right down there and that is the price that everybody in New South Wales should be paying, including the north coast and the south coast rivers. They shouldn't be over there being nailed to the wall like we are. This is a price which is fair and reasonable. Nobody in this room could consider a price such as that finishing up between Murray and Border Rivers is perverse or unreasonable. That is the situation I think we should be in.

The pricing tribunal also asked for other initiatives or things to be brought up that could be taken into account external to what has already been put in the paper. The next slide is the environmental impact of water reduction. It is basically the amount of water that is reduced from the long-term average and the stream flow. The figures were supplied by the NSW Office of Water, David Harriss, and I assume he has extracted them straight off the water sharing plans. You can see I have listed them in order of sequence. There are no figures for the Murray but I assume the Murray is up there with the Murrumbidgee on this. You can see there is quite a distinct difference between how much water is used in each of the valleys. You have got Murrumbidgee up there on 43 and the Murray will be up there somewhere near it. The Border River is down to 40, Gwydir down to 34, Macquarie and Namoi and Lachlan are all around the 27, 25 mark. I knew that would be there so that is why I did the graph. Nevertheless you can see quite clearly there is an environmental impact from water usage and it varies from one valley to the next and it is not taken into account on bulk water pricing. It should be.

What I did then, and this is the next graph, the left-hand axis is the environmental impact, which is the graph that I HAVE just showed you. The one across the other axis is the one we looked at previously which showed you how much it cost for a 500 meg entitlement. They are the figures and that is how they fit. That is an extremely surprising result. I put a question mark on the second one because I have guessed where the Murray is. Take it out if you like. I knew where the Peel was and I expected the high usage, low charge to be up there but look at the valleys in between. All of the valleys in between, if you ignore both ends of that graph, they all clearly demonstrate that as environmental impact increases, the price for water being paid decreases. That, I think, is something that the pricing tribunal badly needs to look into. There is quite clearly a strong correlation up there. If you did a regression analysis on that, you would find that there is a very high correlation coefficient there and a higher reliability index. I would be very surprised if there is not. IPART can generate those figures for themselves, just in case I have fudged the line and put the dots around it. I think that is an extremely interesting line, if you like. There is a strong correlation as is between water pricing and environmental impact.

That is my bit to do with the Peel. Thank you very much.

THE CHAIRMAN: Thank you very much, Laurie. Ildu?

MR MONTICONE: Thank you very much. My name is Ildu Monticone. I am the president of Peel Valley Water Users Association and I would like to follow on from what Laurie said.

My presentation is in two parts. The first part is to do with some general comments on water pricing and the second part is to do with the Peel Valley specifically.

People might not be able to see that slide but for those that can see the figures, if you look at the figures the Peel Valley pays about twice the adjoining Namoi Valley, three times the adjoining Hunter Valley and 10 times the Murrumbidgee. Any reasonable person would agree that something is not right with this predicament. We need to go back to basics to correct some dreadful inequities. Any accounting process that delivers those outcomes is fundamentally flawed and needs to be ditched. That means that either IPART or the ACCC or some other independent consultant should review the process that delivers these bad outcomes. A state-owned monopoly that allows this discriminatory pricing policy to continue and which continues to impact the Peel Valley should be brought to account by an appropriate regulator.

When a motor vehicle is registered in Bathurst or Tumut or Glen Innes, or anywhere else in New South Wales, the same New South Wales State Government registration fees apply. Why is it then that the Peel Valley pays twice or three times or even 10 times the fee for the same amount of water that other valleys pay? This grossly discriminatory pricing policy against the Peel Valley surely must attract the attention of the ACCC, even if IPART continues to turn a blind eye to the problem.

Part of the root cause of the problem is the fact that State Water and NSW Office of Water are split into two separate entities, both of which separately level charges on general security regulated water users. This is simply an absurd situation which should never have existed and should not be allowed to continue to exist. The duplication of costs in the administration, accounting, HR, office rental, printing and stationery and every other business function must be horrendous in having two separate government entities charging users for the same commodity. While I am on it I would like to refer to the PricewaterhouseCoopers Halcrow report to IPART in April 2010, which was scathing about the mismanagement, ineptitude and waste within the NSW Office of Water.

The Peel Valley has argued in previous submissions to IPART that the retrospective introduction of cost recovery and return on investment charges on public assets that have already been fully funded out of taxpayer funds is morally wrong. There was no consideration of cost recovery or return on investment charges when the dams in New South Wales were completed and fully paid for by the New South Wales taxpayers 40 or 50 years ago, or whenever, and the retrospective introduction of these spurious charges is no more than a cash grab by the government. The fact that the Peel Valley now suffers under a discriminatory pricing regime makes the situation extremely frustrating.

The next one is to do with the ways bureaucracy is affecting irrigators and it is simply ridiculous. We have to deal with State Water, NSW Office of Water. We have to comply with New South Wales government's budgetary income requirements. We have to deal with IPART. Now we have got to deal with ACCC. We have to comply with the National Water Initiative. We have to comply with the Water Administration Administerial Corporation. We have to comply with the Water Charging Infrastructure Rules 2010. We have to comply with the Water Management Act 2000. We have to comply with the Water Act 2007. We have to meet the needs of the Council of Australian Governments - COAG. Many of us also have to now deal with the Murray-Darling Basin authority and the Commonwealth Environmental Water Holder. We are overregulated on irrigation matters and we do not need these ever-increasing multiple layers of bureaucracy, particularly when they continue to deliver bad outcomes.

It doesn't matter how the NSW Office of Water or State Water calculate their price increases or how they justify the discriminatory pricing. They are state-owned monopolies and their discriminatory pricing policies should be monitored and regulated by the Independent Pricing & Regulatory Tribunal. The fact is that the outcome of the process to date has been grossly discriminatory against the Peel Valley and if the outcome is wrong that means that the process is wrong and the process should be completely transformed and the current inequities should be rectified.

Now I am going to comment on the Peel. IPART needs to clearly understand that the water sharing plan which took effect from 1 July 2010 has restricted irrigators' access to general security regulated service water by 80 per cent, from a total of 31,000 megalitres to 6,100 megalitres. The result is that irrigators can only ever access a maximum of

20 per cent of their total entitlement and IPART must therefore be aware that fixed charges on 80 per cent of the total entitlement in the Peel Valley apply to entitlement that can never be used.

Part of the problem for the Peel Valley is that any price increase that is based on percentage increase figure adversely affects us because the Peel Valley is already suffering excessive charges, so that the amount of any percentage-based increase is disproportionately excessive in the Peel Valley because it is calculated on a high starting figure.

Based on all the foregoing, we do not accept the premise of questions 23 to 26 on page 77 of the discussion paper. We believe that by responding to the questions in the manner in which they have been phrased we would be assisting the ongoing perpetration of unjust and discriminatory pricing policies that have been applied to the Peel Valley. We therefore propose the following alternative options for the consideration of IPART.

Option 1 - until such time as they are merged and on an ongoing basis thereafter State Water and NSW Office of Water should both continue to calculate their total costs on a valley-by-valley basis and then aggregate the cost for each of the individual valleys into a New South Wales total cost figure. This total cost figure for the whole of New South Wales should then be apportioned over all of the valleys in New South Wales on a more equitable basis than the current disproportionate range of figures.

Option 2 - State Water and NSW Office of Water should each be compelled by IPART to develop an alternative and more transparent charging system which does not result in the same discriminatory pricing outcomes as the current system produces.

Option 3 - the least acceptable of our proposed options is the same as IPART's option 1 on page 71: freeze the current Peel Valley prices, with the remainder of costs covered by an explicit community service obligation.

Thank you very much.

THE CHAIRMAN: Thank you very much, Ildu. Thank you Laurie. Questions from IPART?

MS CHADWICK: Thank you for your presentation. There are a couple of issues that I would like to touch on as things that we have raised in the paper and that we would be interested in your response to.

The first is the implications of Chaffey Dam's construction and whether or not that will change the viability of farming in your valley.

MR PENGELLY: Yes, the enlargement of the Chaffey Dam, when it takes place and when it is full, will benefit the irrigators in the Peel Valley in the sense that our reliability supply will be better. Should, for example, Chaffey Dam had been enlarged and full prior to the last drought - and it would have been because our current dam is full - we would have lasted two or three years further into the drought before we received our first zero allocation, start-up season allocation. We received five zero start-of-season allocations. We have no carry-over and we have no continuous account. It is not basically a viable option. They are not viable options for the Peel, principally because historically we use a small proportion of our entitlement and that is why our water sharing plan is so severe on us. We haven't used the water, so the end result is that we finished up with a low number in our water sharing plan. The long-term average extraction limit equates to 20 per cent of our entitlement.

So yes, the Chaffey Dam will improve our reliability of supply. Will we be able to use more water long-term average? No. Our water sharing plan spells it out quite clearly. In fact, the major beneficiary basically, other than Tamworth, which would have run out of water if the dam didn't get enlarged, is the environment. There is a 5,000 meg contingency allowance that is being increased by 30 GL, there is a 5 GL contingency allowance, one of the few dams in the state which has an environmental contingency allowance strong enough. So the environment also is a major beneficiary. We will get a better supply, reliable supply.

MS CHADWICK: That is an environmental allocation under the water sharing plan as opposed to a holding of the Commonwealth environmental water level.

MR PENGELLY: Yes, it is the water sharing plan criteria.

Currently the water sharing plan allows, providing there is sufficient water in the dam, 1,200 meg. We are also one of the few water sharing plans that have that stipulation in it as well.

MS CHADWICK: The second issue is: given the years in which there was a start zero allocation, one of the options that we raised in the paper is about conditional deferral of bills in some circumstances. So as a valley that experienced a number of years of zero allocation, do you think the options we have proposed of deferral there was in some circumstances would work in your valley?

MR PENGELLY: I think it would but we are not in anywhere near the same situation as the Lachlan was in. We got five years of zero start-of-season allocation. Eventually we got an allocation and we also grow probably different crops down there. Lucerne is the major crop which is grown. It will withstand a fair bit of time with no water or little rainfall. So if we do get some water towards the end of the season we can use it and generate some income or at least get us a little bit further down the track. So we are not in the same severe situation as the Lachlan and I would be more than supportive for - Mary Ewing said about that; we are not in the same position, thankfully.

MS CHADWICK: What I was going to do is connect the two points of Mary's suggested two triggers and whether or not those triggers were appropriate because previously you submitted to us that 20 per cent of allocation is all the Peel would ever get.

MR PENGELLY: Yes, but 20 per cent is our long-term average annual extraction rate. That means that this year we can use 12,000 or 13,000 megs but down the track we have to use 1 or 2. The computer model has to spit out that the Peel is using 6,100 long-term average. The real crunch comes if we reach our extraction limit and because we have such a large entitlement relative to what it is going to be and because the general securities extraction limit is spelt out in the water sharing plan, we are extremely vulnerable. If we breach it, and we are highly likely to, the AWD will drop from 1 down to about 0.3 or 0.4 to get us back into meeting the extraction levels. The reason for that is that we have had such few users who use 100 per cent of their entitlement year in, year out. You chop 0.1 off the top and you take a very minuscule amount of water use. You chop 0.2 off and it is not much more. You get down to 0.5 and you have hardly done any good because half of the entitlement in the Peel is not activated at one time. Most of the licences weren't activated but they don't all work at once and if they did we would have breached our extraction level almost immediately.

MS CHADWICK: Thank you. Obviously you have made a number of points about the value of that pricing and the importance of increased transparency. We will be endeavouring to ensure that that transparency is further elaborated.

MR PENGELLY: We are really more interested in throwing out the current pricing process and getting a uniform state-wide price and I don't see why the other valleys wouldn't support it. If I was in the Murray or the Murrumbidgee I would say "Look at that, the bloody rest of them are just living on us" but they are only going to cop a small price rise. If we have survived with two, three, four, five times that, they can surely survive with double what they are currently paying, with all due respect to the people from the Murray and Murrumbidgee. They have no grounds to whinge about it.

THE CHAIRMAN: Thank you, Laurie. Any other questions? Jim?

MR COX: Over the past couple of determinations what IPART has done has been to increase price of appeal towards full cost recovery levels and not quite - hasn't gone our way. Obviously you disagree with that but can you tell us something about how farmers in the Peel have responded to higher water prices?

MR PENGELLY: Yes. I'd say panic. I will give you an example. I have basically retired. I have still got the farm and I have got a young share farmer working. He just saved his lucerne the other day. I said "Are you going to water it up?", "No". "Why not?" "I can't afford it". I have never planted lucerne without intentionally watering it up. I have never planted it so bloody late either but he's done that because if he gets a small shower of rain at this time of the year it will stay there long enough to get his plants germinated and hopefully by then it'll get another shower to get his plants down to where the water

level is. A plan to plant and water it costs money. The problem with that is if you plant it and water it and it costs money and then it rains like hell and kills it all you have done your dash and that is what he is concerned about.

There is a definite reaction to pricing in the Peel and of course it is compounded by the fact that our electricity charges have been continuously rising for some time and I am not going to raise the carbon issues but I think the base price of time-of-use tariffs has gone up by a matter of three to four times in the last probably five years. Time-of-use tariff was at night. In the days before everybody's basking in front of their airconditioner the suppliers couldn't get rid of their tariff, so they introduced price-reduced tariffs in the late 80s. It stayed at 5 cents a kilowatts, or thereabouts, for a long, long time. Now with airconditioning they are trying to get rid of that and it has shot through the roof.

MR COX: I guess what would be most important, at least to me thinking about Peel issues, would be some understanding of how people are responding to the high water prices they have to pay. Anything you can do to help us to understand that more I think would be of benefit.

MR PENGELLY: The trouble is it is a personal issue. It is a bit like do the prices that are currently in place send me broke me? Me? No. Turn the clock back 30 years when we were fighting all of the inflation rates that went on then and the answer would be totally different. I hung on by the thinnest of threads through the late 80s when housing loans were 18 per cent. Imagine what would happen if there was an 18 per cent housing loan price now. Absolute disaster. We got through that but we wouldn't have got through it with a small increase. What's the straw that breaks the camel's break? It depends on the circumstances.

THE CHAIRMAN: Thank you. Brett?

MR TUCKER: Firstly a comment and then a question to Laurie, if I can.

I guess I wouldn't want people here today to think that high unit prices in each valley necessarily flows through to profitability and certainly in State Water.

Just looking at our May figures, we are forecasting the Peel to be contributing to our earnings before interest in tax this year of something less than $1 million, the Murrumbidgee something over 8 million, so certainly the profitability of larger valleys, albeit with the lower unit prices, is certainly not much different to the difference in tariff design you have talked about.

My question, Laurie, is I think what it has highlighted is that there are some assets within the network that we operate that are economically less viable than others and they are built for different reasons, perhaps not full economic cost recovery. In talking about cross subsidisation between valleys, and I note your comments for the Murrumbidgee and the Murray. Have you ever had the conversation with some of the closer neighbours in the Namoi or Manila region about striking a price between those valleys as opposed to across the state?

MR PENGELLY: No. The reason is that the Namoi's prices are equally horrendously to the Peels. The Namoi's prices, if they were imposed on the Peel we would be out of business. They have a high entitlement charge relative to us, we have a low entitlement charge and this is thanks to IPART listening to whinging and bleating over the last decade or more now. Our entitlement charge for general security is quite low and that is compliments of IPART listening to us. The Namoi is quite a different kettle of fish. If we had their charge we'd be down. I haven't got it specifically or I will have it here somewhere. Yes, I have. The Namoi's current entitlement charge for general security use is $9.00, plus another $1.59 from New South Wales, so it's $10-something. Ours is about $5 - no, sorry, I added up the wrong ones. I can't add up at all. Anyhow, just State Water - the Namoi's general security entitlement charge is $9.01 and the Peel is $2.46. We would not want that price and we would not have a discussion with the Namoi on that.

There is another thing you need to take into account when you look at the Namoi and the Peel and this also applies to the other valleys, is their ability to use their entitlement subject to their water sharing plan. The Namoi has access to 91 per cent of their entitlement via their water sharing plan. The Peel, including Tamworth City, has 32 per cent and if you segregate the general security users out we have 20 per cent access. So effectively our

entitlement charge is ginormous, regardless of where you are. So no, we wouldn't have that discussion.

THE CHAIRMAN: Okay, thank you. Other questions in general? Questions from the floor? Other members around the table? Any further questions or comments? Yes. Could you just identify yourself, please.

MR BURNS: Arthur Burns, chairman of the Hunter Valley Water Users Association. I must apologise for not being able to attend any of your information sessions, I just happened to be overseas and this is also the reason I couldn't get in to get something up for today.

I would like to make a couple of quick comments after going through it. Firstly it is great news we received that the ACCC process we have now been separated from that and we look forward to the second inquiry that is going on in a couple of months time, so most of the comments I make will be on that but there are a couple of issues that really affect us and certainly whatever happens here will have some influence on what happens in the next hearing.

The first one is the cost shares. We strongly believe that coastal streams in particular - maybe the Peel as well - certainly the cost shares that a government as against identifiable consumptive users - I think Jim knows that terminology - is much lower or should be much lower than the coastal areas and they are inland - sorry, the government shares should be much higher because the percentage of water that is used by consumptive users is much, much lower. I think the sort of figures that Laurie just brought out - I didn't write them down - indicates that we have far more riparian users, we have far more stock and domestic users, we have much, much greater - and I think in my last submission to IPART I had the figures and I will get them up again - of the environmental flows. We have 2,000 megs in the Hunter as ECA, which is not charged for, but not only is it 2,000 megs, it has got to be there for two years, so it is 4,000 megs. The percentage of the dam that is used for that is quite a reasonable amount.

Similarly, with the flood mitigation of 50 per cent as the cost share comes in. The Glenbawn Dam has a flood storage level. I think, from memory, it is about 6 per cent. To have 50 per cent and say that the customer has got to pay for that, the flood storage is there to protect everybody on the river, including the major towns such as Maitland, such as Singleton, such as Muswellbrook, Denman, all those people who don't pay for any of the water are the ones who are getting the benefit of the flood storage.

The Hunter, together with the northern rivers, have been for the last two determinations happy to be paying a 60 per cent fixed as against a 40 per cent usage charge. The main reasons for that has been that we have a number of people who just can't afford to use water. We believe that because their share of the costs of the dams they should be paying for that storage level, which their water is sitting there but they don't use it. So that's why - the main reason - there are a couple of other reasons behind that.

Hardship stuff: yes, there is the 5 per cent that Lachlan talks about, and I certainly agree with that, but I think the issue that is missing, and it is probably again one of the ones that Laurie raised, is that it depends on what your AWD is. If you normally are in a position where you only have a long-term average 20 per cent AWD as against 100 per cent or a long-term average of 90 per cent, it is really a reduction of that AWD - the available water - is down. If you normally only get 50 per cent of your entitlement, it is not when your entitlement comes to 5 per cent because it is not as big a difference and I think that is one that IPART really needs to look at but I certainly agree that something needs to be done along it.

Probably if you looked at what the long-term average or 20-year average of AWD and then start to look at, say, if it drops below 5 per cent or 20 per cent. The other one is just brief because I will be making a full submission. It is taking again the point which I had written down before Laurie said it but the total cost of irrigation on all the coastal streams, I certainly take in Ken's points is the cost of electricity and water added together is what is driving people to not use water. I just wonder when you keep chasing this dog chasing tail bit what that last person, when you look at the Toonumbar Dam, which currently has about six or seven normal users, when the last four of them drop out you have got one left and he has to pay the whole expenses, who is going to pay for it? Thank you.

THE CHAIRMAN: Thank you very much. Other questions or comments from the floor? Would anybody like to make any final comments?

MS LOWIEN: Mr Chairman, I might make a comment. Zara Lowien from Gwydir Valley Irrigators. Following on from Arthur - sorry I didn't get to make a formal presentation here but I want to reiterate some of the points we made in Narrabri and some of the fellow colleagues have made today.

Just to put forward a couple of points from the Gwydir Valley Irrigators point of view, I think it is important for IPART to consider updating their using assumptions in terms of forecasting and understanding the behaviours of water users in each of the valleys. It is very clear that some of the valleys have had substantial changes because of the drought but also because of the market behaviour, in particular the Commonwealth Government. The Gwydir is an example of that, as with Macquarie and the Lachlan. So that is important to take note when considering pricing and also behaviour and how people can manage paying their cost shares, in particular for the fact that there was a significant amount of consolidation of irrigation entitlement because of the drought, which now leaves a smaller number of entitlement users, as Arthur alluded to, to cover the fixed cost for everybody else. That is an extremely important and that links back to although Amanda made the point that it is not the core part of the IPART review, it is clear consistently that we have raised a broadening of the user base as an issue that must be pushed forward in part of this review. Whether it is an ECA or an environmental contingency allowance on appeal of Macquarie or the Gwydir or broadening users to include riparian stock and domestics, I think there is consistency there that needs to be looked at.

Another point in terms of that is part of the cost shares and although Gwydir Valley Irrigators has a preference to maintain the current shares - with exception that we think the state should start paying for their environmental contingency allowance component - we want to make sure that if the status quo is maintained we have considerable measures to monitor the performance of those organisations against those cost shares and I will make note that State Water consistently present to their customers regarding their performance of what their customers are paying for. We don't see that same level of consultation from NSW Office of Water and consistently through IPART determinations they have been requested to do tasks that do not get done and that is something that we will be considerably raising as part of our submission.

A final point: on flexibility, in terms of the pricing principles, we do support the concept of flexibility, provided that there is no additional administrative charges and that it can be achieved under the current pricing mechanism. In terms of that, I think it might be an opportunity to isolate the top users and seek opportunity for what they might consider because I think the majority of users, especially in a valley like the Gwydir, they would prefer the current option to go forward.

In terms of that, for those users to make a decision on that flexibility, I really think we need some more information on that, so it is something to agreeing upfront, as Andrew alluded to, that we need a great deal more information to go back to our members on it.

In terms of that, they were the main points that we wanted to address today, in addition to those that have been consistently raised throughout today.

THE CHAIRMAN: Thank you, anything else?

MS CHADWICK: David Harriss isn't present so he is not able to respond to one of the issues that you raised but I should say that the Office of Water is not required to report to us until October of this year but they did give us a voluntary and confidential undertaking last year, so they are ensuring that their reporting systems will be able to meet the new requirement, so we have reviewed that and it is largely complete. So the first of those is due to us in October as required by the determination. We understand they are on track to be able to meet these new requirements.

MS LOWIEN: That is great but I think generally customers would like that information.

MR BURNS: If they won't talk to us so why should they talk to you?

THE CHAIRMAN: Thank you. Following the workshop and the receipt of submissions by 10 July, that is the deadline

date for submissions, we will be releasing our executive summary for consultation on 23 July. Submissions on the executive summary are due on 30 July and we will be providing the government with our final report on 15 August. These are very tight deadlines, I know, but these are the deadlines set by the government.

Given the short time frame, we do ask stakeholders to provide their submissions on the discussion paper and then on the executive summary by the due dates.

A transcription of today's proceedings will be available on IPART's web site in a few days and that just leaves me to thank you all very much for coming and for what has been a very interesting public forum with a lot of very interesting points raised. Thank you.

AT 4.20PM THE HEARING WAS CONCLUDED