

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
PUBLIC HEARINGS INTO REVIEW OF BULK WATER PRICES

Tribunal Members

Dr Michael Keating AC - Chairman
Mr James Cox
Dr W Musgrave

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220 Pitt Street, Sydney NSW 2000

On Friday, 20 May 2005, at 10am

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1 THE CHAIRMAN: Ladies and gentlemen, I am Michael Keating
2 and I am the Chairman of IPART. I would like to welcome
3 you all here today to this public hearing, which we are
4 conducting into bulk water prices. First of all, I would
5 like to introduce my fellow tribunal members, who are Jim
6 Cox on my right and Warren Musgrave. Unfortunately,
7 Cristina Cifuentes, the other tribunal member, has been
8 called away for family reasons. She was intending to be
9 here.

10
11 This hearing is part of a price review that will
12 ultimately result in the tribunal setting bulk water prices
13 for State Water Corporation and the Department of
14 Infrastructure, Planning and Natural Resources to apply for
15 the year 2005/2006. As part of this investigation, the
16 tribunal released back in September 2004 an Issues Paper
17 which set out the key aspects of the review process. That
18 issues paper also outlined some of the matters the tribunal
19 considered important for this review, it's general approach
20 to price setting, the matters the Act says it must take
21 into account in conducting an investigation, and a draft
22 timetable for the review.

23
24 In the issues paper, the tribunal called for
25 submissions from both the regulated agencies and other
26 stakeholders. The tribunal received State Water's
27 submission in November 2004 but DIPNR's submission was
28 significantly delayed and as a result the tribunal allowed
29 additional time for other stakeholder to make submissions.

30
31 State Water has also put forward a supplementary
32 submission which was received by the tribunal in April 2005
33 and that was after the receipt of most of the other
34 stakeholders' submissions.

35
36 The tribunal has had a gratifying response from the
37 public to its request for submissions. Some of the
38 organisations that have made submissions to the review will
39 be presenting their case to this hearing today. All of the
40 submissions will be carefully considered by the tribunal
41 and developed in its findings and its recommendations.

42
43 The tribunal has been involved in setting bulk water
44 prices since 1996/97 and one of the tribunal's key
45 objectives for price reform over this time has been to set
46 charges to progressively increase the level of cost
47 recovery and that is in accordance with the agreed

1 objectives of the Council of Australia Governments but the
2 tribunal has also taken into account the impact on
3 customers in moving towards that objective of full cost
4 recovery. In addition, the tribunal has restructured
5 prices to improve cost reflectivity and to improve the
6 conservation signals for various users.

7
8 The tribunal last set prices for bulk water services
9 in 2001 when the former Department of Land and Water
10 Conservation was responsible for providing these services.
11 Since then, as you all know, this department has been
12 restructured and functions relating to river and storage
13 operations on regulated rivers are now performed by State
14 Water Corporation, a newly corporatised entity, while the
15 functions relating to water resource management are
16 performed by the newly formed Department of Infrastructure,
17 Planning and Natural Resources.

18
19 The newly established catchment management authorities
20 I imagine will also have a role in water resource
21 management. Another significant change since the last
22 review has been the introduction of the National Water
23 Initiative that refreshes the 1994 COAG agreement and
24 provides further guidance for water pricing reform
25 throughout Australia, or at least throughout Eastern
26 Australia.

27
28 The National Water Initiative was signed by the New
29 South Wales Government in June 2004. For this present
30 review, the tribunal has decided to set prices for one year
31 only and will issue a determination as close as possible to
32 1 July 2005. There were a number of reasons for this
33 decision, which was taken somewhat reluctantly, I might
34 add, including, firstly, the incomplete information
35 available to the tribunal at this stage, and that is
36 particularly from DIPNR, secondly, by having a one-year
37 determination it will enable the tribunal to consider the
38 full impact on customers of the combined DIPNR and State
39 Water proposals over the medium term, and, thirdly, there
40 were representations from stakeholders that we should make
41 a one-year determination at this stage.

42
43 In this review, which as I said is limited to one
44 year, the tribunal will not be able to address a wide range
45 of important issues such as the structure of prices and it
46 will delay consideration of these issues to its next
47 determination. The review process for the tribunal's next

1 determination is scheduled to begin later this year
2 following receipt of a detailed submission by DIPNR, which
3 has been promised for September 2005, and we expect DIPNR
4 to meet its promise.

5
6 The task before the tribunal now is to actually set
7 prices for bulk water extraction from regulated rivers,
8 unregulated rivers and groundwater for the next year. In
9 doing so, the tribunal will need to take account of a wide
10 range of matters, as it is required to do by its act.
11 These matters include, but are not limited to, the impact
12 of prices on the financial viability of the regulated
13 agencies and the potential impacts of prices on customers.
14 This hearing is a very important part of the broader price
15 review process. It provides an opportunity for the
16 tribunal to hear, in a public forum, from the water
17 businesses and other stakeholders and for the tribunal to
18 question the propositions being put forward. The
19 submissions made by the water agencies, together with other
20 submissions and the consultant's report, are available to
21 all of you and the public at large through the tribunal's
22 web site.

23
24 Before we commence proceedings today I would like to
25 say a few words about the process for this hearing. You
26 have available to you a timetable which indicates the order
27 of presenters. For each organisation appearing a
28 presentation time has been allowed and I think the
29 presenters are all aware of the time they are allowed.
30 This will be followed by a period of questions. I would
31 strenuously ask the presenters to stick to the timetable.
32 Indeed, I will signal to each presenter when you should
33 wind up. I will try to catch your eye about 3 minutes
34 before your time is about to run out.

35
36 Questions of the presenters will be asked by the
37 Tribunal Secretariat and possibly by Tribunal members
38 themselves. The Tribunal will not be taking questions from
39 presenters and will not be taking questions from the floor
40 today directed to the presenters. However, the Tribunal
41 has allocated time at the end of the hearing to allow
42 stakeholders to express their views and offer comments on
43 any of the issues relating to this present determination.

44
45 At the table in front of the room - I should perhaps
46 at the beginning have introduced the Tribunal Secretariat -
47 we have Mr Colin Reid who is Director of Water, and

1 Transport and Michael Seery who is the Program Manager Bulk
2 Water Pricing. The main burden of asking questions of the
3 presenters will fall on these two gentlemen.

4
5 The Tribunal does anticipate providing further
6 opportunities for consultation with interested parties
7 through the course of this price review, and particularly
8 in relation to the longer review which will commence again
9 later in the year. Today we are going to commence with
10 State Water Corporation which will be followed by DIPNR, so
11 I therefore would like to welcome Mr Abel Immaraj, the
12 Chief Executive of State Water to make a presentation.

13
14 STATE WATER CORPORATION

15
16 MR IMMARAJ: Thank you, Mr Chairman, and thank you for the
17 opportunity to make our submission. This is the first bulk
18 water pricing submission of the State Water Corporation.
19 Any previous submissions for bulk water charges made to
20 IPART were made by the Water Administration Ministerial
21 Corporation. I will start off just talking about one of
22 the incidents that happened at one of the previous
23 hearings. The Chairman of the Tribunal commented that
24 pricing of water was like nailing jelly to the wall. The
25 following year the department claimed that it had found a
26 solution to the problem, and they produced a packet of
27 jelly crystals and proceeded to nail it to the wall. This
28 was in Griffith. The Tribunal watched and said dryly and
29 said, "Ah, but you've taken all of the water out of the
30 solution." There is a good message in that, and for the
31 purpose of pricing you do need to remove the issues
32 relating to water and its availability. However, you can't
33 disassociate it completely at the time of pricing, so that
34 is quite a difficult charge.

35
36 State Water does not own or buy the water that it
37 supplies. It operates it's structures and it uses its
38 information systems to deliver water to the point of
39 customers' access. The price of water is said to recover
40 the cost of services and assets used in delivering this
41 water. The actual value of the water is what the user can
42 use it for or can sell it for. I would like to cover these
43 two main areas in my presentation.

44
45 State Water Corporation - a little bit of a
46 background: especially given that we were corporatised as
47 of 1 July 2004 - the second part is the actual submission -

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1 the three main elements I would like to cover are the full
2 costs, cost recovery and pricing proposals.
3
4 Who are we, where do we come from, and why are we
5 here? State Water delivers bulk water within its area of
6 operations within the regulated river systems of New South
7 Wales. There are 10 regulated river systems that we
8 operate. State Water Corporation is a legal entity, wholly
9 owned by the state government and was formed on 1 July
10 2004. This is our first year of operation as a state owned
11 corporation.
12
13 We came out of the Water Administration Ministerial
14 Corporation operating as the Department of Land and Water
15 Corporation, and until 1 July 2004 all the bulk water
16 delivery functions were the powers of the Water
17 Administration Ministerial Corporation.
18
19 State Water was created because we all wanted clarity -
20 the government through COAG and NCC, the customer
21 groups, the conservation groups, IPART, the staff within
22 the bulk water delivery, everyone wanted clarity. There
23 were five key drivers that were used in the separation and
24 corporatisation: the need for separation of the regulator
25 and operator roles, responsibilities and their functions;
26 commercial practice needed to apply to a cost recovery
27 business; efficiency and effectiveness that must be the
28 drivers and incentives for a business to operate;
29 stakeholder needs in setting levels of service for
30 customers and other users of the water systems and the
31 environment; council of Australian Governments, National
32 Competition Council and the New South Wales water
33 reforms. They were the main drivers for the separation.
34
35 Since 1912 in its various forms as Water Conservation
36 and Irrigation Commission, Water Resources Commission,
37 Department of Water Resources, the same agency was both
38 the regulator and the operator. Generally this is not a
39 conflict when the resource is unlimited, but water is
40 limited and the main issues arising from competing
41 interests are accountability, clear decision-making,
42 efficiency of operation, allocation of costs and recovery
43 of costs.
44
45 Recognising that, State Water was ring-fenced in 1997
46 within the Department of Land and Water Conservation.
47 Ringfencing proved to be inefficient and it wasn't

1 effective in addressing those main issues. It was evident
2 to the staff within the ring-fence business, the customers,
3 the community, IPART and the government. A decision was
4 made by the government to set up a stand-alone corporation
5 to try to address those four issues. The challenge facing
6 us is to do that well.
7
8 How do you go about separating operations and
9 regulation? How do you identify these functions? This was
10 a model that was used at the time of setting up State
11 Water. In the realisation of water rights by the
12 rightholder, there needs to be an entity creating the
13 rights and assigning those rights. That is clearly a
14 regulatory function. By "the creation of rights" I mean
15 the licences, the necessary approvals, any embargoes that
16 need to define the total volume available, and any markets
17 that need to operate to make those licences and approvals
18 operate. Secondly, the assigning of those rights to the
19 right holders, and also setting the limits and the rules by
20 which those rights can be accessed. In NSW there are the
21 water sharing plans, the bulk access regime, the
22 environmental flow rules, the annual water determinations,
23 the Murray-Darling Basin cap. Those are purely regulatory
24 functions, and State Water is of the view that they belong,
25 rightly so, to DIPNR who is the regulator for the natural
26 resources. Whereas the operator, which is State Water
27 Corporation, delivers that right, and that is as important
28 in the realisation of rights. In delivery, it is the
29 operations, the management and operation of the structures,
30 and making the right sort of decision to maximise the
31 delivery of water to customers.
32
33 Ideally, you would have a review and audit that is
34 independent of that process to see how well the allocation
35 of rights and the modification of rights is being carried
36 out, and it is done by various agencies that are involved
37 in water management. Obviously you have the resource
38 itself that needs to be managed and water users at the
39 other end, so in that supply chain, State Water performs
40 one of those functions on the critical path.
41
42 So what does State Water's governance look like? We
43 have two shareholding ministers and the contract between
44 the shareholding ministers and the board of directors is
45 through the statement of corporate intent which is as per
46 the NSW state owned corporations legislation.
47

1 The board of directors provides corporate governance
2 directly to State Water in setting direction for the
3 business. The portfolio minister issues an operating
4 licence, and it is in the process of now being finalised to
5 become effective 1 July 2005. For the last 12 months we
6 have been operating under an interim operating licence, and
7 the new licence that is being issued is to be called an
8 initial operating licence.
9
10 The portfolio minister represents the interests of the
11 government performing the role of regulatory functions. So
12 that Dam Safety Committee regulates the safety of large
13 dams, the Department of Environment and Conservation, the
14 Department of Primary Industry, and DIPNR stipulate what
15 the regulatory regime is and that is reflected in the
16 operating licences.
17
18 The portfolio minister is responsible for the
19 objective assessment of the business and its performance,
20 protection of consumers, protection of assets, delivery of
21 community services obligations to the community, and
22 compliance. So the operating licence provides for that
23 vehicle, and in accordance with the ideal model the review
24 of State Water's performance against the operating licence
25 is done by a third party, an independent party, IPART. So
26 IPART performs both the pricing regulator functions as well
27 as a licence review function.
28
29 Under the operating licence we may be required to set
30 up a community consultative committee which provides a
31 whole of community input into decision-making within State
32 Water. DIPNR, as the natural resource regulator, creates
33 the licences and assigns them to customers directly, and
34 through their water sharing plans also assigns water
35 between competing users, both the extractive users as well
36 as the rest of the community and the environment.
37
38 State Water has relationships through memoranda of
39 understanding with DEC, DPI and DIPNR, but DIPNR also
40 issues works approvals very similar to the works approvals
41 issued to any customer with an access licence to operate,
42 so all our dams and weirs are licensed through the works
43 approvals. State Water provides services to customers and
44 we deliver water to the community for their riparian basin
45 rights, and we also deliver water to the environment in
46 accordance with the water sharing plans.
47

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1 The shareholding ministers look for a subjective
2 assessment of State Water through the statement of
3 corporate intent. They are interested in performance, and
4 they look for organisational performance, financial
5 performance, as well as compliance with environmental,
6 social and economic performance as any shareholder does.
7 So the corporate governance model is to have State Water do
8 the right things and to do things right.
9
10 So examining the regulatory framework for State Water
11 a bit closer, which sets in train the whole sequence of
12 compliance costs for State Water. The various regulators
13 for State Water consist of regulatory agencies as well as
14 statutory committees, and also shareholding ministers
15 acting through Treasury.
16
17 DIPNR, DEC and DPI are primarily responsible for
18 regulatory functions of the Water Management Act,
19 Environmental Planning Assessment Act. They provide for
20 water delivery operations and the framework for it. DIPNR
21 does the audit and review of that particular function on
22 behalf of all agencies, annually reports to DIPNR on water
23 delivery in each valley in accordance with the water
24 sharing plan and target flows we have to meet under the
25 water sharing plans. The Dam Safety Committee through
26 their legislation requires State Water to address dam
27 safety, and now under the operating licence IPART will be
28 reviewing and auditing that performance for the purposes of
29 dam safety standards.
30
31 Similarly, the government asset management policy
32 which the Government Asset Management Committee requires,
33 again protects the assets of the community. Through the
34 operating licence, IPART will be looking for evidence of
35 compliance with those policies and guidelines, and the
36 primary tool for doing that is the evidence of a total
37 asset management plan, and the implementation of that asset
38 management plan within State Water.
39
40 Water pricing as a government monopoly business -
41 IPART sets the prices, and IPART has the auditing review
42 function on behalf of the minister. The maximum prices are
43 set, and State Water can charge up to that maximum.
44
45 The portfolio minister, through the State Water
46 Corporation legislation, issues an operating licence and
47 the review of that is carried out through IPART. NSW

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1 Treasury, the State Water Corporation legislation, public
2 auditing and finance, and the commercial policy framework
3 of NSW businesses - while our business operations and the
4 statement of corporate intent that State Water has to
5 comply with, and we are audited through the NSW audit
6 office for our performance.
7

8 This regulatory framework recognises the needs of
9 customers through the operating licence. Water using
10 councils and groups, industry associations, catchment
11 management authorities, conservation groups, recreational
12 users, non-paying customers, stock and domestic users,
13 through the Customer Consultation Committee, which is a
14 requirement of the operating licence, so the membership of
15 the community consultation committee is defined in the
16 operating licence.
17

18 I would like to explore in particular the relationship
19 between DIPNR and State Water. This was the consideration
20 in defining the functions and therefore State Water's full
21 costs. DIPNR provides water for the environment and
22 creates the property rights, and that allows State Water to
23 deliver water to all authorised users. State Water's
24 customers are created by the access right which is issued
25 by DIPNR.
26

27 DIPNR provided input into the functions and powers for
28 State Water Corporation Act, because the Water Management
29 Act 2000 didn't anticipate the separation of the regulator
30 and the operator at the time, so the State Water
31 Corporation Act had to assign those particular functions to
32 State Water. That allows State Water to deliver services
33 and exercise powers as an operator. It allows for State
34 Water to be conferred certain powers, it allows State Water
35 to be delegated certain powers, and it allows State Water
36 to act as a contractor to other agencies.
37

38 DIPNR sets the shares and codifies access to the
39 water, and the water sharing plans are, if you like, the
40 manual for operation of the system. We administer all our
41 systems in accordance with the water sharing plan
42 requirements. An example is that the account management
43 for each customer must comply with the specification for
44 the water sharing plans and the rules defined by the water
45 sharing plan.
46

47 DIPNR also issues works approvals, and State Water has

1 works approvals for each of its structures. It allows us
2 to use those structures again in regulated flow, strictly
3 in accordance with the water sharing plan. So any costs
4 associated with increasing structures, capabilities to meet
5 the water sharing plan requirements have to be factored
6 into State Water's capital program.
7

8 Through the memorandum of understanding, DIPNR and
9 various agencies through the MOU encouraged cooperation for
10 mutual benefit, and that is to try to gain mutual benefit
11 to State Water as well as the other agencies. There are
12 contractual arrangements between DIPNR and State Water for
13 exchange of services under each contract. So it becomes
14 clear through DIPNR's role in bulk water management,
15 setting the policy, and doing the planning, and State
16 Water's role is in the implementation and operation of the
17 delivery of water.
18

19 To put it graphically, the sun makes everything
20 happen, and particularly in the middle of the drought it
21 becomes quite apparent that without rain nothing happens.
22 Equally important in the administrative sense are the
23 policies and plans that must allow an operator to function.
24 Without a successful regulator you cannot have a successful
25 business. So policies and plans developed by the
26 regulating bodies are fundamental to State Water success.
27

28 The role of government is to create those policies and
29 plans that allow for an economic, environmental and social
30 benefit to the whole of the community. State Water,
31 looking at the assets and the water and the people that it
32 has, and the functions that it carries out, is mainly there
33 to add value in time and space to provide water to the
34 customers and the community and water for the environment.
35 That is all that State Water does: it really moves water
36 around in time and space.
37

38 Our assets - replacement value is at \$2.2bn. Our aim
39 is to make them fit for the purpose, and for 2005-06 we
40 have a capital expenditure program of \$27m. The
41 operational maintenance associated with a \$2.2bn asset is
42 \$12.5m. We have access through the water sharing plans and
43 the policies up to about 5,500Gl a year across the state.
44 Relatively speaking, for the last couple of years we have
45 only clocked up close to about 3,000Gl, so we are looking
46 at just under 60 per cent.
47

1 We have 285 staff operating across the state, and our
2 aim is to keep them motivated and skilled through the
3 variability of rainfall and run-off and flow. Our
4 operations are mainly that of a service delivery agency.
5 We operate to deliver services. The physical management of
6 water is where we perform our value adding, and we expect
7 to spend \$20.5m in 2005/2006 on operation maintenance
8 associated with service delivery operations. I will
9 explain a little more about that.
10
11 We provide water for the customers and the community
12 and also water for the environment. The annual report that
13 State Water produces clearly demonstrates what we achieve
14 each year in each valley under the water sharing plan
15 regime. As I mentioned, the government's goal in
16 developing the policy and plans and the water reforms is to
17 provide water for the environment in accordance with the
18 Water Management 2000, to set limits for resource
19 availability to users, customers; to allow market forces to
20 dictate, and to allow competitive delivery of demand at
21 full cost recovery.
22
23 However, that doesn't allow for value to be recognised
24 within each of those policies and plans. The actual value
25 of water that a customer gains by using water, of a water
26 using gains from recreating on water; it simply recognises
27 that water is made available for them to realise that
28 value. What the water market does is it develops the
29 customer's ability to realise their value, both in terms of
30 using their own water on their own business, or in selling
31 that water.
32
33 I will go on to our pricing submission. There are
34 five main elements in our submission: the building block
35 approach; defining the full cost for State Water's
36 operations; what we propose in terms of cost sharing
37 between the government representing the community; some
38 pricing proposals for consideration; and some other issues
39 that are relevant both for 2005-2006 and beyond.
40
41
42 State Water was set up under the commercial policy
43 framework of New South Wales government and that commercial
44 policy framework stipulates certain requirements in setting
45 up a state-owned corporation, providing for a capital
46 structure with a suitable mix of debt and equity, using
47 this building block approach.

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1
2 The regulatory asset base is a fundamental part of
3 this approach. The Treasury in its investigations on
4 setting up the capital structure for State Water looked at
5 a starting point as being what IPART's previous
6 determination determined, which is the old annuity
7 approach, so the intention and primary objective was not to
8 have any big changes to the annuity approach, to make sure
9 that the implications of the annuity approach are carried
10 through into the regulatory asset base approach.
11
12 So the intention is, start with the regulatory asset
13 base, or RAB, at \$300m as at 30 June 2004, less
14 depreciation and disposals, allowing for inflation each
15 year, and use the RAB and roll-forward approach in future
16 investments consistent with what other water businesses do.
17 So that \$300m is consistent with the current annuity of
18 \$18m and the model discounted cash flow calculation comes
19 in close at \$305m, so that has another level of confidence
20 in that figure, and that base is split between the
21 Government and water users. So the Government still has
22 equity in the business to the tune of \$195m and the users'
23 share for the regulatory asset base is \$105m.
24
25 Breaking that regulatory asset base down to its value
26 components, it varies from about \$1.5m of regulatory asset
27 base assigned in a very small valley, Brogo in the South
28 Coast, up to \$24.3m in the Murrumbidgee, which is the user
29 area's share of the regulatory asset base, so that is the
30 base that gets factored into the water price. All the
31 assets that are currently operating in that particular
32 valley as far as the pricing implication is concerned is
33 reflected in that user RAB. The Government RAB,
34 interestingly, has the same connotations, so the Government
35 under this regulatory asset base model, the building block
36 approach, being also a customer of State Water, so as a
37 customer it too pays the equivalent amount of return on
38 investment on that RAB to State Water.
39
40 Looking at a comparison between the unit approach and
41 the roll-forward approach using the RAB, from a commercial
42 viability perspective you will notice that in nine years
43 simply pursuing the annuity approach as a state-owned
44 corporation acting under the commercial policy framework,
45 in nine years we would be running at a serious loss and
46 that loss will continue to go downhill, resulting in
47 unsustainability, whereas a regulatory asset base and a

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1 roll-forward approach allows us to remain sustainable, and
2 that is the same model that has been applied to all
3 state-owned corporations.

4
5 The EBIT, or earnings before interest and tax,
6 basically pursues the COAG and NCC requirements for cost
7 recovery. That allows for the profitability to remain
8 positive for State Water.

9
10 So how does this get reflected into our capital
11 expenditure program and operating expenditure? We
12 considered in our business planning process what the
13 initial licensing requirements are likely to be and we
14 worked off the interim licence that was active for the last
15 12 months, considering State Water's response in meeting
16 regulatory requirements; State Water's requirements to meet
17 performance measures and reporting requirements; the
18 requirements for memoranda of understanding with agencies;
19 requirements for a customer service charter; requirements
20 for complaints and dispute systems; and also setting up and
21 running the community consultation committee, all
22 significant new activities that are required. And also, as
23 any corporate business and a commercial business,
24 additional financial, human resources and information
25 systems; monitoring the business; reviewing it and
26 retaining the expertise required. These regulatory
27 requirements dictate the operating licence and are
28 consistent with state-owned corporations in New South
29 Wales. There is nothing unusual in anything stipulated and
30 we have used as far as possible best benchmark figures to
31 come up with the costs.

32
33 The second step in our business planning is the
34 statement of corporate intent, the contract between our
35 board of directors and our shareholders. The requirements
36 under the statement of corporate intent are seeking a
37 return on investment. State Water's corporate plan
38 reflects how that corporate intent is to be delivered over
39 the next 12 months. Our corporate plan identifies seven
40 critical areas for success. We identified some projects
41 for development within State Water, some key performance
42 measures in concert with the interim operating licence, and
43 a new program structure for State Water that departs from
44 the old program structure that has been active for a number
45 of years within DLWC.

46
47 The seven critical areas for our performance and for

1 the delivery of services are in customer service - and I
2 will explain the sort of resources that go into that; into
3 best practice operations; strategic investment in assets
4 and management of those assets; skilled and dedicated
5 people required to run our systems and operate profitable
6 business growth; the environment; and support to
7 stakeholders. Those are the seven critical areas for
8 success and we have identified our programs and investment
9 required in each of those areas to perform against our
10 statement of corporate intent.

11
12 The planning considerations therefore are that the
13 business must have clear objectives in those seven areas;
14 the new program structure must enable us to operate and
15 record against each of our critical success factors; risk
16 management to identify where we will be investing our
17 capital and improvement of systems for efficiency and
18 effectiveness; State Water Corporation's capability,
19 recognising its track record post-corporatisation - the
20 corporatisation decision was made in December 2003 and by 1
21 July 2004 the corporatisation process was complete with the
22 setting up of State Water Corporation and in that 12 months
23 the track record in achieving objectives in each of those
24 critical areas; the need to retain skills and expertise in
25 a tightening job market; looking at timely investment
26 rather than reactive investment, cost recovery and the
27 product end of the base for cost recovery; looking at
28 commercial charges for our services; and recognition that
29 2005/06 is a critical period of transition and change and
30 the need for investment in the first 12 months of State
31 Water Corporation, setting up, and the costs required for
32 that, recognising that it is a critical period.

33
34 The costs themselves are in these three categories:
35 We have operating costs, asset management costs and what we
36 term commercial costs, which are the return on assets at 6
37 per cent of the weighted average cost to capital and return
38 of assets, with depreciation of 1 per cent.

39
40 So, looking at some areas within our critical success
41 factors, asset management, where across the state we have
42 156 staff involved in operations maintenance of assets,
43 major periodic maintenance and land management associated
44 with our assets.

45
46 In the area of water delivery operations we have 34
47 staff across the state, primarily involved in data

1 information systems, maintenance of those systems, water
2 ordering and usage systems, our computer-aided information
3 river operations systems and flow regulation - the critical
4 decision-making that needs to carry on throughout the day
5 and throughout the year.

6
7 In customer services we have 45 staff across the state
8 who manage water orders, liaison with customers, manage
9 customer water accounts, provide information and advice to
10 customers, monitor usage or metering, and ensure compliance
11 with State Water requirements, so the day-to-day contact
12 with staff, front-line staff.

13
14 In the area of corporate services across the state we
15 have 50 staff involved in planning, audit and compliance,
16 risk management, finance, billing and debt management,
17 information management technology and business support.

18
19 Under commercial costs, as I have mentioned, we have
20 return on capital at 6 per cent of WACC and return of
21 capital at 1 per cent, and that excludes dividends,
22 interest and tax, so that is not included in our costs.

23
24 Some costs specific to valleys - and there have been
25 various responses to these from the submissions received
26 after our November submission. In the Lachlan, consistent
27 with all the other valleys, State Water proposes that
28 Jemalong Weir be included as a valley asset. And with Lake
29 Brewster, which is a specific project looking at water
30 efficiencies as a joint project between us and the
31 catchment management authorities, that a separate charge on
32 that project be levied. We understand there are some
33 conflicts in how that cost recovery would be achieved.

34
35 In the Murray there is a small cost in Gol Gol Creek
36 managing the channels and the pumps and we intend to
37 include that cost as part of the Murray. There is quite an
38 extensive program under investigation in Menindee Lakes to
39 improve efficiency and operation and our proposal does not
40 include those costs at this stage.

41
42 In the Murrumbidgee, the Lowbidgee will be separately
43 charged, and for the Yanco Columbo implementation plan a
44 separate charge will apply in that system and a separate
45 charge for the main stem. We understand once again that
46 there may be some discussion required before that proceeds.
47 We have not included the onwards storage, which is still

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1 under investigation.

2
3 In the Border Rivers, the Pindari Levy will remain a
4 separate cost and the operation costs for that area are
5 included.

6
7 Our full costs consist of operating and capital
8 expenditure. Affecting our capacity to deliver capital
9 projects is obviously our inputs such as expertise and
10 availability of engineering and some fixed staff. We have
11 recognised that. In the last few years there have been
12 multi-objective projects that we have delivered which have
13 taken unduly long to obtain the environmental approvals.
14 That has been recognised in the revised capex program
15 between November and April.

16
17 State Water Corporation requires those new investments
18 in management systems such as the financial system and our
19 intention is to have a new integrated financial management
20 system rolled out by 1 July 2005. That process is
21 currently on track, so hopefully next year we will have no
22 excuse in presenting all our figures.

23
24 Proposed for 2005/06 therefore is a capex program of
25 \$27.5m, which will be funded through cash flows and
26 borrowings, and an operating expenditure program of \$32.9m.
27 As I mentioned, because the annuity and also the regulatory
28 asset base have come up with the same figure, we are
29 looking at a return on investments of \$6m and a
30 depreciation cost of \$3m in addition to the opex, the capex
31 being funded by the State Water Corporation.

32
33 Moving on to cost shares, the proposed change is to
34 the user shares, so anything that does not appear here
35 remains largely as with the previous determination. With
36 river operations costs, the proposal is to reduce that from
37 100 per cent to 80 per cent to recognise the delivery for
38 riparian and environmental flows. That is just not a
39 symptom of the current drought but an increasing
40 recognition of riparian and environmental flows as a high
41 priority. Under the water sharing plans they are
42 considered basic rights and so deserve to be met.

43
44 With the second category of river gauging costs, the
45 intention is to increase that percentage figure from 70 per
46 cent to 80 per cent, with river gauging currently
47 maintaining 70 per cent of the environmental cost, but what

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1 we are intending to fund is 80 per cent of the river
2 operations stations only. We have identified the stations
3 required for our operations. They total 398 stations
4 across the state, so what we intend to fund is 80 per cent
5 of those 398 stations.
6
7 Occupational health and safety we believe is part of
8 doing business and we propose that be lifted from 50 per
9 cent to 100 per cent of user share. That is consistent
10 with all the state-owned corporations in New South Wales.
11
12 Dam safety upgrades - we propose that the current
13 round of safety upgrading be maintained at zero per cent to
14 water users but once the current round is completed that it
15 be increased to 50 per cent. We have identified all the
16 dams that require upgrades and we have a program that is
17 currently in train. Once that round is completed, the next
18 round would be shared 50/50 between users and the
19 community.
20
21 We propose to drop the maintenance cost associated
22 with our works from 100 per cent to 90 per cent, also for
23 the same reason as the river operations dropping, because
24 our works are being significantly used for riparian and
25 environmental flows. In the last two years considerable
26 effort has gone into the valleys affected by the drought
27 but recognising that in the implementation manuals that are
28 being developed we anticipate that cost should drop from
29 100 per cent to 90 per cent.
30
31 The Government is expected to pay that difference in
32 each of those cases as it is a government share of that
33 cost. That is not a subsidy, that is a government share,
34 to be determined by this IPART hearing.
35
36 As far as pricing proposals go, I will go through
37 these fairly quickly. While they are not under heavy
38 scrutiny for this year, we believe there are some
39 principles here that are worthwhile. With fixed and
40 variable charges, currently the ratio varies in each
41 valley. The proposal is to standardise that across the
42 state. Currently we have a 70/30 per cent split, if you
43 looked at it as a whole for the state - 30 per cent fixed
44 and 70 per cent variable. The proposal is to move that to
45 60/40 across the state standardised. In some ways that
46 moves some risks to State Water but, as in pricing
47 principles, the average usage figure has been reduced to

1 try to come up with a way of calculating what that unit
2 price increase should be for the usage component.
3
4 The decision to move that to 60/40 from 70/30 is also
5 in accordance with the commercial policy framework, to
6 increase efficiency within State Water, and it is
7 consistent with the COAG to go towards consumptive pricing.
8
9 Standardising the fixed and variable ratio across the
10 state allows the business to make decisions in investments
11 to improve efficiency and effectiveness, recognising each
12 of the valleys' requirements.
13
14 In the area of high and general security, we would
15 like the reliability of high security entitlements to
16 reflect that ratio between high and general security.
17 State Water has to store water for high security in
18 preference to supplying general security and we must
19 therefore give up more general security to get an
20 equivalent high security water. So it is not a one-to-one
21 ratio in the relationship involved. We propose that the
22 high security price equal the general security price
23 multiplied by the water sharing plan access premium for
24 high security multiplied by two, that "two" being the
25 factor of the number of years that we store the water in
26 our storages.
27
28 That translates to, in each of the valleys, a current
29 ratio of 1.5 in the Border Rivers, rising to 2.56 high
30 security to general security. The biggest variation you
31 will see is in the Peel Valley, where the current ratio
32 1.73 rising to 13.46. That is mainly a reflection of the
33 fact that Chaffey Dam is the main source of water supply
34 and provides a very high level of reliability for town
35 water supplies, which is the high security entitlement in
36 the valley. The dam itself has a capacity of approximately
37 62,000 megalitres and currently almost the entire amount is
38 set aside for high security town water supplies.
39
40 There are a couple of exceptions to that ratio. In the
41 Murrumbidgee and Murray, because of the guaranteed
42 influence from the Snowy Hydro through minimum notification
43 relations, we don't necessarily store two years supply.
44 The intention is to reflect the water sharing plan premium,
45 therefore the Murrumbidgee increases from 1.05 to 1.3 and
46 the Murray from 1.1 to 1.17. We understand that
47 operationally there may be some exceptions. In the South

1 Coast there is no water sharing plan so we have simply
2 reflected our understanding of what that access premium is
3 likely to be.
4
5 We have also proposed that wholesale discounts be
6 removed and in the past it was justified because the
7 wholesalers, the irrigation corporations and irrigation
8 companies, used to provide information to DLWC in response
9 to the water management plans and their operating or water
10 licences, and also it was justified in terms of it costed
11 less to meter a district than a river pumper and that
12 information that the irrigation companies provided, DLWC
13 had obviously a lot to do with costs prior to privatisation
14 and metering and measuring extractions for each individual
15 group, so we believe we have moved on from there.
16
17 State Water considers that these are no longer
18 justified, relevant or equitable. There is a
19 cross-subsidisation by the river pumpers. We want to make
20 it clear that there is no net benefit in this proposal to
21 State Water. There will be a reduction as a consequence of
22 the removal of the bulk discount, a reduction also in the
23 river pumpers' charges. If any information is required for
24 bulk water delivery by State Water from the irrigation
25 companies, that will be done at cost, it will be quantified
26 and will be transparent to all users.
27
28 We also propose that the price path to full cost
29 recovery be over five years. That is for September, so I
30 would like to leave it there.
31
32 The only other issue, which may not relate to bulk
33 water pricing, is the temporary transfer fees, which we
34 suggest should increase. This is based on our recent
35 experience. And, lastly, is an opportunity cost loss
36 through over-orders. That is part of improving the
37 efficiency of our operations. We propose that the actual
38 water lost at the end of the system reconciled at the year
39 end be charged back to those who over-ordered. Thank you,
40 Mr Chairman.
41
42 THE CHAIRMAN: Thank you very much. Questions?
43
44 MR REID: Thank you very much, Abel. Can I just confirm
45 with you, firstly, whether the Government has suspended
46 charging the fixed charge to water users in the Lachlan
47 because of the drought; is that correct.

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1
2 MR IMMARAJ: Yes, I can confirm that. At the drought
3 summit this week the Minister For the Department of Primary
4 Industries announced that the charges for the 2003/04 water
5 year were being waived and that the 2004/05 charges that we
6 would be sending out in September this year were under
7 consideration, and that decision will be made subsequently.
8
9 MR REID: Does that apply to any other valleys at this
10 point in time?
11
12 MR IMMARAJ: It does not.
13
14 MR REID: Does the State Government intend to compensate
15 State Water for that loss of revenue?
16
17 MR IMMARAJ: We have been in discussion with Treasury
18 and we believe that will be the case, that we will be provided
19 the CSO to offset that loss of revenue.
20
21 MR REID: A general question: recognising that much of
22 your effort in the past year has gone into establishing
23 State Water Corporation, the tribunal appointed operating
24 and capital expenditure consultant indicated that your
25 day-to-day operations were efficient but questioned the
26 organisation's recording and reporting systems and your
27 planning functions. Is there sufficient certainty over
28 your forecast expenditure to determine a price increase
29 above the general rate of inflation for 2005/06?
30
31 MR IMMARAJ: I believe addressing the issues in that opex
32 capex review, those issues relating to material changes or
33 material errors are not substantiated. They talk about 85
34 per cent variation but when you actually look at the dollar
35 figures associated with that, they are very small. A
36 \$1,000 job did end up costing up \$2000, but that is not
37 material, so a large number of issues that they have raised
38 are not material.
39
40 Having said that, we have reviewed our capex program
41 and we stand on the expenditure that we forecast this year.
42
43 MR SEERY: When you say that, do you mean the forecast
44 that you provided in your original submission or in your
45 supplementary submission?
46
47 MR IMMARAJ: The forecast that we put in the
supplementary

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1 submission, which is the \$27m capex, we did review our
2 capex program based on the Marsden Jacobs report on the
3 opex capex as well as issues relating to processes that we
4 need to go through. Most of that capex occurs at the time
5 of construction, not so much in investigation and planning
6 - but at the time of construction. We cast our works
7 programs to make sure we can deliver that \$27m capex.
8

9 MR SEERY: The \$27m of capex is a significant increase on
10 your current level of expenditure and I note that a number
11 of submissions have expressed concerns in the current
12 review period that you have not spent the amount that was
13 forecast in the last period. That raises a question: what
14 is your capability of being able to spend that capex in the
15 forthcoming period? How sure is State Water that it will
16 be able to spend this money during the forthcoming period,
17 in particular the coming year?
18

19 MR IMMARAJ: I would like to place on record some of the
20 recent achievements. Apart from the administrative
21 achievements over the last 12 months, which was, as you
22 rightly point out, setting up State Water as a corporation,
23 the completion of the Pindari dam upgrade, Burrinjuck, the
24 remediation process at Hume Dam and also the weirs
25 program that is also in train. Each of those has been a
26 significant capital program. They do take a long time to
27 get to construction. They are significant programs
28 involved with over \$15m of capex. The Hume Dam alone was
29 a

30 \$77m capex program and we successfully delivered that on
31 time. Our capability is well and truly there.

32 We do have one concern with the tightening of the job
33 market for engineers in particular and technical staff, so
34 there is quite a big focus to make sure our ability to
35 retain that skill remains. We are very confident, because
36 we have board support for the capex program, and we have
37 been recruiting staff and we are reasonably sure we will
38 meet that capex program.
39

40 MR REID: Some of the people who put in submissions have
41 suggested that there is money that is flowing through to
42 the state from the national water initiative and also money
43 allocated for the new catchment management authorities.
44 How have you accounted for such moneys in your bids for
45 price increases to ensure there is no double counting, if
46 you like, of such moneys?
47

1 MR IMMARAJ: Most of that national water initiative
2 funding that would be applicable to bulk water would be in
3 the areas of deficiency of supplies through systems that
4 currently use a lot of water. The programs that we have
5 identified so far are programs like Lake Brewster, which as
6 I mentioned is a partnership with the Lachlan Catchment
7 Management Authority, and also some projects we have
8 identified for piping of channels where there are
9 significant losses. Those project costs have not been
10 included in our submissions other than the Lake Brewster
11 one, and that is identified as a separate cost, so if there
12 is any inflow of funds to offset that it will be
13 transparent, there will be no double dipping. Any of the
14 piping proposals are separate to our capex program.
15

16 MR SEERY: When you say those projects are separate to
17 your capex program and they are also costed or funded
18 differently, can you explain that a bit more?
19

20 MR IMMARAJ: For example, Lake Brewster, the intention I
21 believe is to share that cost of the catchment management
22 authority funding part, with State Water's customers paying
23 a part of it, so we have identified the State Water
24 customer component separately so that any contribution
25 coming from State Water customers, I believe it is over a
26 two-year period, would be transparent. It is not part of
27 the capex program that State Water requires to deliver
28 water under its operating licence, it is purely an
29 efficiency measure and there is a return on that investment
30 by the water users back to it.
31

32 MR SEERY: So the actual charging of that construction to
33 those customers, is that part of the pricing that you
34 expect IPART to approve?
35

36 MR IMMARAJ: If it is approved that will remain as a
37 straight charge on their bills - this is for the Lake
38 Brewster water efficiency program - and identified as such.
39

40 MR SEERY: And that will be a similar situation with Yanco
41 Creek?
42

43 MR IMMARAJ: There are two elements, one is approximately
44 \$2, or just over \$2, for the users on the Yanco Columbo
45 system itself, and approximately 90 cents for the main
46 Murrumbidgee water users, and that is a separate item on
47 each of those bills.

1
2 MR REID: One of the issues obviously that arises is the
3 cost sharing ratios. We talked about the environment, but
4 obviously there are also stock and domestic users as well.
5 How much of your effort goes into servicing those needs and
6 how is that reflected in your proposed cost sharing ratio?
7
8 MR IMMARAJ: We have suggested that the cost sharing ratio
9 for river operations be adjusted from the previous
10 determination, recognising not only the fact that in this
11 current drought a lot of our efforts have gone into
12 providing that basic right, essential flows to the systems
13 that stock and replenish flows, as they are called, on
14 branches and streams. It can take a considerable effort on
15 our part to get water down to those systems for no
16 commercial benefit to us and no payment is made. That can
17 include works. Sometimes we have to go and carry out some
18 desilting of the mouth of the branch to allow the water to
19 flow in there. Sometimes it can include pumps to try and
20 make efficient use of the limited amount of water there is
21 rather than desilting it and trying to pump it. We might
22 pump water in. We might have to do tweaking of the flows
23 to make sure we are not losing water.
24
25 That is a significant issue, partly because of the
26 drought, but under the water sharing plans they are
27 pre-eminent rights, so we cannot compromise our obligations
28 under the water share plans or the operating licence. That
29 is why we have suggested that the cost share be moved to
30 recognise that the whole community benefits from that and
31 then currently they are not paying for that.
32
33 MR SEERY: Just one more question from me: I guess one of
34 the things that you have pointed out in your presentation
35 today is the importance of consumption forecasts in
36 calculating an average price so you can work out your
37 revenues and also your future for pricing. In your
38 submission you propose what I would describe as a novel
39 approach to reducing the forecasts by using the average
40 long-term consumption and reducing it by the one standard
41 deviation. Two questions relating to that: What is the
42 rationale for using one standard deviation to reduce that;
43 and what are the risks to State Water and to customers in
44 doing that?
45
46 MR IMMARAJ: Unfortunately I think that will take a very
47 long time to answer, but in setting the level of prices as

1 well as the proportion of fixed and variable it was quite
2 tricky because a lot of our costs are fixed. Our assets
3 have to be maintained regardless of the amount of volume of
4 water we have to deliver, so I would suggest more than 90
5 per cent of our costs are fixed. The risk to successful
6 supply in the following years after the drought relies
7 heavily on expertise being retained, so staff expertise
8 that is needed to run the river the following year. It is
9 not something that you can simply buy off the shelf. In
10 terms of knowing the systems well, and knowing the
11 customers' requirements well and understanding the
12 processes on the river, having considered all that we
13 understood that moving from 70 to 60 per cent was going to
14 introduce some initial risk to State Water and variability
15 of the flow or even extending it due to drought, so we had
16 to recognise in some way that the usage charge would have
17 to go up, but how much the usage charge should be increased
18 by and what level of confidence do we give ourselves that
19 we will not be exposed to undue risk, hence we have
20 selected the one standard deviation to give us that
21 reasonable confidence that the usage price will be adjusted
22 by the amount that that will offset that risk to us.
23
24 THE CHAIRMAN: I think the tribunal has another couple of
25 questions before we wind this up. I will ask one: the
26 secretariat asked about capital expenditure but not much
27 about operating expenditure. Our consultant, as you would
28 be aware, has suggested with opex that we should take that
29 based on the average of actual expenditure over the last
30 three years. If we did that, it would be considerably less
31 than what you are proposing, which is another way of saying
32 that you are proposing a big increase, and while it is not
33 quite like capital expenditure where there are doubts about
34 your ability to spend, every organisation has no doubt
35 about its ability to spend on opex, but the question is how
36 efficient it would be, and why should we not adopt our
37 consultant's advice?
38
39 MR IMMARAJ: We sought to provide the consultant quite a
40 lot of evidence that would help them in making a considered
41 decision. We did a comprehensive analysis of what a
42 business did in Australia. We compared on a number of
43 different fronts, not quite a benchmarking exercise but
44 just looking at the types of businesses, the types of
45 regulatory requirements placed on businesses across
46 Australia, comparing, say, Sun Water in Queensland, the
47 Murray Water in Victoria, State Water in New South Wales,

1 and SA Water in South Australia and WA Water in Western
2 Australia. In addition we also looked in NSW at Hunter
3 Water, Sydney Catchment Authority, and State Water.

4
5 How do we stack up in terms of operating? I believe
6 we are within the average for those agencies. In terms of
7 adjusting some of those business that still run retail
8 companies, such as Sun Water and Murray Water, they do have
9 some economies of scale. They still run up to 10
10 subsidiary businesses which are irrigation companies within
11 their bulk water business.

12
13 Having adjusted for that, we are well within the
14 average. We have an operating expenditure of \$32.94m
15 proposed for 2005-06, and in accordance with the program
16 structures which are now consistent with what the other
17 businesses are doing as well, we are able to benchmark that
18 also.

19
20 MR COX: Abel, thank you for your presentation, by the
21 way; I thought it was interesting. I think you presented -
22 and it was fare enough to do so - your medium term price
23 determination but, for reasons explained by the Chairman at
24 the beginning of the session, we are in fact doing a
25 one-year price determination this year. What do you think
26 are the main factors that should be taken into account from
27 State Water's point of view in undertaking this one-year
28 determination?

29
30 MR IMMARAJ: I mentioned planning considerations, our
31 business plan and the corporate plan have identifies
32 certain key things that must happen in 2005/2006. So the
33 staff recognise that this 12 months is critical. We have
34 to have the necessary systems to run with it, to make the
35 right decisions, and to report on our success, our
36 performance. The State Water corporate plan identifies
37 that the interim operating licence has certain requirements
38 that we must meet, and therefore compliance is a key
39 driver, but compliance is really one way of managing risk
40 within the organisation. For water risk management within
41 the organisation you have to have the systems that give you
42 the information that is useful for risk management.

43
44 Our focus for the next 12 months is getting those
45 systems set up and running, and that is where our OPEX has
46 identified the need for a financial management system, and
47 it is resourceful to make sure we are using it, and are

1 able to use it for pricing purposes as well as our
2 management, and making sure that we retain the skills
3 required to improve the efficiency of the business. We
4 realise that there will be an increasing emphasis on water
5 for the environment, and we foreshadowed that in our
6 submission, and we can only achieve ongoing sustainability
7 by improving efficiencies and improving our operations.

8
9 THE CHAIRMAN: Thank you again, Abel, for a most
10 interesting presentation. I ask Peter Sutherland to come
11 forward on behalf of DIPNR.

12
13 DEPARTMENT OF INFRASTRUCTURE PLANNING AND
14 NATURAL RESOURCES

15 MR SUTHERLAND: Thank you, Chairman. I think in terms of
16 introducing DIPNR's submission to IPART in terms of water
17 resource management charges from 1 July 2005, I would like
18 to first indicate the reform environment in which this
19 submission has been written. Not only has the last 18
20 months, 12 months in particular, seen significant changes
21 in terms of the structures of industry in the state, as
22 Abel has referred to in terms of the separation of the
23 State Water Corporation, but just as significantly, and
24 perhaps in terms of the long term, possibly more
25 significantly, we have seen a major reform agenda both
26 nationally and at the state level in relation to
27 legislative reform and reform in relation to the regulation
28 and allocation of water resources.

29
30 New South Wales has been at the forefront of those
31 changes. It is interesting to note that DIPNR is in the
32 process of finalising a National Water Initiative
33 implementation plan which needs to be submitted by the end
34 of this month to the National Water Commission to outline
35 the extensive 10-year plan in relation to meeting the
36 requirements under the National Water Initiative.

37
38 I think it is noteworthy that in preparing that plan
39 it is fairly obvious that New South Wales has been at the
40 forefront in terms of these reforms. In particular, New
41 South Wales is the only state to have effectively
42 legislated to implement the principles and practices in
43 relation to the National Water Initiative with the
44 introduction of the Water Management Amendment Bill last
45 June, which gives effect to perpetual access entitlements
46 to most water users, a transparent development review
47 process for the water sharing plans, streamlined approaches

1 to water access approvals, and a freeing up of the
2 arrangements in terms of water trading.
3
4 In addition last June we saw on 1 July the
5 introduction of 31 water sharing plans, consistent with the
6 principles of the National Water Initiative that allowed
7 the roll out of perpetual licences, a share of available
8 resources. We are currently awaiting a Commonwealth
9 commitment to a joint structural adjustment program to
10 assist in implementing six major ground water sharing plans
11 with a commitment of government to \$55m towards that
12 structural adjustment program to bring water entitlements
13 in those valleys in line with sustainable yields.
14
15 These reforms put New South Wales at the forefront in
16 terms of ensuring long term investor confidence in our
17 irrigation and water industries, and I guess the
18 culmination of that will be achieving in the next couple of
19 years effectively Torrens title status for water
20 entitlements. This will in a sense herald in a new era in
21 terms of the water industry where both the banking sector
22 and water users have the certainty in terms of their
23 property rights to invest in long-term development,
24 particularly long-term sustainable development investing in
25 water use efficiency and more sustainable practices.
26
27 I think it is important to paint that picture of
28 reform because this submission is very much an interim
29 submission. In that pattern of change we are looking to,
30 as you mentioned Michael, putting forward a more detailed
31 submission in September which will, in a sense, be the
32 basis of the price path for the next three years beyond
33 2005/2006 and that submission will need to take into
34 account the significant changes in the regulatory
35 environment and the additional requirements imposed by the
36 National Water Initiative.
37
38 To come back to the current submission, this
39 submission is very much, in a sense, a holding pattern, an
40 interim pattern, prior to that more major submission.
41
42 In terms the key points I want to cover briefly today,
43 firstly, this is an interim water resource management
44 pricing regime for 2005/2006. We believe that is
45 appropriate in the circumstances. The submission does not
46 propose higher bulk water prices. What the submission does
47 do is suggest water resource management charges based on

1 the 2001 determination of costs. These costs we would
2 expect, as is normal practice, to be adjusted for
3 inflation.
4
5 The submission was deferred pending Cabinet approval
6 in the context of the significant reform environment, but
7 in terms of the delay in our submission, we were very keen
8 to ensure that the normal public consultation period would
9 be available to water users, so that that was not going to
10 be truncated. So we confirmed that that was going to be
11 the case and we advised the Irrigation Council of the delay
12 that would occur in terms of our submission.
13
14 In terms of the approach adopted in our submission,
15 again we have taken the approach that as an interim
16 submission we have not undertaken a very detailed updating
17 of costings. For the cost recovery of water resource
18 management costs and hence charges we have identified the
19 need for CPI. In terms of the 2001 water resource
20 management costs that were the basis of the previous
21 determination by IPART, we believe they are appropriate for
22 this interim 2005/2006 pricing period. The medium term
23 submission to be provided in September will provide more
24 detailed costs in the light of the next phase of the water
25 reform agenda.
26
27 In terms of the ministerial statement on water last
28 year, three reform phases were identified. We will be by
29 the end of this financial year and by the end of 2005/06
30 finishing off the major work in reforms in relation to
31 getting in place the water allocation framework through the
32 water sharing planning processes and moving into a new
33 regime of implementation. So the timing of the new
34 submission will be very appropriate in terms of addressing
35 in a sense a new water implementation regime.
36
37 In terms of the current submission we have provided
38 indicative water resource management costs for 2005/06
39 based on separate water resource management charges from
40 the consolidated bulk water charge - so the separation from
41 the costs that Abel has just gone through. We are
42 proposing the removal of the wholesale discounts for
43 irrigation corporations, and I will go into that in some
44 detail in a minute.
45
46 We also propose the removal of security premiums on
47 regulated river access charges. We believe that those

1 premiums, whilst they related to in a sense the water
2 delivery business costs associated now with the State Water
3 Corporation, do not have any real meaning in terms of water
4 resources management charges.

5
6 We have also provided information on transaction fees
7 for water management consents. This is in terms of the
8 licensing and approval processes, and we have identified
9 the proposal to roll those charges over in terms of the
10 current arrangements, and we have responded in the
11 submission to a number of issues that IPART raised in its
12 2001 determination.

13
14 Abel talked about the rationale in relation to the
15 separation of the water service delivery business from the
16 water regulation and water resource management business
17 which DIPNR administers. In terms of water resource
18 management charges in general, they stem from the existence
19 of water extraction industries and the charges relate
20 directly to the impacts of those industries in the need to
21 manage the resources sustainably and address the
22 implications of that extraction for the environment. So
23 these water resource management activities need to be
24 subject to cost recovery, and that has been a COAG
25 requirement since the 1994 reforms and is also underlined
26 in terms of the new principles in relation to the National
27 Water Initiative.

28
29 I guess one way to look at it is if we didn't have
30 water extraction, water resource management would not be an
31 issue, and any costs associated with water resource
32 management would be minimal. So we are dealing with the
33 ecological threats associated with flow regulation and
34 water extraction, and most water resource management
35 activities are there to minimise or manage or reverse those
36 impacts.

37
38 The chargeable water resource management costs mainly
39 fall within DIPNR's rivers and groundwater programs in
40 terms of our financial management arrangements. A number
41 of other related catchment management coastal activities
42 are not included in these charges, because in general the
43 water resource management costs are not impacted by water
44 extraction in those particular cases.

45
46 The full water resource management costing for setting
47 water resource management in this interim period was not

1 undertaken. That is not at the level of detail of the
2 previous 2001 work that led to the 2001 determination.
3 However, water resource management cost estimates were
4 developed for the period 2003/04 to 2005/06, which showed
5 broad cost trends, if anything some slight increases in
6 relation to predictions for 2005/06.

7
8 However, on the basis of the reform agenda and the
9 need to look at those costs in more detail as part of the
10 next submission, we believe that the 2001 water resource
11 management costs were an adequate basis for setting these
12 interim charges from this July 2005 year.

13
14 Water resource estimates will underpin the directions
15 for the next two years, but we see only small changes in
16 terms of the estimates from the 2001 determination. It is
17 important to note that despite the significant activities
18 and costs in relation to government relating to the reform
19 agenda, none of those one-off water reform costs have been
20 included in our costings.

21
22 Similarly in terms of cost sharing arrangements, it is
23 not proposed to make any changes in those cost sharing
24 arrangements in terms of this interim determination
25 although we do believe that there is a need to review those
26 cost shares in the light of the reforms, particularly in
27 terms of the National Water Initiative obligations for the
28 future price path and the determination from 2005/06.
29 In particular the water reforms make that review
30 particularly important.

31
32 In the submission, I think it is important to make
33 quite clear, there are no water resource management charges
34 proposed or increases in water resource management charges.
35 What is included in the submission - and this is a bit
36 different from previous submissions - and what we have
37 submitted to IPART in this case is the proposed use of the
38 2001 costs to set those charges. So that the government,
39 or the department in this case, has not actually put
40 forward a recommended set of charges or price paths. What
41 we have identified is the cost basis on which IPART will
42 make those determinations.

43
44 The proposed water resource management charges are
45 separated from the consolidated bulk charges, from State
46 Water Corporation, and they are separated on the basis of
47 proportional water resource management costs to the total

1 costs. I think it is fair to say that - and I think Abel's
2 presentation clearly sets that out - in terms of the
3 separation of functions between the two agencies there is
4 complete clarity in terms of that separation, so there is
5 no confusion about where costs should lie between the two
6 agencies.
7

8 The proposed fixed costs are denoted in the submission
9 as access charges, and they relate to, in the case where
10 there is water sharing plans, where there are shares of
11 available entitlements, so they relate to the actual level
12 of entitlement. In the case where we don't have water
13 sharing plans in place at the moment, we still have
14 volumetric entitlements those charges relate to the
15 volumetric entitlements. Then on the top of that there are
16 the usage charges that relate to the variable charges, and
17 they are set out in the submission.
18

19 Moving on to the issue of security premiums that I
20 raised earlier, IPART raised the question about the
21 rationale behind the premiums in relation to high security
22 water entitlements. It is proposed in this submission to
23 exclude the security premiums and move to a single access
24 tariff. We believe that that is appropriate because the
25 security premium does not relate to water management
26 activities; it relates to the provision of water supply
27 services.
28

29 In terms of the proposal that this will be revenue
30 neutral and in fact the change makes very little difference
31 given the fact that the high security water is such a small
32 proportion of the overall resource.
33

34 The premiums will reflect State Water Corporation's,
35 not DIPNR's, costs. They don't bear any relationship to
36 water resource management charges. In terms of the net
37 result, it will be more cost reflective, simpler and more
38 transparent. In terms of greater equity, the intra-valley
39 cross-subsidies will be removed as well, or are removed in
40 in process.
41

42 Moving on to another issue that IPART raised in the
43 2001 determination was this issue of wholesale discounts,
44 and the issue about what is the rationale for discounts -
45 in fact proposing to remove those discounts. They were
46 based on a presumption of activities of irrigation
47 corporations that provided value or information to

1 government in terms of water resource management costs. We
2 have had a detailed look at this in terms of what
3 information, if any, is provided by ICs which is actually
4 used in the water resource management regulatory framework,
5 and we believe there is no or minimal information that is
6 provided through that process which would require it to be
7 incorporated into a discount. So proposing to cease that
8 discount from July 2005. Again, in terms of overall
9 revenue, will not increase in this process, but the net
10 result will be improved transparency.
11

12 In terms of unregulated river tariffs, there has been
13 an issue of the staged approach to introducing a two-part
14 tariff. In terms of our submission later this year we will
15 be looking in far more detail at this issue because we
16 believe that now with the separation of water resource
17 management charges from the bulk charges and State Water
18 Corporation's charges, that many of the activities, if not
19 all of the activities, related to water resource management
20 can be defined at a state-wide level and more in the nature
21 of fixed charges. So in terms of this issue of two-part
22 tariffs, we will be reviewing that in the next submission,
23 but in terms of this billing period we have not proposed
24 any changes to the current arrangements.
25

26 In terms of transactions on Water Management Act
27 consents - this is the licensing and other transaction
28 costs which are undertaken on a fee for service basis - we
29 are proposing that the interim fee structure from July 2004
30 essentially be rolled forward in terms of the 2005/06 year,
31 and in terms of the existing Water Act fees we are
32 proposing they be carried forward. We are not proposing
33 any new fees associated with the Water Management Act and
34 the amendments at this stage. However, we will be needing
35 to review those costs as part of the next submission.
36

37 There are a number of specific IPART issues in terms
38 of the 2001 determination which I will run through quickly.
39 The balance between entitlement and usage charges - the
40 current ratios were introduced to prevent consumption based
41 tariffs, and I guess the proposal that there is an
42 opportunity to send demand management signals. I think the
43 reality is in terms of looking at the magnitude and the
44 nature of the water resource management charges, we
45 actually queried whether in fact they are a useful
46 mechanism in terms of addressing demand management signals,
47 and we will be pursuing that at more length in our next

1 submission.
2
3 So we are proposing a more cost reflective water
4 resource management tariff in terms of our next submission
5 which will reduce the imbalances caused by the current
6 tariff variations across valleys. Again, we believe that
7 there is a case for looking seriously at fixed charges
8 which reduce the variability of cost across valleys, at
9 least in the case of water resource management charges.
10
11 In terms of separate valley accounts, there is a need
12 for special purpose reports be reviewed for the next
13 submission. The national water initiative, it is
14 interesting to note, best practice requirements in relation
15 to water surprising specify similar reporting requirements
16 and we will be addressing these and we have already built
17 in arrangements in terms of our national water initiative
18 implementation plan to do so. We believe these reports
19 will also satisfy the requirements of stakeholders.
20
21 Another issue which has been raised in previous
22 determinations is the Murray-Darling Commission cost
23 allocations. The basis for allocating those costs will be
24 included in our next determination. There have been
25 significant changes in the approach to charges under the
26 River Murray water business and the new submission will
27 look at the implications of those changes in terms of our
28 next submission.
29
30 In terms of the medium-term submission, whilst today
31 is really focusing on the interim submission, we will be
32 making a submission in terms of the longer term price path
33 and this will allow time for current management reforms to
34 be bedded down over this next interim pricing period.
35
36 In terms of the key issues that we will cover in that
37 process, the key issues that will need to be addressed are,
38 firstly, the changes in the alignment between water
39 resource management agencies, including DIPNR, catchment
40 management authorities, the Water Resource Commission and
41 other agencies. We will be reviewing the cost base
42 coverage for full cost recovery in this final reform phase
43 of water reform and cost sharing arrangements, particularly
44 in the light of the national water initiative principles.
45 We will be reviewing valley-based approaches to pricing and
46 reviewing the water resource management tariff structure,
47 particularly looking at options in terms of moving to more

1 of a fixed price approach; and identification of full cost
2 of transactions on water management consents and picking up
3 the reforms that are being made in terms of the recent
4 legislation.
5

6 So, in conclusion, we believe the rationale in terms
7 of this essentially interim submission of essentially
8 identifying the 2001 costs with CPIs as a legitimate basis
9 for that interim period is an appropriate measure pending a
10 more detailed submission which we will be making in
11 September for the future price paths. Thank you.
12

13 THE CHAIRMAN: Thank you, Peter, for an impressive
14 presentation, particularly the forecast of things to come.
15

16 MR SEERY: Peter, you said in your presentation a couple
17 of times that DIPNR was not seeking increases in the
18 WRM Charges for this year. I just want to clarify that you
19 don't mean by that that you don't want any increases but
20 rather you were seeking for IPART to work out the amount of
21 the increase that you should get; is that correct?
22

23 MR SUTHERLAND: That is exactly correct. As I said, in
24 the sense of significant change from the previous
25 determination from the previous department, we believe it
26 is more appropriate to state our costs and leave the
27 pricing decisions to IPART.
28

29 MR SEERY: To help us in that process, then, based on the
30 information before the tribunal DIPNR's WRM charges would
31 appear to be well below full cost recovery based on 2001
32 costs. From a policy perspective, what does DIPNR consider
33 is an appropriate level of cost recovery the tribunal
34 should be targeting?
35

36 MR SUTHERLAND: I think we need to make a distinction
37 between regulated and unregulated systems. In terms of
38 regulated systems, there has been substantial progress
39 towards full cost recovery. As was noted in the last IPART
40 submission in relation to the unregulated systems, there is
41 still a significant gap between current prices and full
42 cost recovery, and IPART in its last submission proposed,
43 if you like, a stepped process in terms of achieving full
44 cost recovery.
45

46 I guess in summing up, the Government's, or the
47 department's, position on this is we can only refer to the

1 policy framework that we are working under, which is
2 essentially both the COAG agreement and the more recent
3 National Water Initiative inter-governmental agreement where
4 full cost recovery is clearly the objective of those
5 agreements, so we will be looking for IPART to take that
6 into account in terms of its pricing determinations, as
7 well as a whole lot of other factors obviously in terms of
8 the drought and other reform issues.

9
10 MR SEERY: Given that they are well below full cost
11 recovery at the moment, how quickly should the tribunal try
12 to move towards full cost recovery?

13
14 MR SUTHERLAND: I think our submission deliberately at
15 this stage does not address that question because we
16 believe that that issue is probably best addressed when we
17 undertake a far more comprehensive analysis of both the
18 issues of cost recovery and cost shares. I think the two
19 need to be taken together and in that sense I guess we have
20 seen this interim process as somewhat of a holding pattern,
21 with an understanding that IPART has indicated in its last
22 submission a way of treating progress to full cost
23 recovery.

24
25 We believe that in our submission later this year we
26 will need to address the cost sharing issue in terms of, if
27 you like, looking at that in the context of full cost
28 recovery, so at this stage we are not proposing any
29 specific rate of progress in terms of full cost recovery
30 other than indicating that it is clearly a strong
31 commitment under both the COAG and national water
32 initiative reform agendas.

33
34 MR REID: I would like to take a slightly different tack
35 to the one Michael has just taken. Obviously we have been
36 unable to undertake an opex/capex review of DIPNR similar
37 to the one we undertook of State Water. I suppose it is a
38 bit more of the jelly that Abel referred to. What
39 assurance can we have that the money raised since 2001 has
40 been actually spent, where it has been spent, and that the
41 associated deliverables have been made?

42
43 MR SUTHERLAND: I think in terms of the analysis of costs
44 we have undertaken all the same functions that were
45 undertaken relevant to the previous determination. As I
46 said, some of our costs have increased in terms of both the
47 impacts of the drought and in terms of one-off reform

1 processes. We have not included those costs in our
2 estimates for 05/06 but in a sense all the commitments have
3 been delivered in terms of the water resource management
4 functions that the department undertakes.

5
6 MR REID: As I indicated with State Water, the opex/capex
7 consultant appointed was critical of the costing systems
8 that State Water inherited from DLWC. I am just wondering
9 what action you have taken to update, replace, your own
10 costing systems and therefore what assurance can we have
11 about the robustness of the figures going forward?

12
13 MR SUTHERLAND: We are significantly, well, with the
14 amalgamation of the three departments that came together to
15 produce DIPNR and the hiving off of the State Water
16 Corporation in a sense, we are instituting major reforms in
17 upgrading our financial management and reporting systems
18 and moving to systems where costings can be derived
19 automatically in a regional and business unit scale.

20
21 The previous processes effectively required manual
22 determination of those costs and aggregation of those costs
23 at a regional or valley level, so we are putting in place
24 arrangements which will be able to be implemented for the
25 next pricing path that essentially relate to a new and more
26 robust financial management system based on project
27 management - a project management framework and costing
28 system. The cost estimates that we have generated in terms
29 of the current submission have been a combination of manual
30 assessments at the regional level and some of the new data
31 that has been generated more recently from our financial
32 management system.

33
34 MR REID: With the establishment of the new catchment
35 management authorities, are there any of their activities
36 that were previously included and recovered through the
37 water resource management charges.

38
39 MR SUTHERLAND: No, I think in the sense the question,
40 though, does pose the issue down the track in terms of the
41 national water initiative principles which talk about
42 addressing the full costs of catchment management planning
43 and management activities in water prices and that we will
44 need to look at that issue in terms of our new submission.
45 However, we have taken the view in this submission that,
46 unless there has been a direct charge to DIPNR in terms of
47 contracting out an activity to a catchment management

1 authority, or for that matter any other agency that relates
2 directly to our water resource management functions, that
3 we have not included such costs other than those that in a
4 sense have been contracted, and, in terms of this
5 determination, because of the earlier establishment phase
6 of the catchment management authorities, we have not
7 included in fact I think any charges related to the broader
8 catchment management activities, but it will be an area
9 that we will need to address consistent with the national
10 water initiative commitment in our next pricing submission.

11
12 MR REID: On a more specific issue, we have had a number
13 of letters from people on unregulated rivers who were
14 expecting to move from an area-based charge to a two-part
15 tariff and in fact they have installed at their own cost
16 water meters in anticipation of that and because of the
17 drought they have obviously taken less water and therefore
18 the charges are higher under the area-based charge than
19 what they may have otherwise been under a two-part tariff.
20 What progress are you making towards implementing the
21 two-part tariff and avoiding the situation going forward?

22
23 MR SUTHERLAND: The metering program is advancing quickly
24 now and we intend to have that completed statewide by 2007
25 and that will ensure that, together with the roll-out of
26 water sharing plans for unregulated rivers, part of the
27 macro planning process, that we are in a position to change
28 charges from an area to what will in fact be a shares-based
29 approach. However, I might add that, again, we will also
30 be looking at the option, in terms of our next submission,
31 of a fixed charge given that once you take out the State
32 Water Corporation charges, which clearly relate to usage
33 and volume, the remaining water resource management charges
34 really we believe are more in the nature of fixed charges.

35
36 However, there has been no policy decision on that but
37 it is certainly an option that we will be wanting to
38 explore in preparing our next submission.

39
40 MR REID: Does that move to a greater reliance upon fixed
41 charge go against the general thrust of COAG, which was
42 more towards consumptive charges?

43
44 MR SUTHERLAND: I think both the COAG and the national
45 water initiative principles are about cost reflectivity and
46 in terms of tariff structures, certainly where it is
47 related to usage, it is clear that the tariff should

1 include a usage component. However, it is not inconsistent
2 with those principles to look at a fixed charge where the
3 charges are not really related to the volume of consumption
4 but relate to in a sense the management costs of the
5 overall resource and the impacts of extraction more
6 generally.

7
8 THE CHAIRMAN: I would like to come back to the interim
9 determination. Peter, you have characterised it first as
10 an interim determination and a holding pattern. Clearly in
11 that context the quicker we can make the decision the
12 better, therefore, and it is easy to make a quick decision
13 the less change you make. However, you have suggested a
14 couple of changes, for example, the bulk discount. The
15 more changes you make, the more time it naturally takes,
16 because we have to reflect on things, et cetera.

17
18 One question is, how pressing, why any changes? On
19 the other hand, we also have to bear in mind that there
20 will be a final, if you like, determination for the
21 following three years and there is a risk that the further
22 we move from cost reflectivity, having another year to the
23 old pattern, the bigger the task in the following three
24 years. I would be interested in your observations about
25 the risks on that score, if you like, where are you least
26 cost reflective at the moment and where another year of
27 just rolling it on would do the most damage?

28
29 MR SUTHERLAND: I think it is a good question and I think
30 in terms of getting that balance right we would have the
31 same sort of philosophy. Whilst most of the changes like
32 the removal of the discount rate, the removal of the
33 pricing premium in terms of high security water, are not
34 significant in terms of the impact on the costs, we believe
35 that in one sense because they have arisen as a result of
36 more clarity with the separation of the State Water
37 Corporation business costs that in terms of users it is
38 probably, in terms of the rationale, best to deal with them
39 sooner in response to, if you like, the decision process,
40 rather than delay them perhaps another year when the
41 rationale will have in a sense been separated in time.

42
43 However, I think in terms of materiality, even taken
44 together, going back to your point about simple is good and
45 particularly if we can get an early and quick
46 determination, I don't think, even taken together, those
47 adjustments are going to be very significant in terms of

1 implications for water users but I think they do respond to
2 in a sense IPART's previous queries and questions and we
3 believe that they make commonsense, particularly in the
4 light of the separation of the water resource management
5 costs from the water service delivery charges of the State
6 Water Corporation.

7
8 THE CHAIRMAN: What about the other side of the coin: are
9 we at risk, by rolling on another year, being even loss
10 cost reflective, of creating a bigger adjustment problem?

11
12 MR SUTHERLAND: I think by definition, yes, but given that
13 in a sense in the next submission we will need to come to
14 grips with in a sense a new set of reform imperatives under
15 the national water initiative we believe it best not to
16 confuse those with in a sense adjustments that have been
17 either called for by IPART or have become obvious or there
18 has been a clear need for in the light of the structural
19 reforms in the industry, so I think your question is that
20 we believe that, if possible, they should be dealt with in
21 this interim period.

22
23 DR MUSGRAVE: Thanks for your interesting presentation.
24 First, can I ask, in relation to the structural changes
25 that are anticipated and the funding that has been provided
26 for that, will DIPNR able to provide us with any estimates
27 of the extent of the impacts of these changes?

28
29 MR SUTHERLAND: Yes, we will be. In terms of those
30 changes, we will.

31
32 DR MUSGRAVE: Will DIPNR be developing these or will it be
33 the catchment management authorities?

34
35 MR SUTHERLAND: We will be pulling together the costings
36 based on information from a range of agencies but it will
37 involve looking at the implications, for example, of the
38 new Natural Resources Commission, the implications of the
39 standards and targets that will be rolled out in relation
40 to resource management in general in this state, and we
41 will need to look at the implications of those issues in
42 terms of our future determinations.

43
44 DR MUSGRAVE: So it will extend beyond costs to the likely
45 future structure of the extractive water users in the
46 industry, socio-economic impacts, regional impacts and so
47 on, and that may save IPART some work perhaps. In your

1 presentation you variously referred to a "medium term
2 submission" and the "next submission" and I got a bit
3 confused as to whether they were --

4
5 MR SUTHERLAND: They are the same thing.

6
7 DR MUSGRAVE: I know you are, relatively speaking, the new
8 boy on the block, so I ask this question with some
9 deference, but I think it is difficult to deny that DIPNR's
10 predecessor had a difficulty in providing timely and
11 adequate submissions for the purpose of pricing
12 determinations. This has been the case since 1996 and this
13 can be due to either bad luck or some systemic problem in
14 the agency. Nine years of bad luck seems rather unlikely.
15 I am left with the second conclusion. Are you confident
16 that, if there is such a systemic problem, that it has been
17 overcome?

18
19 MR SUTHERLAND: I think in terms of looking at the
20 history, and I can only go by the questioning that I have
21 undertaken and looking at the process that was in place, it
22 is fair to say that, as was discussed in relation to an
23 earlier question, a lot of the problems in terms of the
24 2001 submission related to the fact that the financial
25 management systems were not in place to efficiently develop
26 a submission in terms of detailed costings, so a lot of
27 that work had to be done manually and as a result met
28 significant time blow-outs.

29
30 In terms of the recent submission, that wasn't the
31 case at all. We had a draft submission in place well
32 before the deadline. There were significant issues - and I
33 think you have detected a different approach in terms of
34 putting submissions to IPART in terms of this round - so I
35 think some of those changes were being worked through in a
36 policy sense, that is, moving away from the agency actually
37 making a recommendation to IPART in terms of a price path
38 to actually moving to a simpler and more direct approach of
39 essentially documenting costs and leaving IPART to make the
40 determination.

41
42 I can indicate to you that in a technical sense we had
43 no difficulty in meeting the deadline. The issues were
44 around addressing some of those policy issues about the
45 final form of the submission, but I can talk about that
46 later with you perhaps.

1 DR MUSGRAVE: Thank you.
2
3 THE CHAIRMAN: I think we will halt it at this point.
4 Thank you again for a very interesting presentation,
5 particularly for the future interim period:
6
7 SHORT ADJOURNMENT
8
9
10 NSW IRRIGATORS' COUNCIL
11
12 MR MEILL: Thank you for the opportunity to represent the
13 interests the New South Wales Irrigators' Council and its
14 members at this hearing. Also at the start if I can,
15 through you, thank Jim, Colin and Michael and, in his
16 absence, Richard Warner for the assistance and consultation
17 that they have given us over the last five or six months as
18 we have tried to get this show on the road and get to where
19 we are today. Thank you very much.
20
21 Also in the audience is Laurie Arthur, the senior
22 vice-president of the council. We are represented by the
23 Murrumbidgee Corporation, the Yanco people and the
24 Murrumbidgee private irrigators, rice growers, and customer
25 and service committees and other organisations from the
26 Murrumbidgee and the Murray, and Jerry Kileen and Leanne
27 Wilkinson from the Namoi, and Ian Cush from the Gwydir. So
28 if there are any specific questions, perhaps those people
29 can help as well.
30
31 It is important at the outset to reiterate Council's
32 support for the independent pricing review process
33 undertaken by IPART, the corporatisation of State Water,
34 national competition policy, the principles agreed in the
35 National Water Initiative, and the introduction of water
36 sharing plans to equitably allocate available water
37 resources.
38
39 Council has actively represented the NSW irrigation
40 sector at all past IPART hearings and will continue to
41 present detailed arguments in support of issues critical to
42 the ongoing viability and profitability of the NSW
43 irrigation sector. However, Council's ability to do this
44 is only as good as the data and detail provided by
45 government agencies, departments and State Water to support
46 this process. I would add to that that we saw I think last
47 Thursday or Wednesday that IPART placed on its web site the

1 Marsden Jacob report which had an enormous amount of detail
2 to inform this process. Obviously we have just not had
3 time to go through and analyse and do a critique, but it
4 certainly does add to the volume and value of information
5 to inform this process.
6
7 Issues of importance - it is obviously very important
8 to the conclaves of Council. Council is concerned that the
9 principle of user pays and full cost recovery are equitably
10 applied across all aspects of both State Water and DIPNR's
11 water resource management operations and charges.
12
13 Importantly equity not only applies to equity between
14 irrigators and other beneficiaries but also of regulated
15 river systems and also between irrigators. Through its
16 active participation in the development of the National
17 Water Initiative, Council is giving effect to its
18 longstanding support for competition policy and the need to
19 ensure that these policies apply to NSW government-owned
20 entities, in particular State Water. So obviously we did
21 support the corporatisation of State Water and the benefits
22 that that would bring.
23
24 Council's support for the corporatisation of State
25 Water was a proactive example of industry supporting
26 positive and timely positive outcomes implemented about the
27 NSW government.
28
29 The NSW Irrigators' Council was critical of the
30 responses of both State Water and DIPNR to this review.
31 Those comments are well documented and Council's submission
32 and have been complemented and expanded by NSW members,
33 so I don't propose to go over those.
34
35 We believe in the context of the new era of Water
36 resource management in Australia which has been ushered in
37 through the National Water Initiative, the establishment of
38 the National Water Commission, and the provision of \$2bn in
39 funding by the federal government, the corporatisation of
40 State Water, subsequent amendments to the Water Management
41 Act 2000 to give effect to many of the competition policy
42 issues and the introduction of Water Sharing Plans, that
43 this IPART bulk Water review provided an opportunity to
44 fully explore all of the benefits and opportunities that
45 will flow to all participants from these policies.
46
47 That is probably our biggest disappointment, in that

1 the way these submissions have come through the lack of
2 detail, we don't believe that that initiative or that
3 innovation or that opportunity has been grasped by
4 everybody in this process. So we are extremely
5 disappointed to note that there was only selective
6 application of competition policy options and disciplines
7 and a continuation of much of the old style government
8 thinking that has characterised the management of Water
9 resource pricing in NSW. For example, there was little
10 identification of community service obligations, no
11 endeavour to identify new revenue streams from other
12 beneficiaries of State Water's network, no focus on new
13 technologies, no endeavour to reduce costs, little, if any,
14 substantiation of major proposals and no reconciliation of
15 past budget forecasts against actual expenditure levels.

16
17 Council does not believe that either the spirit or
18 intent of these policy initiatives, as reflected in
19 submissions to this review, have been fully adopted by
20 either State Water or DIPNR, but we did recognise that
21 there was some genuine move in some directions, but we
22 believe it must go further, and this was the opportunity,
23 this first submission where we are looking at the
24 corporatisation of State Water and the break-up of policy
25 and operational and regulatory issues as being the
26 opportunity where we could really cut deep into how we do
27 things differently.

28
29 There appear to be little innovation or aggressive
30 contemplation of options to be smarter with how we approach
31 the management of State Water business. Identifying
32 opportunities to outsource certain functions such as
33 hydrographic services, identifying options to outsource
34 them, is just one example that should have been fully
35 explored, and there are many others.

36
37 Implementing such an option may also resolve conflict
38 between State Water and DIPNR in separating these services
39 while potentially delivering an increase in service
40 quality, and hopefully all at a lower cost which is our
41 focus.

42
43 These are priority issues for NSWIC that IPART must
44 address if not in this review then certainly in the one
45 that will move forward to later in the year. It is for
46 those reasons and those outlined in Council's submission
47 and the submissions presented by Council members, that

1 Council wholeheartedly supports IPART's decision to
2 implement a one-year determination effective from 1 July
3 this year.

4
5 We believe that the starting point for this
6 determination should be a full reconciliation of all past
7 determinations to ensure that all financial commitments
8 have been paid to State Water in full and in strict
9 compliance with previous IPART determinations.

10
11 We note that also IPART's recommendation of operating
12 licences for the establishment of state wide consultative
13 committees is one example where again we are seeing
14 selective use of competition policy or selective use of
15 user pays. I note on page 32 of the supplementary
16 submission to State Water they say 100 per cent of that
17 cost, which is about \$121,000 a year, will be borne totally
18 by regulated Water users. Again, this is one example of
19 Water users being expected to fund community's expectations
20 with respect to consultations. So we would certainly not
21 support that at all.

22
23 Council does also not support an automatic CPI
24 increase for either State Water or DIPNR. In part this is
25 because we see that as being a reward for the lack of
26 engagement in the detail, and the real initiative in this
27 IPART submission, but also in response to entitlement
28 holders' ability to pay.

29
30 NSWIC argues that full reconciliation of the past
31 obligations will reveal that NSW government or DIPNR has
32 significant outstanding obligations to State Water. If
33 these obligations are immediately met in full, it is
34 expected that State Water will have sufficient funds to
35 manage its business without the need for either CPI or
36 wider price increases. So that is an issue that we
37 certainly would like to see IPART pick up and give industry
38 confidence and other stakeholders that either it is the
39 case or it is not the case.

40
41 As we have heard earlier, NSW government this week
42 recognised that Lachlan Valley Water users have been
43 impacted by the run of zero allocations and has indicated
44 that it will be waiving fixed charges for the 2003/04 Water
45 year. Lachlan obviously is without question the most
46 severely impacted region with respect to Water allocations,
47 but it must be recognised that current drought is

1 unprecedented and consequently other NSW entitlement
2 holders have been similarly impacted by the very low level
3 of allocations. Murray Valley rice and dairy producers
4 have been granted Exceptional Circumstances relief, so that
5 really does indicate the level of crises in these sectors.
6
7 So with respect to the determination for the 2005/06
8 year, IPART must give serious consideration to the ability
9 to pay concept without imposing any further price
10 increases.
11
12 Council is also disappointed to note that after two to
13 three years of severely reduced Water allocations, there
14 appears to be no major drive by State Water to seriously
15 reduce its cost base in recognition of the supply pressure
16 that it is experiencing. Abel did indicate earlier this morning
17 that the base of Water they are using is approximately
18 5,500Gl, and they have been getting somewhere
19 around 3,000. But we don't see any real endeavour to drive
20 down the cost base in recognition of this and in
21 recognition of others in the industry, and other businesses
22 in the industry have certainly taken where required
23 significant action to address the pressures on their
24 business.
25
26 We would say that this sadly demonstrates that the
27 government, through State Water, is happy to transfer full
28 business risks to Water users, which is behaviour of a
29 monopoly market position.
30
31 State Water must also recognise cross subsidies from
32 one valley to another merely shifts the cost burden between
33 Water users and is an inequitable outcome that is not
34 supported.
35
36 With respect to proposals for a valley levy, we heard
37 earlier that there are a number that have been proposed,
38 and the Murrumbidgee Valley for the Yanco Columbo system
39 and the Lake Brewster project that are knew, Council
40 supports these initiatives. Abel did identify that there
41 are still some issues to be worked through with respect to
42 how they might be delivered. We believe that they are
43 examples of community cooperation to address a specific set
44 of circumstances in each of those areas, and we believe
45 that they will deliver significant environmental benefits
46 and Water savings and in particular the Yanco Creek
47 initiative will contribute to the NSW government's

1 commitment to both the Living Murray and the Snowy River
2 initiatives. So as these projects do have the overwhelming
3 support of stakeholders and government agencies, Council
4 recommends to IPART that they be included in the 2005/06
5 pricing determination.
6
7 Moving on to other issues, with respect to State
8 Water's proposal to adopt the RAB's approach to funding
9 future capital requirements, this does challenge the line
10 in the sand concept that has been integral of past
11 determinations. Council is of the view that insufficient
12 information has been provided on the merits of this option,
13 and no information on how the RABs option fits with the new
14 commercial focus of State Water. So basically until
15 Council would say that until an independent modelling is
16 undertaken and available for industry scrutiny, Council
17 cannot support this option. That doesn't mean to say that
18 we won't; until we see full value and the full details and
19 information on the table, at the moment we are not
20 confident and could not support a move in that direction
21 away from the existing proposal. Indeed, we believe that
22 there may well be other options that should be fully
23 explored when we look at the commercial focus and all of
24 the other reforms that have been initiated through the
25 National Water Initiative and other COAG reforms that must
26 be part of any review of what is the best option.
27
28 We would also make the same comment - due to absence
29 of detail on bulk Water discounts and the changes to high
30 security general security ratios, we would again ask that
31 they be deferred until the determination, for exactly the
32 same reason again - lack of detail, lack of modelling, lack
33 of valley specific modelling, with respect to bulk Water
34 discounts. That is a very contentious issue and there are
35 significant counterarguments to those that were presented
36 this morning by both State Water and DIPNR that will be and
37 have been advanced by the irrigation corporations who are
38 impacted by that. High security and general security
39 ratios, again, exactly what is the best circumstance, how
40 they are implemented, et cetera, again we believe that both
41 of those issues must be fully explored in detail before
42 Council can believe they should be fully implemented.
43
44 We now look to the way forward. The NSWIC believes
45 that certain principles applied to the conduct of the
46 2006/07 bulk Water review. Council believes that this
47 review must be an opportunity to challenge accepted

1 principles and practices and put in place a Water resources
2 pricing regime that addresses both the intent and the
3 spirit of the widespread reforms that have been agreed in
4 principle and are gradually being adopted across the
5 nation.
6
7 NSW Irrigators' Council believes that NSW can be the
8 leader in innovative Water pricing and Water resource
9 management, if it is the collective will of all
10 participants to accept this challenge.
11
12 To be able to fulfil this vision and positively
13 participate in IPART's 2006 review, NSWIC and its members
14 must be guaranteed that all government departments,
15 agencies and State Water will present accurate, timely and
16 detailed arguments in support of the propositions that they
17 advance.
18
19 Council would like to suggest that an "open book"
20 concept be considered that will enable selected
21 participants to gain access to all relevant detail and data
22 to enable comprehensive due diligence to be undertaken on
23 the State Water business and the foundation for DIPNR's
24 Water resource management charges.
25
26 It must be accepted that there is much expertise that
27 resides across the NSW Water resources sector. It is not
28 the exclusive domain of government or State Water or
29 industry, but it is a collective resource.
30
31 NSW Irrigators' Council believes there must be an
32 endeavour to capture the collective value of this expertise
33 for the long term benefit of State Water as a business and
34 for the benefits of all other Water users. This approach
35 will ensure that we use the next 12 months wisely to
36 deliver an outcome that provides both State Water and Water
37 users with certainty and security.
38
39 Prior to the commencement of the 2006 determination,
40 Council believes that IPART must undertake a full
41 reconciliation of all past determinations to demonstrate to
42 all paying customers that each party to the determination
43 has met in full their financial obligations.
44
45 There must be detailed modelling and analysis must be
46 provided by State Water and DIPNR to support all capital,
47 revenue and expense proposals and Water resource management

1 charges such as, all capital funding options; bulk Water
2 discounts; high security general/security ratios; capital
3 and operational expenditure forecasts and budgets, just to
4 name a few.
5
6 All detailed modelling and analysis that is used to
7 inform the IPART review must be provided on a
8 valley-by-valley basis.
9
10 Both State Water and DIPNR must be required to
11 incorporate real dollar efficiency reductions across all
12 aspects of their operations that are the subject of the
13 IPART review. This is to demonstrate a real commitment to
14 budget discipline.
15
16 One of the critiques and criticisms of Council is we
17 have seen State Water start exploring a number of revenue
18 streams which you would expect them to, but we have not
19 seen the same focus on trying to drive down their cost base
20 to get them as low as possible. One of the suggestions we
21 say is perhaps they should have a target, something like
22 CPI plus 2 per cent reduction in costs every year, so that
23 we really see an absolute focus on getting the business
24 humming as best it can and those benefits flowing through
25 to all in the community.
26
27 DIPNR must be required to introduce valley-by-valley
28 accountability for all Water resource management charges,
29 and all external reviews commissioned by IPART must be
30 completed and publicly available at least eight weeks
31 before the closing date for public submissions. Again, I
32 refer back to the Marsden Jacobs report. I'm sure there
33 must be others, but if we just use that as an example. It
34 is comprehensive, there is an enormous amount of
35 information in it to inform the process, yet we have only
36 just received it, and it has not been able to be in any way
37 incorporated, used or challenged.
38
39 They are a summary of Council's position. I reiterate
40 that there is a lot more detail in both Council's and
41 council members' submissions that I know you have received
42 and are aware of. Thank you for the opportunity to be here
43 today.
44
45 MR REID: I would like to raise the issue of the
46 significance of bulk Water costs to farm operations. There
47 has been much talk of measures available to improve on-farm

1 efficiency of Water use. Is the current price of bulk
2 Water a driver of any such action, or is it driven more by
3 the scarcity of Water itself or by pumping costs?

4
5 MR MEILL: I think it is all of the above. Obviously you
6 don't have irrigation without Water, so therefore the cost
7 base, the pumping costs, are all reflected, and they all
8 impact on decisions that are made both in the way
9 businesses operate, investment decisions, and decisions
10 with perhaps what commodities you produce, and where and
11 when you produce them. So I don't think can take it out in
12 isolation, but they are very important factors and each one
13 does one way or the other influence both investment
14 decisions and the operational aspects of individual
15 irrigators. If you want to talk specifically about how
16 bulk Water prices as they relate to the operations will
17 impact if they were changed from the Bulk Water
18 Corporation's point of view, I'm not the expert on that,
19 but I certainly invite you to direct a question to either
20 Dick Thompson or John Howe from the Murrumbidgee
21 Irrigation Corporation.

22
23 MR REID: There is a significant difference between the
24 price of bulk Water set by the Tribunal and the price at
25 which Water is traded. Should some of that difference be
26 captured through bulk Water prices that reflect the scarcity of
27 Water?

28
29 MR MEILL: No. Obviously the price of bulk Water is for
30 the delivery of the resource, the management of the
31 storage, and the keeping of that resource in conditions as
32 State Water would see fit for the purpose. The trading of
33 Water purely reflects obviously the scarcity on the day,
34 and at the moment the price is higher because of the
35 drought, and reflects the value of the underlying commodity
36 that it may be used for. It may reflect the tensions
37 between urban supply and irrigators, so you have got the
38 market play, but we believe there is a clear distinction
39 between operational costs and delivery costs and what the
40 market may or may not price into. We don't see scarcity
41 factors being acknowledged.

42
43 MR ARTHUR: Another factor is there is a massive
44 fluctuation in the price of temporary waters. In the first
45 year of the drought Water was making up to \$300Ml and has
46 traded as low as \$35 this season, and you will see \$20 to
47 \$30 Water again, so I don't know how you would factor in a

1 scarcity factor there. The whole concept of having a
2 scarcity factor in there is just totally abhorrent to
3 irrigators. It is really driving us in a directions that I
4 don't think are economically viable for producers.

5
6 MR REID: There has been a lot of debate about the costs of
7 MDBC and how they are shared out among the valleys and
8 Water users. Would you like to expand a little on that on your
9 current understanding of the situation and how you would
10 like to see that go forward?

11
12 MR MEILL: Again, that is a real area where lack of detail
13 prohibits or restricts our ability to really get in to
14 critique it, but I know it is a particular concern to
15 Murray irrigation areas, and on this point I would, if I
16 may, invite Deb Kerr to make comments on that because she
17 has done a significant amount of work and has significant
18 expertise to respond to that question.

19
20 MS KERR: As a person who has represented irrigators on
21 the Murray for a number of years now, it has been extremely
22 difficult for irrigators or their representative
23 organisations to obtain any information of significance
24 that can correlate directly to what we do here in NSW. The
25 product codes don't necessarily match what happens in NSW
26 and the detail is not there.

27
28 As to how it is actually applied within NSW, the
29 majority at the moment I think under the State Water
30 submission is to be applied to the Murray Valley. There
31 has been no reconciliation by either State Water or DIPNR
32 or any move made as required in the 2001 determination to
33 work out a better way of sharing those costs around.

34
35 The actual MDBC costs are determined on a state
36 sharing formula which does not also equate to how we
37 determine that through the IPART process, so there is a
38 significant issue there about how that is dealt with. So
39 from a user's point of view, from a representative's point
40 of view it is a real grey area where we would like to see a
41 lot more clarity and transparency.

42
43 MR REID: State Water indicated that they would like to
44 move to a greater reliance upon usage charging. DIPNR was
45 talking about moving the other way. Do you have any views
46 on that structural issue of prices?

1 MR MEILL: Certainly. I think at the moment there is
2 probably insufficient detail and analysis to really look at
3 on a valley-by-valley basis or even industry-by-industry
4 basis on the implications and benefits or opportunities
5 there, and I think with respect to State Water one has to
6 say is that consistent with its commercial focus, some of
7 the things that it wants. So we have got to put it in
8 context. I think the Act says it must operate like a
9 business. Are they consistent, what are its proposals, is
10 it consistent with what other players in the market might
11 be looking at? But again we have got to send clear signals
12 of accountability and clear signals that both State Water
13 and DIPNR are doing their best to put in place regimes of
14 regulation and business delivery, or Water delivery in
15 State Water's case, that are efficient, that are effective,
16 and that really are driving down and helping contribute to
17 the economic wealth of the region. So we can be part of
18 that obviously, but I don't think it should be assumed that
19 State Water or DIPNR should be able to pass their risk
20 across to irrigators as we believe at the moment a fixed
21 charge regime may do.
22
23 The Lachlan is an example where for two or three years
24 they have received no Water, and are still paying fixed
25 charges, which means that the government has been able to
26 pass the risk off to a fairly weak market participant, or
27 market participant with very little market power. So all
28 of that is very complex and I think we need a lot more
29 opportunity to sit down and evaluate all of the options
30 from an information base of full details.
31
32 MR REID: You raise in your submission, and I asked both
33 State Water and DIPNR, to comment on funds available from
34 Federal sources and through the catchment management
35 authorities, the question of possible double recovery of
36 moneys. I would like you to expand on that.
37
38 MR MEILL: Certainly. Council has had a lot to do with
39 the National Water Initiative. We supported that \$2
40 billion that is there. There is real opportunity for
41 industry, with DIPNR and State Water, to jointly put
42 submissions that advance the interests of New South Wales
43 water resource management and in doing so we need to look
44 innovatively at who gets the benefit, there is a transfer
45 that comes in, how is that allocated both across the State
46 Water business, as obviously the asset is owned by the
47 state; if it is industry, that part contributes to getting

1 those resources to flow.
2
3 I don't think we have had that discussion yet but
4 there is a real opportunity for money to come from those
5 sources to build on the work and the funds that State Water
6 has got and it is a real opportunity for the three
7 organisations, the industry - and other stakeholders as
8 well - DIPNR and State Water to demonstrate that we can
9 lead this water debate in Australia. But the issues are
10 that there is no double counting and that true value is
11 recognised.
12
13 Perhaps if I can just by example say, if we were to,
14 with State Water and DIPNR, invest in multilevel discharges
15 that helped to address the issue of pollution, so that
16 every megalitre of water, irrespective of who the water
17 owner was, had an environmental benefit, how is the water
18 sent down for irrigation consumption counted, so when all
19 that investment starts coming through that is when we need
20 to be innovative because it could open up new avenues for
21 investment. I don't think we have had that debate but it
22 is an interesting area that is full of a lot of possible
23 opportunities.
24
25 MR ARTHUR: Generally irrigators do have a fear, if you
26 look at Deniliquin, for example, the water resources
27 building was basically unoccupied. When Murray Irrigation
28 took over the control that area, now you will find not only
29 is the building bulging, it has demountables on the side,
30 so anecdotally there is a real concern amongst irrigators
31 that there is a lack of discipline to make sure that there
32 is not this double dipping and also duplication of roles.
33 That is a concern generally to irrigators.
34
35 MR SEERY: In the 2001 determination the tribunal set
36 prices by valley. Some of those increased by up to 20 per
37 cent per annum in real terms over the period of the
38 determination. Despite that, in a number of valleys the
39 prices would probably be considerably below cost recovery
40 at the moment. Why should the tribunal move away from the
41 price path it set in the last determination for those
42 valleys?
43
44 MR MEILL: In looking at the issues that have confronted
45 IPART, it sought responses from both State Water and DIPNR.
46 It is not a question of moving away, but is the detail
47 there to justify the level of prices? The increases that

1 perhaps State Water has asked for, or is reflected, are
2 they justified? We have not had the detail on the table to
3 say, yes, we still need another X per cent to reach cost
4 recovery or that in some cases a valley might be over cost
5 recovery. How do you reflect that? It is a case of we
6 support the principle of cost recovery but it has to be
7 from the basis of, let's have all the information on the
8 table, let's see the discipline imposed in both State Water
9 and DIPNR to justify the level of cost, to justify every
10 line item of expense, so that not \$1 more is sought from
11 anybody. So it is not a case of moving away but making
12 sure every decision is properly informed, that the detail
13 is on the table, the analysis is on the table, to give
14 confidence that the right decision is being made, and, with
15 respect, to where we find ourselves today, that we don't
16 believe that information is there to be able to have
17 confidence that a decision could be made to support major
18 increases.

19
20 MR SEERY: DIPNR has come to us and suggested that we
21 should be using the 2001 cost base as a basis for
22 determining what the level of cost recovery is and
23 therefore what level of increases we should be putting
24 forward. How confident is the Irrigators' Council in the
25 values that were put forward in 2001 as a cost base?

26
27 MR MEILL: Again it comes back to, somebody made the
28 comment before, that the detail or what comes forth to give
29 us confidence is simply not there. We are saying how much
30 it reflects on, were they accurate, is the first question;
31 and for industry to have that detail, we simply have never
32 had confidence we have had all the detail, and the
33 accountability is lacking.

34
35 Moving forward as to what should happen, we would be
36 saying that with respect to all of the changes, with the
37 catchment management authorities, the transfer of function
38 there is DIPNR to State Water, et cetera, the information
39 DIPNR has put on the table, we have no confidence that
40 there is no double dipping, that the base line of charge
41 that DIPNR worked from in 2001, and the level of services
42 they are proposing, are they doing them all, how much has
43 been transferred? So, without the detail, you are asking
44 us to make detailed comments or criticisms or put forward
45 options, but it is next to impossible. The question of
46 what was done in 2001 is very difficult for us. Going
47 forward we believe it is difficult because we have not had

1 the full analysis of what happened in the last 12 months
2 since State Water was corporatised.

3
4 MR ARTHUR: We are hearing from DIPNR that "We will tell
5 you what our costs are, and obviously we need to cover
6 those costs", and that is full cost recovery, but from the
7 irrigation sector we want to see the department is
8 operating at absolute best practice, with a real focus on
9 reducing costs right across the board, and that gives us
10 more confidence that - we support full cost recovery but
11 there has to be real scrutiny about the level of costs and
12 are they operating at world's best practice.

13
14 MR SEERY: Earlier this morning I asked DIPNR about its
15 approach to modelling. They say they want to lower the
16 value for forecasting usage from the long-term average to a
17 number which was reflective of long-term average less one
18 standard deviation. Do you have any view on how this would
19 impact on water prices and what risks there would be
20 associated with that?

21
22 MR MEILL: Again State Water proposed that in its
23 submission. The argument underpinning that, there is
24 always a bit of smoke and mirrors to it, so again we are
25 pretty confident it is not to our advantage and it is up to
26 State Water to demonstrate, we would argue, that that is
27 the best way forward to address the specific set of
28 circumstances that they were trying to overcome with that
29 option. Again it is one of those areas where it has been
30 proposed but there is no real depth to the argument to
31 support why that should be the preferred option.

32
33 MR SEERY: On issues such as bulk water discounts and the
34 high security water premiums, you have indicated that there
35 has been insufficient detail for you to make any view,
36 therefore for IPART to come to a view on it; yet in
37 relation to projects such as the Yanco proposal you believe
38 that the tribunal should allow such a levy. Do you think
39 that the detail has been provided in that case?

40
41 MR MEILL: That was with respect to Yanco. My members
42 inform me that detailed work has been undertaken on those
43 proposals with either State Water and DIPNR or one or the
44 other and that they have confidence through the
45 consultative processes they put in place that their
46 communities, their members, fully support those, understand
47 the range of outcomes that will come from them and support

1 those outcomes. So in that regard, yes, we believe that
2 while there may be some issues still outstanding to be
3 resolved that both our members have indicated that they are
4 projects very worthwhile and beneficial to their regions
5 and should be supported.

6
7 THE CHAIRMAN: Thank you very much. Whether we will
8 be able to provide all the information for a one-year
9 determination I think is a valid point, that is why it will
10 be only a one-year determination, because we can't get all
11 the information.

12
13 NATURE CONSERVATION COUNCIL & WFF

14
15 MS YOUNG: My name is Rachel Young, I work for the
16 Nature Conservation Council of New South Wales, and with
17 me is Tony Trujillo from WFF Australia.

18
19 Up front I will talk a little bit about the broader policy
20 context in which this price determination is taking place,
21 then Tony is going to talk about some specific issues that
22 IPART wanted addressed for the 05/06 determination,
23 specifically with regard to capital investments and
24 two-part tariffs, and I will then talk about some of our
25 longer term goals for bulk water pricing.

26
27 As mentioned, we are now working within the National
28 Water Initiative. This is really just a flow-on from the
29 1994 COAG framework for water reform. However, I don't
30 think the National Water Initiative contains as much detail
31 on pricing as the 1994 reforms did, it is more of a
32 continuation of that.

33
34 Really there are I guess three main goals in the
35 National Water Initiative - to provide user security, which
36 New South Wales has recently done through amendments to the
37 Water Management Act, it is also through creating a market
38 for water trading, which has also been achieved pretty much
39 in New South Wales - there is still some toing and froing
40 to take place - but bulk water is being traded and can be
41 traded, then the last point is the environment, and that is
42 returning rivers to sustainable yield. And we think that
43 there is still a lot of work to be done in that regard.

44
45 For us, the really key thing for water pricing is full
46 cost recovery and that is to upper bound pricing. A lot of
47 the talk today about full cost recovery has to be lower

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1 bound price, with externalities and the opportunity costs
2 of capital in upper bound. If you are going to invest
3 money, let's make sure we get a return, otherwise just put
4 it in the bank, so what we need to do is incorporate that
5 into pricing as well.

6
7 The last thing is transparency. Everybody is looking
8 for transparency in costs but also transparency in
9 subsidies. If users are going to be subsidised in terms of
10 infrastructure, other aspects of river operations, they
11 should be clearly identified so that the public can then
12 make decisions about whether they want to support those
13 subsidies and those costs or not.

14
15 I will now hand over to Tony, who will talk about the
16 2005/06 determination.

17
18 MR TRUJILLO: Thank you, Rachel. I am with the WFF and I
19 will talk about two specific issues concerning the 05/06
20 price determination, specifically capital investment by
21 State Water and on two-part tariffs. We feel the capital
22 investment is a particularly important issue because once
23 an infrastructure is in place, say a dam, it is very
24 difficult to have it removed, even if subsequent to its
25 construction the operation is proved harmful to the
26 environment or no longer economically viable.

27
28 It is important that a return on capital be included
29 in water prices and that as part of justification of new
30 infrastructure that the price impact be taken into account.
31 The specific issues I want to comment on as far as State
32 Water's capital is the approach to funding of capital
33 investment, the appropriate rate of return on capital,
34 whether there can be a return on pre 1997 assets and a
35 comment on capital costs to meet post 1997 standards.

36
37 First of all, the approach to funding capital
38 investment: We believe that the rate of return approach,
39 or I think what State Water calls the roll-forward approach
40 to funding capital, is a good approach. Under this
41 approach capital would be committed as needed and all
42 capital expenditure required to provide for future asset
43 consumption as well as return on capital investment, so we
44 think that is pretty good. The key thing for us is the
45 return on capital is achieved which will meet the
46 requirements of the national water initiative by moving
47 closer to upper bound pricing for all water.

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1
2 The second thing I want to talk about is achieving an
3 appropriate rate of return. We feel the appropriate rate
4 of return for capital investment by State Water should be
5 the weighted average cost, and that is pretty well covered
6 in their presentation. Since State Water is a state-owned
7 corporation, State Water is required to maintain its
8 financial viability, and to achieve this it must be allowed
9 to make an adequate return on its investment. However, in
10 its building block approach, State Water proposes the rate
11 of return of 6 per cent be achieved on its regulated asset
12 base, despite this being slightly below expectations and
13 that targeted by other New South Wales water businesses.
14 We think it is unclear from State Water's submission why
15 this lower rate of return is required as a transitional
16 measure. Importantly from our perspective, this could set
17 a precedent of justifying investment in State Water in new
18 infrastructure below its capital cost, in effect
19 subsidising its construction, and this could flow on to
20 other areas.
21
22 The next issue is whether there can be a return on pre
23 1997 assets. State Water has made a case that it cannot
24 achieve an acceptable level of return on a stand-alone
25 operation unless it can achieve some return on its pre 1997
26 assets. The conservation groups feel it is reasonable that
27 State Water be allowed to achieve a return on some of those
28 assets. It proposes a regulatory asset base that would
29 include some 1997 assets of \$300m. We have never accepted
30 the line in the sand argument, although we accept that we
31 do have to abide by it, where no return was achieved on
32 about \$2 billion worth of existing infrastructure.
33
34 The final point is capital cost to meet post 1997
35 standards. State Water has forecast a significant level of
36 capital expenditure required for dams to comply with dam
37 safety requirements. These costs were 100 per cent
38 government funded, as they are judged to be complying with
39 post 1997 standards. For example, the upgrading of the
40 Keepit Dam is expected to cost over \$65m.
41
42 The issue we have with this is that we think there may
43 be a case for some capital cost to be post 1997 standards
44 and either be shared with users or consideration be given
45 to decommissioning the infrastructure. The real danger is
46 that these major upgrades can be in effect replacing
47 existing infrastructure without a process of determining

1 whether the replacement is justified, either on economic or
2 environmental grounds.
3
4 Now I will touch on two-part tariffs. We support a
5 two-part tariff for both water resource management and
6 river operation activities with as large a variable
7 component as practicable. We feel it is important that
8 charges be linked as closely as possible to usage to
9 provide the appropriate price signals to users. Increasing
10 the price of water will then lead to lower levels.
11 However, we do understand that DIPNR and State Water
12 must ensure a proportion of their revenue does not vary from
13 year to year, so some fixed is required.
14
15 State Water in its presentation is moving to a higher
16 proportion of fixed cost - sorry, a lower proportion of
17 fixed cost, which we think is a move in the right
18 direction, so those are the comments we have directly on
19 the 2005/06 price determination, and I will now hand back
20 to Rachel to talk about some of our longer term issues.
21
22 MS YOUNG: Going back to our favourite topic, upper bound
23 pricing, there have been some questions this morning about
24 the transition path and the rate of increase. We are
25 pretty keen for all of this to occur as fast as possible.
26 Over ten years we have almost achieved lower bound pricing
27 in some valleys and achieved it in others. The forecasts
28 are that by 2010 we will have achieved lower bound pricing
29 across the state, but how long will it take to get to upper
30 bound pricing? We are looking at a water market and if you
31 have a free water market, and you have user security, you
32 must also have full cost pricing to go with that. You
33 can't have bits and pieces. It has to all move together,
34 so what we are suggesting is that upper bound pricing is a
35 critical part of actually completing what is required under
36 the water reform process.
37
38 The next point is that all the costs of water resource
39 management in New South Wales are included in the bulk
40 water prices and not just DIPNR. DIPNR undertakes a huge
41 part of water resource management in New South Wales.
42 However, DEC, and particularly DPI Fisheries, have
43 important roles to play in water management and wetlands
44 management in New South Wales. These agencies also need
45 to have their costs met by the bulk water pricing.
46
47 When it comes to efficient cost of water resource

1 management activities, Doug spoke a lot about this, when we
2 talk about efficient water resource management what we are
3 talking about is water resource management that actually
4 achieves sustainable rivers and aquifers and ensures their
5 long-term health into the future. We are not necessarily
6 looking for cost efficiency, because cost efficiency does
7 not necessarily deliver the best environmental outcome. We
8 are looking for the best programs to deliver the best
9 outcomes to the environment, so that is what we mean by
10 efficiencies. We support efficiency in that regard but the
11 environment must have enough money allocated to it so that
12 these management activities can occur and so that the
13 rehabilitation that is required can occur and future
14 mitigation can occur as well.

15
16 Price adjustments for changes in the consumptive pool
17 is something that has been touched on. It is certainly
18 something we would like to see included in bulk water
19 pricing. People have mentioned that basically as the
20 environment has more flows returned to it the consumptive
21 pool will get less. We recognise that but we do not
22 necessarily recognise that the environment should be paying
23 for that.

24
25 When you think about it, for the last 100 years, as
26 irrigation has developed the environment has paid through
27 the water that has been taken out, it has paid through lost
28 bio diversification, fish extinctions and reduced areas of
29 wetlands. There is a whole number of different things
30 where the environment has paid for what has been going on.
31 What we are now saying is that, okay, so you are returning
32 some of the water, that is great, but the environment does
33 not need to pay for this. I know that will not be very
34 popular within the room but that is the way we feel.

35
36 I guess the other thing is just talking about the
37 efficient cost of water resource management and also the
38 price adjustments. In State Water's supplementary
39 submission it talked about river operations charges and
40 maintenance charges being changed from 100 per cent of user
41 responsibility to 80 per cent for river operations and 90
42 per cent for maintenance of structures. Having not had
43 time to really look through that supplementary submission,
44 we would have to say that we are not really in agreement
45 with that kind of process for a start.

46
47 Again, we come back to the fact that the environment

1 should not have to pay to have water delivered to it and,
2 particularly for the maintenance of structures, if those
3 structures weren't there the water resource management
4 charges that we are looking for would not be charged. The
5 environment and rivers would actually be a happier place if
6 we could take all the structures out. I realise that is an
7 unrealistic situation to call for but I do not think the
8 environment should be charged for modification of
9 structures that have caused long-term degradation.

10
11 The last point is scarcity pricing, which some of the
12 secretariat members were talking about previously as well.
13 Again, we talked about this in our submission and it is a
14 bit of a wish, I guess, because it is always difficult
15 getting these sorts of issues up. Scarcity pricing would
16 be a way that would allow a small portion of the true cost
17 of water to be returned to the community. It is important
18 to recognise in this process that water is a public asset
19 and it is a public resource, so the public deserves to have
20 some return from the use of that resource.

21
22 When you look at general security water costs, they
23 range from \$4 to \$15 a megalitre, and permanent trade can
24 be anywhere from about \$400 in the Hunter up to \$2,500 in
25 the Gwydir when things are a bit dry, but on average about
26 \$1,000 a megalitre, and temporary trades can have some
27 really widely fluctuating prices, from around \$50 to \$200
28 dollars. All of the value that comes from trade, however,
29 is privately held. The rest of the community does not
30 benefit from that trade. The environment does not benefit
31 from that trade.

32
33 What we are recommending is that there be an
34 environmental levy incorporated to provide a better
35 indication of the true value of water to the community. We
36 are suggesting that somewhere between \$5 and \$10 a
37 megalitre would be likely to recover only a small
38 proportion of the actual scarcity value of water to the
39 community. However, this money would then be used to
40 fund a significant benefit for the community in terms of more
41 sustainable river systems.

42
43 Thank you very much.

44
45 THE CHAIRMAN: Thank you both very much. I could not
46 help but be struck by the economic rationale in your
47 presentation.

1
2 MS YOUNG: Whatever works!
3
4 MR SEERY: My first question, it was mentioned earlier
5 that this is going to be a one-year determination. I was
6 wondering what you see are the key factors that the
7 tribunal should take into account in making its
8 determination for 2005/06?
9
10 MR TRUJILLO: I think the two points we mentioned were
11 the important ones, the capital for State Water and also
12 two-part tariffs, that we would want to have a larger
13 variable component, and also to make sure that a lot of the
14 capital costs are recaptured so you get closer to upper
15 bound pricing. They are the two areas that are important
16 to us.
17
18 MR SEERY: We heard earlier that State Water and DIPNR
19 both wish to remove the wholesale discounts. What is your
20 view on that proposal?
21
22 MS YOUNG: We support the removal of the wholesale
23 discount simply because it's making the whole process of
24 pricing more transparent. As Abel said in his
25 presentation, if State Water wants money from the resource,
26 it must pay for it up front, so it then becomes more
27 transparent.
28
29 MR REID: There has not been much discussion today on
30 groundwater and obviously both groundwater and unregulated
31 rivers, going back to the 2001 DIPNR figures, were the
32 areas where there was the greatest discrepancy, if you
33 like, to get to lower bound pricing, as you put it. What
34 is your state of knowledge from an environmental
35 perspective on the status of groundwater, groundwater use,
36 and groundwater reserves?
37
38 MS YOUNG: That is a really big question. Groundwater is
39 definitely a huge issue at the moment. There is a lot of
40 uncertainty with a lot of the aquifers. The MDBC has
41 suggested that the Murray-Darling cap is actually being
42 eroded by 2 per cent a year due to increased groundwater
43 use over the period that the cap has been used, so that
44 suggests that the water management activities and the
45 planning that we have undertaken and the way we allocate
46 water resources does not take into consideration
47 connectivity between groundwater and surface water.

1
2 Certainly the surface water plans make no allowance
3 for recharge of aquifers in their water sharing, so there
4 is a whole range of things there. The water sharing plans,
5 the surface water plans, do not refer to groundwater plans.
6 Even the catchment action plans or blueprints that have
7 been brought out do not necessarily correlate all of that
8 stuff together, so we have this huge gap. It is almost
9 like we are trying to deal with two separate systems,
10 ground and surface water, but in reality they are linked,
11 and I think there needs to be recognition of that, then the
12 pricing somehow needs to figure out how we can charge for
13 that and the impacts on things such as groundwater
14 ecosystems, which are also poorly understood.
15
16 MR REID: Obviously in the case of groundwater the costs
17 imposed upon government in the delivery of that are very
18 small, so would this be an area where scarcity value or
19 some other aspect of pricing could play a greater role?
20
21 MS YOUNG: The costs of delivery are small but I think
22 this is where pricing needs to move into, when you are
23 looking at full cost recovery - the externalities and
24 environmental activities of that use. That is really
25 important. To go for a local issue that is not necessarily
26 specifically related to this, but in the Blue Mountains
27 Sydney Water is having to expend money now on groundwater,
28 on aquifer rehabilitation, because horizontal water works
29 has caused aquifers to die. Operations and expenditure
30 need to take into account those costs and they need to be
31 shared.
32
33 MR REID: Issue has been raised about the effectiveness of
34 some of the fish ladders that have been installed in the
35 past on dams. Obviously fish ladders do not come cheaply.
36 Do you have any current knowledge of the state of the
37 technology and the effectiveness of what is currently being
38 proposed to be installed to assist fish passage and also on
39 the issue of cold water pollution?
40
41 MS YOUNG: I have not been following fish passage
42 technology closely for a while. The best people to ask
43 about that are DPI Fisheries and their inland fisheries
44 officers because they are the ones that have spent a lot of
45 time developing that technology and monitoring its
46 effectiveness and how it actually works. Certainly we are
47 heading in the right direction with the development of the

1 technology. The earlier fish ladders weren't effective in
2 providing passage.

3
4 The other important factor is also looking at
5 structures in the state that are not owned by State Water
6 and encouraging the private owners of those to remove their
7 structures or build fish passage over those structures as
8 well, because State Water can do all the bits if it had the
9 money, but if someone has a private weir in the middle,
10 fish passage is disrupted.

11
12 MR REID: You talk about moving this as quickly as
13 possible to upper bound pricing. Obviously that has the
14 potential to have very significant social impacts. Do you
15 have any advice for the Tribunal as to how it balances
16 those social impacts against some of the environmental
17 impacts that you are talking about that flow from water
18 use.

19
20 MR TRUJILLO: I think it would be similar to going to the
21 lower band. All you are adding is another level of pricing
22 which says that you should also recapture your capital
23 costs. So there will be social issues any time you would
24 raise the price of a resource like this that has been
25 underpriced for ages. So I think there wouldn't be
26 anything new in that. Basically if you don't recapture
27 your capital, you are subsidising. So it is up to the
28 community to decide whether it wants to continue to
29 subsidise water use or if it wants to charge to get the
30 cost back.

31
32 MS YOUNG: If I could add to that, I think one way of
33 possible moving in these directions is for the Tribunal to
34 actually indicate what it thinks the full cost of water
35 should be, and then indicate a path for getting there, or
36 to just increase again the transparency in how that process
37 occurs, to say, "We think upper bound pricing is this. We
38 recognise the social changes that need to occur before we
39 can reach this, and so this is the path that we are going
40 to follow." Again, just to actually identify what that
41 true number is would be a huge step forward. Then you can
42 actually work towards getting it.

43
44 The incremental steps forward are certainly better
45 than sitting at the current price plus CPI. However, I
46 think if the community really knew what the actual cost of
47 providing water to industry actually is, I think they would

1 be highly concerned at the rate at which we are charging
2 it. If you want to buy bottled water - and granted there
3 is a whole series of processing and packaging associated
4 with that - a 500ml bottle of water, you are looking at
5 nearly \$2.

6
7 THE CHAIRMAN: Thank you very much again for your
8 presentation.

9
10 GENERAL DISCUSSION

11
12 THE CHAIRMAN: We now agreed that we would welcome
13 comments from the floor. A number of you have been here all
14 day and listening. Maybe this is your chance to have your say.

15
16 MR THOMPSON: Dick Thompson from Murrumbidgee
17 Irrigation. I was interested in the argument on bulk water
18 discounts. Our company actually takes about half the water
19 extracted from the Murrumbidgee. I'm sure if there were just
20 two companies operating in the Murrumbidgee there would
21 be a totally different structure for State Water.

22
23 THE CHAIRMAN: Thank you.

24
25 DR MUSGRAVE: Would it be cheaper or cost more?

26
27 MR THOMPSON: I think it would be obvious, but if we were
28 only sending out two bills a year I think there would be
29 some impact, and there would be a few other areas that
30 would be a lot cheaper.

31
32 MR ARTHUR: This issue of scarcity tax is raising its head
33 at the moment. As a representative of 1,000 or 2,000 rice
34 growers, and it is 1,000 at the moment mind you, when you
35 look at what an irrigator does - and they manage a lot of
36 country, a lot of Australia's bushland and farmland is
37 under private ownership - the moment they are under stress
38 the property improvements, issues of bio diversity, tree
39 belts, all that sort of thing, that is the first thing to
40 comes under pressure. So if you introduce scarcity
41 pricing, it squeezes farmer's margins further and further
42 and further, and these environmental things you want to do
43 on your own blocks are further and further away.

44
45 To give you an example, I run about 8,000 acres. I
46 don't run any sheep at all. I manage to do that. I have
47 no stock. I manage to do that by the profits generated

1 from irrigation. I have about 4,000 acres locked up,
2 regenerating bushland. That is only possible with the
3 profits generated from my irrigation. The moment you start
4 throwing in things like scarcity tax, and that sort of
5 thing, then I have to start looking at other options that
6 are not as good for the area I'm managing.
7

8 MR KILEEN: Jerry Kileen from the Namoi Valley. As to the
9 scarcity tax and the water resource water management tax,
10 the reality is, as Laurie says, there has been an audit of
11 the Namoi River system through to Walgett, and it is
12 interesting to note that the riparian zone is in the best
13 health through the main part of the irrigation area. That
14 has come about from one reason only, and Laurie just
15 expressed it. It is preposterous for the environmental
16 movement, who are missing a huge opportunity to understand
17 what they are actually looking at out there, because water
18 resource management is more complex than trying to grab
19 more water from irrigators. I think one of the things we
20 should be looking at as a community - and, by the way, for
21 those of you who don't think so, I'm part of the community
22 and I'm also green. We would be much more productive to
23 work these issues through with some clarity and some
24 accountability.
25

26 I think that goes right back to DIPNR. For too long
27 they have been shifting costs. I might say so at the
28 danger of making myself unpopular with some groundwater
29 users. For instance, if you asked DIPNR to supply the
30 Tribunal the amount of money they have spent on aquifer
31 research in NSW in the last 10 years, ask the question and
32 see what the answer is, and I suspect you might be shocked,
33 and they don't cost recover.
34

35 MS KERR: Deb Kerr from the Rice Growers Association. I
36 would like to follow up on the comments made by Rachel on
37 the environment not being entitled, I suppose, to be
38 charged for water. We look at the environmental water as
39 being a necessity, but it is also a user of water. There
40 are also licences available for the environment that trade
41 water, and our position is they, like other water users,
42 whether they be town water supply, industrial or
43 irrigation, should also wear a portion of the costs for
44 both water resource management and for the use of the dams
45 and weirs, through State Water Corporation. So there is a lot
46 of detail in our submission and I would urge you to have a
47 look at that.

1
2 The figures that I did on the Murray, if all the
3 Living Murray came into effect, the water sharing plans,
4 et cetera, there is a significant amount of money that is
5 basically a community service obligation from the
6 irrigators to the environment if that doesn't occur. So I
7 would strongly urge the IPART to have a good look at that.
8

9 MR HOWE: John Howe from Murrumbidgee Irrigation. The
10 environment presented a nexus between upper and lower bound
11 pricing. It has to be recognised that the externalities,
12 the current pricing, is halfway between lower bound and
13 upper bound. In terms of externalities, I think it should
14 be recognised that irrigators invest, not only privately
15 but actually as corporations, heavily in environmental
16 outcomes. I don't think you can have it both ways. Either
17 you go to a pricing based approach and solely a pricing
18 based approach or an investor based approach.
19

20 MS FURNESS: I am Lee Furness. I represent the Yanco Creek
21 Tributary Advisory Council and also the Murrumbidgee
22 private irrigators. I want to pick up on an issue for the Yanco
23 Creek Tributary Advisory Council. This is really important
24 for this group of irrigators, and I think they have been
25 working for two years on a natural resource management
26 plan. A 150-page document was put together with the
27 assistance from DIPNR and State Water. These are a bunch
28 of guys who are actually wanting to dig into their own
29 pockets and pay for some environmental outcomes for
30 Australia's longest and land creek system. I think that is
31 really significant.
32

33 The reason that we have had to get State Water to put
34 it up through IPART was because the governments said, "We
35 don't really want to put a levy on CMAs." We have been
36 talking to various supporters - David Harris, our regional
37 director, has written to Mr Cox to say they are supportive
38 of it. There is a significant amount of water to be saved
39 in that system. Here you have got people who are not
40 expecting the government to do it all on their own and are
41 wanting to invest in the future sustainability of their
42 system. I think that is significant and I think it is
43 something that should be supported.
44

45 MR HOWE: Efficiency is a key thing in the overall National
46 Water Initiative debate. It is actually moving governments
47 towards CSO contributions to finance environmental

1 outcomes. When you say that should be all passed on to the
2 private sector, you lose your disciplines over the exact
3 efficiency arrangements that we are talking about here.
4 When the environment is allocated \$1.5bl for the Living
5 Murray I would assume the environment wants the maximum
6 environmental benefits for that \$1.5bl that it can get. If
7 it can get those same benefits cheaper, I suspect it would
8 try to get them cheaper.

9
10 MR ARTHUR: I realise you are taking this into account,
11 but the level of difficulty out there is because of the
12 current drought, particularly in the south. It is
13 something we would like you to bear in mind. To give an
14 example, in the Murray system, it has the worst recorded
15 inflows to the dam in recorded history. We have had an
16 April and a May that we didn't think would be possible
17 after the three years we've had, so I hate to say it, but I
18 really believe - we have been in it for three years - I
19 don't see us coming out of it in the short term. I hope I
20 am wrong. I am aware that the Tribunal will keep that in
21 mind. When you look at areas like the Lachlan, it is
22 pretty hard to overstate the level of pain out there from
23 producers. I am aware that you will take that into
24 account.

25
26 MR KILEEN: I am particularly interested in outcomes. I am
27 intrigued that no-one I have seen yet has been able to come up
28 and cost environmental benefits. I have been sitting on the
29 Cooper Dam Community Reference Panel and also on the
30 Chaffey Dam Community Reference Panel. We have employed
31 consultants to try to identify and cost environmental gain.

32
33 Now, I don't expect IPART to be able to take this up,
34 but it will be immensely helpful in making some good
35 judgments for transparency and accountability. Somehow we
36 have got to break through the nexus of where we are
37 going. I have sat through quite a lot of these hearings and
38 quite a lot of it is more of the same. I know the irrigation
39 industry as a whole is trying to determine how you might be
40 able to process the accounting for the cost of the environment
41 or remediation, call it what you will, but that needs to be
42 thought about at IPART level, and maybe some
43 recommendations. If you guys have got some good feeling
44 about how you might be able to cost those gains, all sorts
45 of things happen, because if we can understand what you
46 are talking about it is a big help

47
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1
2 MS MELBOURNE: Leanne Melbourne. With the social issue
3 that we were questioning before, which has not been
4 discussed at length at any stage, I would just like to
5 comment that we have not considered the reports done by
6 rural financial counsellors, rural mental counsellors and
7 DOCS as a conglomerate in recent years as to the impacts of
8 drought, flood and these other initiatives that are
9 occurring at present on rural communities and their
10 associated links to the metro. I think we should get hold
11 of some of these documents and some of the people involved
12 in these initiatives in order to determine what the social
13 impacts are.

14
15 MR VAY: Adam Vay from the Department of Primary Industries
16 and Fisheries Management. I would like to add further to
17 conservation group's response to the Tribunal's question on
18 the current confidence in fishway technology particularly in
19 NSW. The last 10 years has seen some intensive research
20 and development for fishways as migration techniques for
21 weirs and dams, et cetera, for fish migration within the
22 Murray-Darling Basin in particular. This has been
23 recognised at an international forum recently where a
24 leading academic in the field of fish migration research
25 was unrivaled on international standards. As a result of
26 this, the department has an extremely high level of
27 confidence in current practice, best practice, for
28 achieving engineering solutions for the fish passage in
29 dams, and is relatively keen to continue exploring
30 opportunities for fish migration and the impact on dams and
31 fish in NSW.

32
33 MS BOWMER: Kath Bowmer from State Water. I wanted to ask
34 a question about the role of CMAs which seems to have been
35 skirted around today, particularly their role in managing
36 environmental water. My understanding of environmental
37 water is that part of it is statutory through water sharing
38 plans. There is a substantial amount of water being
39 dedicated to the Living Murray. More recently Peter
40 Sutherland from DIPNR announced at the water summit that
41 there would be three lots of, I think, \$3m allocated to CMAs
42 in NSW - the Lachlan, the Murrumbidgee and the Murray.
43 Presumably these CMAs will trade water for the environment.

44
45 My thinking about this is that this is a new
46 development which will mean less water available for use in
47 our regions, and also may make the pattern of delivery more

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1 demanding, because this water presumably will be allocated
2 to valleys of NSW. I would like the Tribunal to consider
3 these issues and perhaps comment on them.

4
5 THE CHAIRMAN: We will consider them so far as they are
6 relevant to our functions. We set prices at the end of the
7 day.

8
9 MR THOMPSON: Just a follow-up on this fisheries one, I
10 was recently at a CMA meeting and talking about carp and
11 the impact of carp. It normally has been stated that it
12 was a diversion in the rivers and the structures that were
13 causing the problem and that is why irrigators have to pay
14 for the costs of water diversion. Around the Cooper area
15 at the moment, it is totally unregulated, and that is our
16 biggest problem area for carp infestation which is clearly
17 showing a lot of the previous rubbish from regulation is
18 not right.

19
20 MS SMITH: Jenny Smith from the Hawkesbury-Nepean
21 Catchment Management Authority. I am sorry I can't answer
22 the question about environmental flows, because that is yet to
23 be worked out. I am aware that today there is a lot of
24 focus on the regulated rivers. The Hawkesbury-Nepean,
25 contrary to most people's understanding, is an unregulated
26 river. Therefore, we work on a whole lot of different
27 scenarios, but one of the things that I would like to see,
28 what we need to see, is a much better integration between
29 the regulatory bodies, so that we actually can see
30 integration between the licensing and extraction rights, so
31 that we can actually get into the aspect of total water
32 cycle management. That needs to be driven by a good
33 regulatory framework.

34
35 MR HOWE: I would like to point out the context of what I
36 was talking about before in terms of the environment. The
37 environment and the irrigators are water users and can
38 benefit from the sorts of things that IPART do in its
39 reviews which is fundamentally to keep our government and
40 public organisations honest and efficient and fair in terms
41 of their pricing. So I guess what disappointed me today
42 was to see the environment lining up so heavily with DIPNR
43 and State Water.

44
45 In terms of where we go from here on a one-year
46 submission, I suppose I would like to hear from IPART about
47 whether we are arguing about angels on the head of a pin in

1 raising all these issues, because they might be pushed off
2 to the next determination, and what are the key things from
3 IPART for just this 12-month determination?

4
5 THE CHAIRMAN: I will address your question when I close
6 the meeting. Are there further comments? In that case I
7 will address your question. I am not going to give you a
8 definitive answer. I couldn't if I wanted to, because I
9 would need to consult with my colleagues, and so on.

10 Essentially we are faced with a situation where today we
11 have been greatly assisted by a raft of views, information,
12 much of which bore on, if you like, the fundamentals of
13 water pricing over the next several years. Indeed, most of
14 it bore on that.

15
16 The question we are faced with in the immediate sense
17 is what do we do in setting the price of bulk water for the
18 next 12 months. As I indicated earlier in the day there is
19 a trade-off there between, if you like, complexity which
20 takes more time and which is inevitably more
21 controversial - the more you try to change the structure of
22 water prices, et cetera, the more time we have to give to
23 writing the decision, seeking out the information to back
24 the decision, and so on, or something that is relatively
25 simple but which you expect is consistent with the
26 direction that we would have to go when we do the longer
27 run determination.

28
29 I think we have been greatly helped in terms of the
30 longer run determination today in terms of what we have
31 heard. There is obviously going to have to be a further
32 opportunity for this sort of discussion which will, I
33 believe, be assisted by the forthcoming DIPNR submission.
34 I personally thought DIPNR identified the sorts of issues
35 we needed to see addressed in their outline of what they
36 are going to produce. The proof of the pudding will be in
37 the eating in terms of the quality of the information they
38 provide. We were, I think, also helped very much by the
39 Irrigators' Council in particular in terms of what
40 information we should be demanding of DIPNR and, if it is
41 necessary, in the follow-up to that submission. So we will
42 be having a further conversation when we get the DIPNR
43 submission. It may be that State Water would also want to
44 update its position at that time.

45
46 One thing I would say is that there was a flavour in
47 the Irrigators' Council's presentation that should be a

1 sequence of events that we shouldn't run, if you like, our
2 consultants' reports at the same time as we get submissions
3 from other people. That does extend the timetable, and
4 there is a trade-off. I hope I understand where the
5 Irrigators' Council is coming from, but that sequential
6 approach just takes more and more time, so that I am not
7 absolutely sure about that, whether we are not better off
8 running things in parallel in that context.

9

10 The DIPNR submission is the next major step in the
11 inquiry and obviously key parties may want to put in a
12 further submission in light of that, and we will have
13 another conversation, but in the short term the critical
14 issue will be how far we go. We do need to satisfy
15 ourselves that we are not doing something that is contrary
16 to the longer term direction, but how far we go is another
17 question.

18

19 The other point we need to think about in terms of a
20 short term decision is the impact on the community and
21 particularly the rural communities that are dependent on
22 this water. I would like to end it there. Thank you all
23 very much for your attendance.

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25 AT 12.30PM THE HEARING WAS ADJOURNED.

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