

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF WATER ADMINISTRATION MINISTERIAL CORPORATION

Tribunal Members

**Mr James Cox, CEO and Acting Chairman
MS Sibylle Krieger, Part-Time Member**

Members of the Secretariat

Mr Colin Reid, Ms Amanda Chadwick and Mr Matt Edgerton

**At the Country Comfort Hotel
Corner Tarcutta and Morgan Streets, Wagga Wagga**

On Monday, 19 July 2010, at 9.30am

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1 WELCOME AND INTRODUCTION

2
3 THE ACTING CHAIRMAN: Good morning, ladies and
4 gentlemen, I would like to start off by welcoming you to this
5 public hearing. We are inquiring into the maximum prices
6 that the NSW Office of Water will be permitted to charge for
7 water and management services that are undertaken on behalf
8 of the Water Administration Ministerial Corporation.

9
10 I am Jim Cox and I am acting chairman and chief
11 executive officer of IPART. I am joined on this review by
12 my fellow tribunal member, Ms Sybille Krieger.
13 Unfortunately we are unable to be joined today by our
14 recently appointed chairman, Rod Sims, who will take up his
15 office later this month. I have discussed this with Rod.
16 He asked me to assure you that he will review written
17 submissions and the transcript of today's proceedings with
18 care and will, if necessary, meet separately with the key
19 stakeholders.

20
21 I would like to take this opportunity to thank all
22 those who have taken the time and trouble to make
23 submissions for this review. All stakeholder submissions,
24 including those of the Office of Water, are available to
25 the public on our website. All submissions received will
26 be carefully considered by us in developing our findings
27 and recommendations. We will also consider matters raised
28 by stakeholders in the presentations today and by members
29 of the public in the course of this afternoon's
30 proceedings.

31
32 This hearing is a very important part of our price
33 review process. It provides an opportunity for us to hear,
34 in a public forum, from the Office of Water and other
35 stakeholders and to question the propositions that they
36 have put forward.

37
38 I should advise you that today's hearing will be
39 recorded by our transcribers to write a record to assist us
40 in our work and a copy of the transcript will be made
41 available on our website next week.

42
43 A key element of our process is to consider the
44 potential impact of pricing decisions on the NSW Office of
45 Water and on water users. Regulated river users should be
46 assured that we will consider the combined impact of price
47 changes from this determination as well as our recent

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1 determination of charges for State Water's services.

2
3 IPART last determined prices for the Water
4 Administration Ministerial Corporation's water planning and
5 management services in 2006. That pricing determination
6 covered a four-year period that expired on 30 June 2010.
7 As you would be aware, this present review has been subject
8 to delays, which have been necessary to ensure that
9 adequate information was made available to stakeholders and
10 to enable effective participation IPART'S processes.

11
12 Prior to the delays, we intended to set new prices by
13 1 July 20. Obviously this is not possible now. As a
14 result, a new determination has not been made and the 2006
15 determination has continued to date. In practical terms,
16 this means the same prices that applied to water users on
17 30 June 2010 will continue until such time as a new
18 determination takes place. IPART review processes are
19 based on the principles of transparency, consultation and
20 accountability. This means no decisions are made until
21 submissions and stakeholders' views at public hearings have
22 been carefully considered. For this review, we will
23 prepare a draft report that we will release for further
24 consultation. After a period of consultation, all
25 submissions in response to the draft report will be
26 considered before we make final decisions and prepare a
27 final report.

28
29 It will be challenging to complete the consultation
30 process and make a final determination by Christmas this
31 year. This raises the issue of whether the new prices
32 should commence early in 2011 or on 1 July 2011. Having
33 read the various stakeholder submission that we have
34 received, I note that the case has been made that new
35 prices should not commence until 1 July 2011. Submissions
36 have argued that unnecessary administrative costs will be
37 incurred and marked distortions will result if new prices
38 were to commence partway through the water and financial
39 year. On the other hand, NOW has indicated that any delay
40 after Christmas 2010 will require some services to be
41 curtailed during the year 2010/2011. We will need to
42 carefully consider these matters in our deliberation about
43 when the new prices should commence.

44
45 For this determination, NOW has forecast significant
46 increases in its operating expenditure, they have provided
47 two costing pricing areas and these are scenario one, which

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1 reflects the forecast costs of undertaking NOW's core
2 management activities only; and scenario two, which
3 includes the costs of the core water management activities
4 plus the costs of meeting the Commonwealth reform
5 requirements that are not funded by the Commonwealth.
6
7 IPART engaged PricewaterhouseCoopers to assess the
8 expenditure proposal of the Office of Water and make
9 recommendations on NOW's efficient level of operating and
10 capital expenditure. PwC's final report is available on
11 our website. While the Office of Water has argued against
12 PricewaterhouseCoopers' findings, other stakeholders have
13 expressed support for their analysis, although some did
14 argue that PwC should have recommended even larger
15 reductions to NOW's forecast expenditure based on the
16 issues and concerns that this review has identified.
17
18 In setting prices we will need to consider whether to
19 accept PwC's recommendations on the efficient level of the
20 costs of the Office of Water. We also have to understand
21 what the implications are for the delivery of services by
22 the Office of Water were PwC's recommendations to be
23 adopted.
24
25 The Office of Water is forecasting a significant
26 increase in the contribution it makes to the Murray Darling
27 Basin Authority over the next few years. They propose to
28 recover a proportion of expenditure of water users. PwC
29 were not asked to review the efficiency of MDBA's costs;
30 nevertheless, we, IPART, will need to consider and form a
31 view on this issue.
32
33 We also need to assess the arguments for and against
34 allowing the Office of Water to earn an allowance for a
35 return on its assets. In doing so we will consider the
36 arguments put forward by the Office of Water themselves as
37 well as those by other stakeholders, who have generally
38 argued against making an allowance for the rate of return.
39
40 Another key issue is the most appropriate price
41 structure, in terms of both geographical split and ratio of
42 fixed to usage prices.
43
44 As well as determining prices, IPART will also consider
45 any regulatory requirements or mechanisms that may
46 enhance NOW's performance or accountability for the
47 activities and services that are funded by water management

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1 charges. For instance, we are interested in exploring the
2 suggestions that were raised in some stakeholder
3 submissions regarding the establishment of customer service
4 committees, mechanisms to link prices with performance and
5 establishing reporting requirements.
6
7 In summary there are a number of key issues for
8 discussion and consideration today and these are now listed
9 on the screen, and they are:
10
11 When should the new determination commence
12 and end?
13 What are the benefits and costs of the
14 determination commencing in early 2011 as
15 opposed to 1 July 2011. Should it run for
16 two, three or four years? Should NOW's
17 determination end at the same time as State
18 Water?
19 Have NOW'S monopoly services and costs been
20 appropriately identified and separated from
21 its non-monopoly services.
22 What is the efficient level of costs for
23 the proposed scenario 1 activities? Are
24 there any proposed activities that it
25 doesn't need to be doing? Are there any
26 that it can do more efficiently? To offset
27 the need for additional resources, can
28 existing resources be developed and
29 employed more effectively? Should PwC's
30 recommendations be accepted?
31 If NOW's scenario 2 costs are not fully
32 funded by the Commonwealth, are there
33 elements that should be funded by users?
34 Are NOW's proposed cost shares between
35 users and the government consistent with
36 the 2006 Determination?
37 Can the new method of the Office of Water
38 for allocating costs across water sources
39 and valleys be improved upon, and if so
40 how?
41 Should regulated river prices, unregulated
42 river prices and groundwater prices be set
43 on a valley, regional or state-wide basis
44 taking into the account NOW's cost
45 structure and what is practicable.
46 Should prices be based on entitlement,
47 usage or a combination of both - taking

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1 into account NOW's cost structure, what is
2 practicable, pricing principles and
3 objectives and potential impacts on
4 customers?
5 What are the efficient costs of meter
6 operation and maintenance? Should these
7 costs be recovered only from metered users
8 via a separate metering service charge, or
9 should they be incorporated into the
10 general cost base to be recovered from
11 water management charges?
12 How should the impact on customers of
13 higher prices be managed?
14 And, finally, what provisions or mechanisms
15 can be used to enhance NOW's performance
16 and accountability in regard to its
17 monopoly services.
18
19 As always we are most interested in submissions and
20 presentations that provide evidence in support of and
21 reasons for the views that they advance.
22
23 Before we commence proceedings today I would like to
24 say a few words on the process for this hearing. You have
25 available to you a timetable that indicates the order in
26 which organisations will be presenting. For each
27 organisation that participates a presentation time has been
28 allowed and this will be followed by a period of questions
29 by secretariat members and the tribunal members themselves.
30 Can I ask presenters to please identify themselves for the
31 record and to speak slowly and clearly into the microphone.
32
33 Assisting the tribunal today are tribunal secretariat
34 members Colin Reid, who is the Director of Water, and
35 Amanda Chadwick and Matt Edgerton, who are part of the
36 water pricing group.
37
38 At the conclusion of all the scheduled presentations I
39 will make time available to members of the public to
40 provide comments and to ask questions on the proposals that
41 have been put before us by the Office of Water and by other
42 stakeholders. The Office of Water will then be given a
43 short opportunity to respond to the matters raised during
44 the day.
45
46 We will commence proceedings today with the Office of
47 Water. I therefore ask the Commissioner to please come

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1 forward and commence the presentation.
2
3 NSW OFFICE OF WATER
4
5 MR HARRISS: Thanks, chairman and members of the tribunal.
6 Welcome everyone. This reminds me of Neil Eagle down at
7 Barham once again. He said "David, you're amongst friends.
8 None of them are yours."
9
10 Thank you for the opening comments, Jim. I would
11 particularly like to comment on the delays which you
12 referred to. We had intended to put in a submission by 1
13 September last year, and we were in a position to put in a
14 submission by 1 September last year, but we made a point
15 not to as the Commonwealth had flagged what we are now
16 going through, which involves the most significant water
17 reforms in 100 years. There was no detail about what was
18 being included.
19
20 The new Murray Darling Basin Authority was established
21 as a financial management authority under Commonwealth
22 legislation. That included the implementation of the
23 intergovernmental agreement on Murray Darling Basin
24 reform as well as the implementation of the new Water Act
25 2007. It included the involvement of the ACCC in water
26 pricing, water trade, and water markets. Quite frankly, we
27 didn't want to have to come back to IPART numerous times
28 after making that initial submission with many other
29 supplementary submissions as a bit more of the detail of
30 the Commonwealth involvement in water management
31 became known.
32
33 A lot of what we are producing in these slides is
34 something that many people here will know about. Quite
35 clearly, we have tried to put down what are our core
36 management activities. The point we try to make is that we
37 are about water management, about the determination and
38 distribution of water between competing users. We are not
39 specifically about water delivery. That is the domain of
40 State Water in particular, although we do work very closely
41 with State Water and others.
42
43 We are about real-time assessment of water
44 availability for allocation throughout the year, and that
45 has been particularly important over the last few years as
46 we have been short of water and we have been managing
47 through the worst drought on record. We monitor

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NSW OFFICE OF WATER

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1 extractions, the quantity and quality of water resources
2 and the impacts on aquatic health. Effectively we monitor
3 the impacts of water management on the health and
4 productivity of our resources to make sure they continue to
5 be healthy and productive.

6
7 We are developing and implementing water sharing plans
8 and operational water planning, licensing, compliance,
9 water trading, and the policies that surround water
10 trading, and the supporting procedures and tools and, most
11 importantly, representing New South Wales's interests in
12 interstate and national water agreements, particularly as
13 we are going through what is claimed to be the most
14 important water reform in 100 years. It is in this context
15 that the Office of Water aims to recover from water users
16 the user share costs associated with the regulated
17 activities determined by the Independent Pricing and
18 Regulatory Tribunal.

19
20 To put that into context, the Office of Water
21 currently, as of October 2009 - not much different to
22 now - has a total staff of about 619 full-time equivalents.
23 Of these, the staff working on IPART regulated activities
24 is only about 256 full-time equivalents. That equates to
25 about 41 per cent of our total staffing.

26
27 As to the annual funding available to the Office of
28 Water, we have a budget of \$433 million. Salary and
29 operating costs are \$107 million, and \$326 million for
30 grant and rebate programs. We received revenue of
31 approximately \$75 million. That comes from places like the
32 Murray Darling Basin Authority, the Bureau of Meteorology,
33 the Commonwealth, and a lot of others. In fact, in some of
34 our monitoring requirements for flood circumstances we now
35 have the status of emergency services looking at funding
36 some of our additional gauging stations in years to come.

37
38 As a component of that, the revenue from water
39 management charges is said to be about \$25/\$26 million,
40 which is about 6 per cent of our total budget, and the
41 long-term average over the last few years has been about
42 \$20 million per year.

43
44 This is just a breakdown of the total budget, where we
45 are getting the source of funds from. As you can see, the
46 bulk water users are \$25/\$26 million, a small component
47 compared to the New South Wales Government's
contribution

1 of \$334 million, which includes the government component of
2 water management charges, an additional \$35 million from
3 the Commonwealth and about \$38 million otherwise.

4
5 The expenditure you can see on the other side.
6 IPART-regulated activities, in particular, is about
7 \$49 million of that total expenditure.

8
9 To break it down even simpler, in expenditure, the
10 user shares is about \$38 million and the government shares
11 about \$11 million; in revenue, from users it is about
12 \$38 million and from government it is about \$23 million by
13 comparison.

14
15 What this slide shows is that we have been, as a
16 consequence of the price path to water reform and cost
17 water recovery, and a consequence of having reduced
revenue

18 as a consequence of not having enough water to sell in the
19 drought, we have had a shortfall over the four-year period
20 of the recent determination of about \$19.5 million. IPART
21 projected revenue from water users was about
22 \$25/\$26 million per annum. The average received over the
23 last four years is about \$20 million.

24
25 To compensate for this shortfall, a diversion of funds
26 has been made from other areas of the Department of Water
27 and Energy, plus a one-off supplementation from the New
28 South Wales Treasury, which was, I can tell you, quite
29 hard-fought in getting.

30
31 In terms of our involvement in the functions which are
32 largely IPART-regulated functions, we manage a total
33 number of licences throughout the State of about 130,000. In
34 regulated rivers, where we roughly say the flow is
35 controlled by major rural storages and operated and
36 released as regulated flows, we have major the licence
37 types, which are given there. The total entitlement is
38 about 9,000GLs. The long-term average extractions, over
39 about the last 50 years or so, is about 5,400GLs per year.
40 Over the last 15 years, which, of course, has been
41 dominated by drought, it is about 4,300GLs per year.

42
43 In unregulated rivers, which are not supplied by major
44 water storages - although, I must admit some of our
45 unregulated rivers include the Hawkesbury-Nepean, it
46 includes the Upper Murray, which is fed entirely by Snowy
47 River, virtually, and the Darling anabranch, which is the

1 most regulated river in the world. Notwithstanding that,
2 we don't guarantee flows and releases from regulated
3 storages.

4
5 The total unregulated river entitlements is about
6 2,800GLs per year. The estimated average use is about
7 730GLs. Most of the unregulated river extraction is not
8 metered presently, although our larger users in inland
9 New South Wales are. The proposed roll-out of the metering
10 program across the Murray Darling Basin, and in fact across
11 much of New South Wales, includes focusing on unregulated
12 rivers.

13
14 In terms of groundwater, most is extracted from inland
15 aquifers for irrigation and town water supply. We have
16 significant stock use in the Great Artesian Basin. The
17 total groundwater entitlement is about 1,900GLs. Our
18 average use is about 780 to 800GLs. About half of this
19 total entitlement is metered and this is in the major
20 inland aquifers. The rest is un-metered and a usage charge
21 cannot therefore be applied.

22
23 In the last determination there was a decision made
24 that people could opt to go for a two-tiered structure with
25 a fixed and variable component, depending on usage, which
26 would require them to be installing an approved meter. In
27 that three-year period, I think we've had 18 people come
28 and ask if they could be included in the two-part tariff.
29 So we haven't been knocked over in the rush.

30
31 Again, the proposed metering roll-out across the
32 Murray Darling Basin, as part of our priority project under
33 intergovernmental agreement, would see a lot more metres
34 involved in groundwater management.

35
36 Since 2006, the last determination, there has been
37 substantial change in water management. The water for the
38 future program, Commonwealth funding major water savings,
39 expansion of water monitoring and water information, and
40 effectively up to about the \$2 billion investment in water
41 infrastructure in New South Wales.

42
43 Turning to the greater Commonwealth role, which
44 I think we are all aware of. We have a new Water Act 2007,
45 we have a Murray Darling Basin Authority, which has been
46 established as a financial management authority under the
47 Commonwealth auspices, as opposed to being a more

1 cooperative, if you like - I think it's called an
2 unincorporated joint venture between participating
3 governments. It has moved from that to a full-blown
4 authority under the Commonwealth legislation, and their
5 responsibility for producing the Basin Plan.

6
7 We have seen a greater involvement by the ACCC in
8 terms of water charging, pricing and market and trading
9 rules, and the establishment of a Commonwealth
10 environmental water holder. We have seen an increase in
11 standards for water information, determined by the Council
12 of the Australian Government, and we have seen an
13 increased emphasis put in the National Water Initiative also
14 by the joint governments.

15
16 Capital funding in New South Wales is tied to operational
17 requirements and achievement of national water reforms
18 and standards. For example, the Commonwealth made
19 it absolutely clear we will not get our money for major
20 projects unless: we go ahead and we have our water sharing
21 plans completed, consistent with the Basin Plan
22 requirements; unless we reduce any impediments to trade
23 and all the other reforms that are being required by COAG
24 are implemented.

25
26 We have had some major achievements in the last four
27 years. I'm not going to go through these at seriatim, but
28 one thing we would like to point out is the involvement
29 that has been going on with interstate water sharing
30 arrangements in response to both real-time, which is the
31 critical water shortages, and in response to a change of
32 the institutional arrangements sought by the Commonwealth
33 in terms of water management throughout the Murray
34 Darling Basin, and in fact throughout Australia. So, real-time
35 and institutional arrangements.

36
37 There are different issues there but, quite frankly,
38 I believe that they have been quite substantial in the
39 deliveries that the Office of Water has delivered over the
40 last four years, and I believe that we are far more
41 effective and far more efficient than other organisations
42 I deal with across borders, and we are far more transparent
43 in the work we do.

44
45 One of the criticisms we have had in the past, in
46 terms of completing the submission, is why the
47 water sharing plans were not completed by 2010 as required.

1 As we require \$55 million per year for water
2 management activities, that would have enabled 311 staff to
3 be appointed on water management activities, and if you
4 look at the third dot point, because we have not achieved
5 \$55 million per year, because the price path to recovery
6 and reduced revenue has been substantially smaller, we have
7 had a commensurate staff of only 256 people, 55 short on
8 requirement.

9
10 Therefore, we haven't had the staff resources available
11 to complete those plans and, at the same time, we have
12 had unforeseen events, meaning we have had to provide
13 some redirection of those resources. Some of those issues
14 there are the funding distribution under the achieving
15 sustainable groundwater entitlements, managing efficient
16 use from water taken by the GAB and other issues associated
17 with the water sharing plans. Despite this, we have
18 completed our major proportion of plans which now cover
19 about 95 per cent of water extraction.
20

21 In terms of operational water planning activities, we
22 have had some major initiatives there between 2006 and
23 2010. The four major pieces of work which have been
24 completed are: groundwater trading rules in inland aquifers;
25 groundwater embargoes across MDBA aquifers and alluvial
26 coastal aquifers; controlled allocation strategies for
27 savings under "Cap and Pipe the Bores"; and the rules
28 applying to different areas. All of this information is
29 available in the public domain and we have advanced
30 significant work on other areas.
31

32 As to the top two, you are probably aware now, we do
33 have the rules for licensing floodplain harvesting out in
34 public display. Mandatory guidelines for basic landholder
35 rights are soon to go out. I have to point out here that
36 the report suggested that we only had one planning
37 guideline completed within that four-year period. Quite
38 frankly, by putting this in the public domain, that's
39 wrong.
40

41 The key points that we have made for our submission for the
42 next pricing determination to 2012 are the allocation of
43 costs based on specific drivers, rather than just being
44 linked to entitlements; the additional staff required to
45 meet core activities and requirements of the Commonwealth
46 Water Act and the Intergovernmental Agreement
47 on the Murray Darling Basin Reform; the increased focus of

1 the Murray Darling Basin Authority on water management,
2 and the allocation of their costs and natural resource
3 management; three-year determination period to 2012/2013.
4 We believe that that will align us with the implementation
5 of new water sharing plans which will now have to be
6 consistent with the Murray Darling Basin Plan, which is
7 supposed to be out by the end of this year.
8

9 We have asked for 100 per cent recovery from users for
10 the share of water management costs, and we'll go through
11 that in a minute. A changed tariff structure. We are
12 looking to simplify groundwater pricing from aquifers to
13 two regions, which is coastal and inland. I will get to
14 the point about that, where you could have 167 separate
15 groundwater sources, should we go to different aquifers.
16 We are looking at a rate of return on assets, included in
17 this submission for the first time, and we have got a
18 supplementary submission relating to a metering service
19 charge.
20

21 Over the last period we were going to a price path
22 of 50:50 with the price path to full cost recovery. But
23 with drought and less revenue coming in from users as a
24 consequence of less water sales, in the last couple of
25 years it has been 40 per cent user share, 60 per cent
26 government.
27

28 We are talking about the allocation to water source
29 type and a range of drivers, rather than by
30 entitlement - That is, effectively the level of service we
31 are providing in each region, as opposed to the number of
32 staff located in each region. NOW is no longer a regional
33 area We don't operate in regions We are more centralised,
34 and that cannot be better displayed by the fact that we got rid
35 of regional directors about four years ago, which was an
36 efficiency gain.
37

38 The proposed cost recovery for our core activities is
39 shown on this slide. What this really demonstrates is
40 there is no huge blow-out in the increase of costs of what
41 we are doing. The delivery of core activities will be
42 dependent on additional resources, and those core
43 activities we wish to expand include the expanded
44
45
46
47

1 hydrometric and water data networks, and that's being
2 supplemented by Commonwealth capital funding.

3
4 We are now running probably the biggest hydrometric
5 network in Australia, when you consider surface water
6 stations and groundwater stations. We have a very active
7 website where we have over six million hits a year from
8 people wishing to know the height of the rivers on any
9 particular day to facilitate their water use.

10
11 We have completed 38 groundwater sharing plans and
12 converted licences. We wish to complete the inland water
13 sharing plans before the Basin Plan commences, because that
14 sets a benchmark against the new sustainable diversion
15 limits from which you can compare what was in place before
16 and after the Commonwealth Basin Plan.

17
18 We need to implement the rules of the 84 water sharing
19 plans across New South Wales. We also need to commence a
20 review of the first 31 water sharing plans due by 2014.

21 We have got to do additional surface water quality
22 monitoring analysis to make sure that we are having an
23 impact by those water sharing plans and the water
24 management initiatives that have been introduced
25 since 2004.

26
27 We have to monitor and evaluate the ecological and
28 socioeconomic performance of water sharing plans. We have
29 to provide additional licensing and compliance officers and
30 we have to implement key operational planning activities,
31 some which are recognised there.

32
33 Additional staff required for Commonwealth reform
34 activities: The IGA on the Murray Darling Basin Reforms,
35 which is most relevant for this part of the world, albeit
36 the Water Act includes coastal areas and urban areas,
37 includes a principle of no net costs to states for
38 implementing Basin Plan and Commonwealth Water Act
39 2007 reforms. We have estimated costs of about 10 million
40 per year to implement those reforms. That includes things
41 like redoing our water sharing plans to be credible under the
42 Basin Plan, to meet the Basin Plan requirements. That is
43 not going to be a small task. We went through, as you
44 people would realise here, a lot of heartache, a lot of
45 blood on the floor in developing the first iteration of the
46 water sharing plans where, by and large, we reduced water
47 availability by about 4 per cent across the board.

1
2 We developed, in this part of the world, the National
3 Water Initiative, the risk apportionment of water sharing
4 plans whereby we said after a 10-year period, with any
5 further reduction in water availability, the first
6 3 per cent would be borne by water users and anything over
7 and above that 3 per cent would be costs shared between
8 users and government. We legislated for that in New South
9 Wales. So what we had was an initial water sharing plan,
10 which had an initial reduction in water availability based
11 on environmental outcomes. We then had a risk
12 apportionment framework which said that users will wear
13 the first 3 per cent after 10 years. We believe that did two
14 things: it gave you security of supply for a 10-year
15 period in which to place your business determinations; to
16 allow for a reduction in water availability to meet
17 environmental needs, and an apportionment model which
18 said the first 3 per cent.

19
20 The rationale behind that was that in 10 years, if you
21 cannot develop a 3 per cent efficiency dividend in water
22 use, then there is something fundamentally wrong, given
23 that just about every research institution was looking at
24 reducing water use for irrigation. That would be a fair
25 cop. And then you need enough time to make adjustments to
26 meet community and industry needs.

27
28 To do water sharing plans, to be consistent with the
29 Basin Plan, albeit we don't know what the sustainable
30 diversion limits are going to be, it appears they are going
31 to be substantially less than what was proposed under
32 the National Water Initiative, and that's going to be quite
33 a difficult process to work out how to apply any reduction
34 in water availability consistent with that Basin Plan.

35
36 There will be increased needs for compliance,
37 increased needs for monitoring, and there are going to be
38 increased needs to meet the standards for monitoring, such
39 as for gauging networks, and there is going to be new
40 institutional arrangements, such as water shepherding,
41 which we haven't previously seen, in the previous iteration
42 of water sharing plans.

43
44 In trying to get the Commonwealth to pay for those
45 costs, we have provided a substantial submission to them.
46 They have subsequently advised that the application of the
47 no-cost principles will be limited because it's believed

1 that many of the things we are talking about are simply an
2 extension of the National Water Initiative for which the
3 states should be responsible for anyway. Therefore, the
4 implementation of the national water reforms, albeit
5 enhanced, should not be covered by the no net costs
6 provisions.

7
8 To actually get the costs back, we need to undertake
9 the activities, provide proof of the expenditure, have the
10 Commonwealth approve that that will be subject to the no
11 net costs and then seek their reimbursement, so it is quite
12 a substantial amount of work.

13
14 Now I'll talk about the costs of the Murray Darling
15 Basin. There has been a significant increase on the
16 previous determination of the user share from \$1.7 million
17 to \$6.5 million. This is a pass-through cost and that's
18 because the MDBA is now focusing, with this water reform,
19 far greater on natural resource management activities
20 rather than just focusing on water supply, which was their
21 predominant focus through River Murray Water.

22
23 They are distributed amongst water source and regions
24 on the basis of water type and the related entitlement.
25 The jurisdictional considerations to the Murray Darling
26 Basin have been set until 2010/2011. The Murray Darling
27 Basin Authority wants these set further out for a four-year
28 planning period, but New South Wales has been proactive in
29 saying that we want to review your full-suite of programs
30 and projects to make sure that, just as we are going
31 through this determination process here in working out
32 what's the most efficient and effective way of delivery, to
33 make sure that the programs for which we pay the MDBA a
34 considerable amount, for which the users contribute a
35 considerable amount, are transparent and that they are
36 providing the best form of delivery and the most efficient
37 delivery.

38
39 Quite frankly, the NSW Office of Water believes, that
40 some of the money that we currently pay the Murray Darling
41 Basin Authority would be better allocated into regional New
42 South Wales to deliver outcomes on the ground.

43
44 New South Wales has sought a strategic review of these
45 jointly funded program areas from 2010 to 2011. It is to
46 be carried out in the first half of this financial year and
47 overseen by the basin officials committee. We also have

1 been participating in a review of the Murray Darling Basin
2 Agreement by the basin officials committee as well, but
3 because that changes, State water shares will not be a very
4 easy process to run and complete.

5
6 We'll believe the determination period should be
7 established to 2012/2013. We have said there in that that
8 the new prices should start as soon as possible. Chairman,
9 we believe new prices that are provided in our favour
10 should start as soon as possible. You will not be
11 surprised to hear that.

12
13 The reason we have actually suggested that we should
14 align the determination period to 2012/2013, is because of
15 the enormous uncertainty over the proposed levels of cuts
16 through the sustainable diversion limits established by the
17 Commonwealth, and that we have to then make our plans
18 consistent with the Basin Plan by 2014. We recognise we
19 will need transitional arrangements and extra monitoring
20 and compliance for those plans.

21
22 The draft Basin Plan has already been delayed
23 to November 2010. There's a potential delay in the final
24 Basin Plan, but the legislation requires that we should
25 implement our second iteration of water plans to be
26 consistent with the Basin Plan by 2014.

27
28 Further, we believe the timing and role of the ACCC in
29 water pricing has not yet been determined to the extent
30 where we know what the costs will be. We believe that by
31 this time the review of the MDBA costs will be complete so
32 that we will have a greater indication of what will be
33 required as a contribution for future years. We will have
34 a bit more clarity, I hope, on the issue of Commonwealth
35 funding of no net costs, although I feel that when they say
36 "No", there is not too much clarity you can get beyond
37 that.

38
39 Hopefully, by October 2010, we will have a
40 confirmation of whether the Commonwealth will fund the
41 state priority projects, namely, healthy floodplains,
42 metering and basin pipe projects. Of course, the
43 Commonwealth is going through its due diligence process
44 now. Those state priority projects will have implications
45 on the operation and maintenance costs and the ongoing
46 costs of the organisation. We have sought 100 per cent
47 recovery of user shares, fixed management costs and a fixed

1 charge, mainly because there is a high degree of
2 under-recovery in our current charges.

3
4 Our water management costs, as opposed to water supply
5 costs, increase substantially during dry periods. For
6 example, we have established critical water advisory
7 groups, particularly in the southern valleys which have
8 been mostly affected by drought. We have put out
9 communiques and increased our review of water availability
10 allocations. We have had to put in town water
11 restrictions, negotiated with urban water supply groups.
12 We have had to put in additional monitoring and modelling
13 and we have developed specific drought management
14 strategies.

15
16 By way of example, the critical water advisory
17 groups in the Murray have met 35 times separately during
18 the last couple of years in drought, as they did in the
19 Murrumbidgee - 35 times - and 11 times in the Lachlan, and
20 there have been six additional meetings of the advisory
21 committees in the Lower Darling. That has also led to 35,
22 11 and 6 communiques over and above our normal reporting
23 requirements being put into the public domain. I believe
24 that they have all been well received and I think if we
25 were to stop doing that now, we would probably be
26 criticised quite substantially.

27
28 The national water initiative requires
29 consumption-based pricing for water storage and delivery,
30 which is the supply; so effectively that is operations and
31 delivery of water. Whilst the national water initiative
32 requires that planning and management activity charges,
33 which is what New South Wales Office of Water undertakes,
34 should be linked to the actual costs. The absence of broad
35 scale metering in unregulated rivers and some groundwater
36 means that reliable usage data is very limited. Water
37 trading does provide the main incentive for water usage and
38 efficiency, given that water trading now and the value of
39 water per megalitre on the temporary trade market by far
40 exceeds any costs associated with water management and the
41 delivery of water.

42
43 The last point to make is that if we do continue with
44 a fixed and variable regime, we would like a volatility
45 allowance to be considered to counter the impacts in
46 certain years. In a good year we recover more revenue but
47 we fall far short of our costs in bad years, and that has

1 been demonstrated in the sequence of bad years we have had
2 so far, where the average has been \$19.5 million short of
3 what was forecast over the last four years.

4
5 The next slide is effectively showing how we have been
6 trawling along on in the last few years in terms of water
7 availability as opposed to the long-term average. It is
8 really good that it is raining outside, but I have not seen
9 a break in the drought yet.

10
11 We are suggesting that two pricing regions for
12 groundwater be established, and they are coastal and
13 inland. That is because the groundwater aquifers overlap
14 substantially and are not necessarily aligned to river
15 catchments. The boundaries are very unclear and we have
16 three-dimensional aquifers. We have deep and shallow
17 aquifers. If we were to identify all of the separate
18 groundwater management areas in New South Wales, they
19 would come to 167. It would therefore be very impractical
20 and really ineffective to assess costs for individual water
21 management areas, particularly in groundwater, and we do
22 operate now on a state rather than a regional basis.

23
24 We have suggested a rate of return on assets. We have
25 a very modest rate of return on assets and it should cover
26 the opportunity costs of interest that would have been
27 otherwise earned on the funds invested. We have put up on
28 this slide a percentage of revenue needs attributed to
29 depreciation and return by other corporations as opposed to
30 the Office of Water. As you can see, ours are
31 substantially less than those of the other organisations.

32
33 Minimum bills and removal of cap on bills: we did not
34 include in our submission a suggestion that we change the
35 minimum bills or that there be a removal of the cap on
36 bills. More than 50 per cent of all of our customers are
37 currently paying the minimum bill of \$60. \$60 does not
38 cover our administration costs nor does it cover our water
39 management costs; therefore, it costs more than \$60 to bill
40 \$60. Many of the submissions - but not our submission -
41 suggested seeking up to \$200 per minimum bill. If we were
42 to increase the minimum charge such as has been suggested,
43 then there clearly would be a subsequent reduction in the
44 charges to the larger users.

45
46 We did not include that in our submission, but
47 certainly if IPART were to make that determination, quite

1 frankly, we could abide by that determination. However, we
2 do recognise that one of the major issues - which is why we
3 didn't go for an increase in the minimum charges - is the
4 number of representations that have been made at all levels
5 about the impact on smaller users. We do recognise that a
6 cap on bills is very, very difficult to administer,
7 especially as you have to make an allowance for the current
8 use and multiply that in any particular year, and that is
9 quite administratively difficult.

10
11 With regard to the question of efficiencies in our
12 operations, we have changed from regional to state
13 operations with a reduction in staff in 2006/2007. In the
14 past five years, as we have gone through iterations of the
15 Department of Natural Resources, the Department of Water
16 and Energy and the Office of Water, the number of staff has
17 been reduced by about 380 over that same period.

18
19 Further, in terms of operating efficiencies and
20 operations the Treasury imposes efficiencies into the NSW
21 Office of Water by \$1 million per year. NOW prepares
22 business cases for new activities, for example, the
23 expansion of the hydrometrics network - the priority
24 projects. We have business cases for the appointment of
25 any new staff, which is a requirement of governments these
26 days, so that is contrary to what is included in the PwC
27 report. We do prepare business cases for new
28 activities. NOW also meets the benchmark for overheads as
29 a proportion of direct costs of 12 per cent. That is as
30 opposed to what is included in the PwC report and we have
31 provided that evidence to IPART recently.

32
33 We have already achieved demonstrated efficiencies in
34 hydrometrics. I would like to point to that graph on the
35 screen. It is quite straightforward. We are getting
36 double the volume of information with half the number of
37 staff. But at the same time we do have to meet national
38 standards. We provide real-time data. We have improved
39 the ability to get real-time data by telemetry. However,
40 telemetry takes an initial investment, and when it breaks
41 down, it costs more to repair, but at the same time, we do
42 have to meet national standards. It does not matter what
43 telemetry you have on a river gauging station. Rivers are
44 dynamic, rivers change, so there have to be frequent visits
45 to the sites to make sure not only that what you are
46 recording is precise but also that it is actually what you
47 are meant to be recording. For example, you might see the

1 river shape change at a gauging station so that the volume
2 of water going past is only two-thirds of what it used to
3 be. You have to go out and check and make adjustments all
4 the time in some of those real-time things we deal with.

5
6 PwC/Halcrow identified that we were more cost
7 efficient in our consent transactions than other equivalent
8 organisations, which is hardly surprising, and it can be
9 seen that we are meeting our water trading times very
10 favourably compared with other states when that data is
11 published on the web by the Commonwealth.

12
13 This slide shows some examples of our current staffing
14 levels. We have 21 hydrometric staff managing 814 river
15 gauging stations, which covers more than a million square
16 kilometres. You can see that works out at 39 stations and
17 47,000 square kilometres per staff member, per year, I
18 think that is pretty efficient and pretty effective. We
19 have 18 water planners developing 38 more water sharing
20 plans. That equates to less than half a water planner per
21 water sharing plan.

22
23 I would like to do a comparison, and I recognise that
24 I am on transcript here. The Murray Darling Basin
25 Authority has 50 staff to present one Basin Plan for the
26 Murray Darling Basin, for which there is very little
27 consultation and for which there is very little
28 accountability because the states then have to go and
29 prepare the next iteration of water sharing plans to
30 deliver on that broader high level Basin Plan. We have
31 11 staff to implement 47 water sharing plans, which equates
32 to less than a quarter of a person per plan, and we have
33 10 compliance officers covering one million square
34 kilometres in New South Wales - that is effectively one
35 officer per 1,000 square kilometres. That is why we are
36 seeking to have an increase in staff and I think any
37 reduction in staff would be untenable.

38
39 We have prepared a supplementary submission for
40 metering service charges for the next three years.
41 The detail of that will depend, of course, on being
42 successful in the collective bid between ourselves and
43 State Water for \$20 million in capital funds from the
44 Commonwealth to implement metering throughout the
45 Murray Darling Basin for the regulated, unregulated and
46 groundwater areas. The Commonwealth will pay for the
47 capital costs of installation but we will need to account

1 for the operation and maintenance of the meters, so there
2 will be an ongoing charge.
3
4 In terms of water consent transactions, we
5 significantly under-recover the costs of those
6 transactions, which is probably why we get a good tick from
7 people who say that our costs are less than the other
8 jurisdictions. That is hardly surprising. We don't
9 recover the full costs of those transactions. Our
10 submission therefore has provision for an increase in those
11 transaction costs.
12
13 Some applications take many weeks to assess and
14 approve. It is not administrative. We need to have a lot
15 of information provided by the users so that, now that
16 water is such a property right, we can make sure those
17 transactions are correct. The temporary dealings, the
18 temporary trades for unregulated rivers and groundwater are
19 much more extensive than for regulated rivers.
20 Particularly with groundwater with temporary trades, you
21 have to determine what the impact of a new bore will be on
22 your neighbouring bore and what are the impacts. You can
23 see that there are quite substantial natural resource
24 management costs to be considered.
25
26 Turning to the drivers, as we said before, we are
27 looking at 100 per cent cost recovery. The prices set in
28 the last determination were below the full cost recovery
29 with a cost path to recovery. With regulated water
30 sources, it was 93 per cent, unregulated 88 per cent and
31 groundwater 75 per cent. As we know, that did not include
32 the impact on reduced water availability, reduced revenue
33 as a consequence of the drought.
34
35 There is now a higher proportion of user share
36 activities. It has increased from 67 to 77 per cent since
37 the last determination. That reflects the substantial
38 changes with water reform over the last couple of years.
39 There has been an increase in water management user share
40 of the MDBA activities from 5 per cent to 20 per cent.
41 That is where, as I said with regard to a previous slide,
42 we are actually seeking to review the MDBA activities from
43 the State perspective; but as a financial management
44 authority under Commonwealth legislation, I believe the
45 financial statements of the Murray Darling Basin Authority
46 are now reviewed by the Commonwealth auditor-general.
47

1 We are seeking an increase on return of assets and we
2 are looking at a more robust cost allocation method in
3 prices at the valley level. I think I have probably gone
4 over my time, Jim, thank you very much.
5
6 THE ACTING CHAIRMAN: Thank you very much, David.
7 We now have a period of questioning of you from the tribunal.
8 I might hand over first to Colin Reid to introduce
9 questions, but Sybille and I are likely to ask
10 supplementary questions. There are a number of issues
11 that I would like to deal with if they do not come up in
12 the questions.
13
14 MR REID: Thanks very much, Jim, and thanks, David, for
15 your presentation. My first question relates to NOW's
16 accounting separation of the IPART-regulated activities
17 Your third slide indicates that the IPART-regulated charges
18 and associated expenditure are a small part of the overall
19 funding and expenditure of the Office of Water.
20
21 An issue that we have had in past and current
22 determinations is the identification and allocation of
23 costs associated with those regulated activities. The
24 figures have had to be recreated at each determination and
25 often there is no clear link between the derivation of past
26 and future expenditures and little or inaccurate reporting
27 of actual expenditure between determinations. A similar
28 situation has often arisen with the reporting of outcomes
29 achieved. I was wondering what processes you propose to
30 put in place for the accounting separation of the
31 IPART-regulated activities
32
33 MR HARRISS: First, can I introduce the staff who are
34 here with me: Rob O'Neill, from the policy and planning
35 area; Debora Bock, our chief financial officer, and Tony Brann
36 from Tamworth, who have been putting together most of our
37 IPART submission
38
39 We have always sought to identify where we can identify
40 the costs associated with IPART and that is ongoing. We
41 have had changes in our institutional arrangements every
42 two years, which meant a change in all the accounts as we
43 worked together in establishing ourselves as a new office
44 within a new organisation.
45
46 As you know, we started the last determination as the
47

1 Department of Natural Resources. We moved to being the
2 Department of Water and Energy and by the time we put in
3 our submission we were the NSW Office of Water within the
4 Department of Environment, Climate Change and Water. I
5 will ask Debra to provide a response as to the detail on
6 how we propose to respond to that question.
7

8 MS BOCK: Hello, everybody. I am Debora Bock. As David
9 said, I am the CFO for NOW. This is a question about cost
10 allocation and accounting and reporting of the numbers that
11 relate to our IPART-regulated activities. There was a
12 drawing earlier on in David's presentation which shows what
13 we are really talking about here, which is that although we
14 have a budget of about \$430 million, there is only an
15 operating cost of \$107 million and of that we have
16 identified only \$49 million as being part of the
17 IPART-related regulated activities.
18

19 The way that we do that has changed and has developed.
20 We do have a very extensive job costing system attached to
21 our financial management system. It happens on a number of
22 levels but with the first part, gross amounts are excluded
23 from that based on our structure and the function of what
24 we are using the money for.
25

26 We pay out a number of grants to the pensioner water
27 users, to Sydney Water and Hunter Water, we don't count
28 those, so large amounts are excluded in that way. Then we
29 have an exclusion by function. Some of our functions are
30 completely removed from IPART. Then, when we get down
31 to the water management activities, they are worked out on a
32 job costing basis.
33

34 We have put a lot of work into getting that job
35 costing basis to work properly. It is not an easy system.
36 Because we are not regionally organised, we have people
37 working on different matters all over the state, so they
38 need to spend time accurately allocating their costs and
39 that takes a bit of organisation. Subsequently we have had
40 to report on that.
41

42 As David said, because we have had a bit of
43 instability in who the department reports to and who its
44 overseeing super department is, it has taken us time to get
45 organised with our ledgers. I think that we are on track
46 now and if we can maintain that stability, we will
47 certainly be in a position to improve the reporting time

1 and to improve its accuracy.
2

3 MR HARRISS: If I can put that in context too, Colin, we
4 said that the IPART functions we do were about 6 to 7 per
5 cent of the budget of the Office of Water, but when we
6 include that into a super department, the IPART-regulated
7 functions would probably be about 0.2 per cent of the
8 budget of the super department. Therefore, we will have to
9 be very vigilant about how we identify and keep reporting
10 on those costs and about keeping them separate as the
11 corporate services review continually diminishes the number
12 of corporate services staff we have to do that.
13

14 MR REID: If we go back to the last determination, there
15 was a proposal by IPART that you report each year on actual
16 expenditure against the estimates. Obviously those reports
17 came in late and have subsequently had major revisions done
18 to them. I am just wondering, going forward, what you plan
19 to have in place for better reporting for water users.
20

21 MS BOCK: Yes, Colin, we have changed the system that we
22 are working on in terms of the software that it works from
23 and we believe that we will be in a position to report
24 fairly accurately and certainly in a timely manner in the
25 future period.
26

27 MR REID: Can I clarify going forward what future funding
28 and expenditure is already set, for example, the forward
29 estimates for the New South Wales Government and associated
30 funding by New South Wales Treasury, do you have figures
31 for those? How do they relate to what you have been
32 getting in the past and present and what is the impact of
33 that on what you're looking for to get from users?
34

35 MR HARRISS: Debora can answer that, but, generally
36 speaking, as we have pointed out, we have a \$1 million
37 efficiency dividend to provide to Treasury which we are
38 looking at using across the whole gamut of services of the
39 department, not just the IPART-regulated functions. The
40 recurrent funds provided by Treasury are effectively a
41 bucket of funds and we must make a decision on how they
42 are allocated. We try to allocate that volume of money to
43 match the government commitment to water management
44 charges, where possible. I suppose the short answer is
45 that we will be looking at where we go in the future in
46 matching the government's contribution to the bucket of
47 funds provided to the Office of Water by Treasury with the

1 requirements as determined by IPART, which is the user
2 share versus the government share. Do you have anything to
3 add to that, Debra?

4
5 MS BOCK: Regarding the total budget, we have four-year
6 forward estimates, of course, which are published in our
7 budget papers. I don't have those with me but they are
8 available should anyone want to see them. Each year, we
9 have a \$1 million efficiency dividend, which is a reduction
10 in funding from Treasury. We also have reductions in the
11 way Treasury funds our staff salary rises. There
12 is also a planned reduction in money for water sharing
13 plans. Treasury has given a short-term increase in funding
14 for that which will run out and not be available to us next
15 financial year.

16
17 That all means that those cuts combined are hitting
18 our budget fairly severely and would account for a total
19 reduction of about \$4 million. We are not expecting that
20 in this year's budget. If we don't achieve a price rise by
21 1 January 2011, our budget for 2010/11 will be very
22 severely affected by the combination of those two factors.

23
24 MR REID: Just taking that theme a little bit further on
25 confirming expenditure and funding, obviously when one
26 looks at scenario 2 costs, and you have quoted a figure of
27 approximately \$10 million, given that we are setting prices
28 now and given the uncertainty associated with that figure,
29 how do you propose we take that forward if we have to set
30 prices for the next three years?

31
32 MR HARRISS: We have identified the costs and the
33 resources that will be required to implement those
34 Commonwealth reforms. I think I went through those fairly
35 comprehensively.

36
37 There is no magic bullet. We have sought additional
38 supplementation from Treasury, which has yet to be
39 resolved. We have been very straightforward with our
40 request to the Commonwealth to be consistent with its
41 funding of the no net cost, but as I pointed out it has
42 been difficult.

43
44 We are suggesting that in the absence of that funding,
45 which is the only thing we can go on, it has to come from
46 somewhere otherwise we cannot implement these reforms. We
47 cannot do it with the existing resources or we would have

1 to redirect our resources from other equally important
2 management functions. There is no answer to that, Colin,
3 at this stage. How can you fund a \$10 million shortfall
4 when no-one is putting their hand up to provide the
5 \$10 million?

6
7 MR REID: I assume from that that you are saying that
8 setting prices now, we should include the \$10.4 million in
9 the costs?

10
11 MR HARRISS: Yes, we are saying that because they
12 would be a legitimate price on water users because it
13 involves activities which would typically be considered to be
14 under the regulated IPART activities.

15
16 MR REID: Moving to the MDBA costs, what you are
17 saying is the attribution to users has increased from \$1.7
18 million to \$6.75 million. You have stated that you yourself
19 have some uncertainty about the value for money associated
20 with that increase. I wonder whether you can expand a little
21 on what will be delivered to users from that increase.

22
23 You talk broadly about water resource expenditure.
24 Given that uncertainty, how realistic is it to pass that
25 increase on to users at this point in time?

26
27 MR HARRISS: Currently the corporate plan proposed for
28 the
29 MDBA identifies the programs and projects that the MDBA
30 intends to undertake in that four-year period of the plan.
31 What we are saying is that that is fine. Quite clearly
32 that identifies a greater focus on natural resource
33 management functions than on water supply functions than
34 previously existed. We have reflected that in our
35 submission.

36
37 What we are doing is saying that we will just not sit
38 down and take that lightly. We will ask MDBA to justify
39 that - what are we getting for each of those programs and
40 are those programs the most valid for that forthcoming
41 period?

42
43 We have been given an undertaking by the Murray
44 Darling Basin Authority that that will be completed in the
45 first half of this financial, year and that will have a potential
46 impact on the following years. We have guaranteed
47 funding to the MDBA for 2010/11, but any further
contributions will be dependent upon the outcomes of that

1 review.
2
3 That review has not yet started. In fact, the final
4 terms of reference have yet to be provided to us by the
5 MDBA. A very rough draft has been provided, the argument
6 being that they are totally focused on developing the Basin
7 Plan at the current time. But I can assure you that we
8 are looking seriously at the programs we are currently
9 funding the Murray Darling Basin Authority. Are they the
10 highest priority natural resource management programs or
11 would those funds that we are providing from the
12 jurisdiction to the Murray Darling Basin Authority be
13 better spent on delivering programs at a regional level?
14
15 I can give you two examples. Since 1988, we have had
16 a substantial salinity program in the Murray Darling Basin.
17 That is all about constructing salt interception schemes to
18 reduce the volume of salt coming into the river at many
19 points, which has in turn maintained the salinity at
20 prescribed levels.
21
22 We are suggesting in NOW that we should not be funding
23 any further development of further salt interception
24 schemes over and above the current ones which are on the
25 books presently, because we believe that the impact of
26 salinity will be most manifested following the flood as
27 water comes off the floodplains, as opposed to what can be
28 intercepted by hard-wired works at particular locations.
29
30 We are suggesting - and I can't remember off the top
31 of my head what kind of annual costs were put in the
32 corporate plan by the MDBA - that we should review those
33 and say, "Maybe it's best to put that money into on-ground
34 works in the floodplain, rather than investing in
35 hard-wired salt interception schemes, which has been the
36 focus for the past 20 years.
37
38 A further example is the native fish management
39 program, undertaken by the Murray Darling Basin, has been
40 very successful over many years. We are suggesting is it
41 better to invest that money into the research and the
42 planning that goes with it, or is it best now to look at
43 reallocating some of that money into regional New South
44 Wales to actually implement some of those actions that have
45 determined over the last 20 years. Again, it's going to be
46 a comprehensive review, not necessarily to reduce the money
47 which is paid to undertake those natural resource

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1 management functions, but to review where is that money
2 best directed to get the best outcome.
3
4 MR REID: Thank you. Going back to your slide 3, you show
5 there payments to the privatised irrigation corporations of
6 \$17 million. I was just wondering what the nature of that
7 is? Is that legacy expenditure related to the
8 privatisation of those corporations or is that some new
9 activity?
10
11 MS BOCK: It is payment for a range of capital works,
12 mainly, as far as I know.
13
14 MR HARRISS: It is \$17 million. We still have not
15 completed the full works, and we do have the - what was it
16 called? Jenny, I'm sorry. On privatisation there was a --
17
18 MS McLEOD: A dowry funding?
19
20 MR HARRISS: The dowry funding. It's not called a
21 dowry funding, but --
22
23 MS McLEOD: Heads of agreement?
24
25 MR HARRISS: Under the heads of agreement there was
26 funding for upgrading the infrastructure to a certain level
27 over a period of time. This was still part of that
28 program, Colin.
29
30 MS BOCK: We could take that on notice and get further
31 details, if you like.
32
33 MR REID: Sure. Just explore slide 5, you show the
34 shortfall in recovery of revenue over the determination
35 2006 to 2010.
36
37 Obviously part of that shortfall would relate to the
38 usage charge component, because obviously water sales are
39 down. I just wonder whether there is also an element of
40 charges that may have been included in the
41 determination - for example, for some stock and domestic
42 users, that you have not levied charges for?
43
44 MR HARRISS: We do provide stock charges. There are many
45 instances where we don't charge for the domestic component
46 of licences, where those are equivalent to basic landholder
47 rights. We don't charge for them around the State, but we

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1 do charge for stock licences where appropriate.
2
3 MR REID: I think some evidence was provided by
4 you which suggests that approximately 2.9 per cent of the
5 Water Act licence entitlement is unbilled. I'm just
6 looking more broadly at the coverage of our usage charges
7 and the reasonableness of those, because often people who
8 are paying say that there are more people out there who are
9 benefitting from your activities. I'm just wondering how
10 significant they are?
11
12 You talk about, obviously, basic rights, some are the
13 stock and domestic. Just how significant a factor is that?
14
15 MR O'NEILL: It is not a very significant factor, to
16 answer your question, but there are a number of groups of
17 people that we haven't billed. As David Harriss mentioned,
18 we don't bill basic landholder rights people, they are not
19 licensed, but there's a number of stock and domestic
20 licensees where we implement a similar concept, because we
21 don't bill basic rights. We also tend not to bill some of
22 the domestic components of those licensees.
23
24 So, in short, we have got some un-reg river D&S
25 licences; we've got some other un-reg licences for farming,
26 waste disposal and firefighting purposes that we
27 don't bill for. In reg rivers we also have some domestic
28 users which we do not bill for - again, given that
29 consistency with basic landholder rights policy position.
30
31 In groundwater, we've got the domestic users also,
32 plus some usable water for farming, firefighting, and waste
33 disposal purposes. We have also got some high-flow
34 licensed users that are again fairly small in number, but
35 they are not billed because we don't have metered usage for
36 those.
37
38 MS CHADWICK: Perhaps before we leave that issue, this
39 might be an appropriate time for you to reflect on some of
40 the concerns in the stakeholder submissions about bills
41 that were not received in a timely fashion. A number of
42 submissions refer to bills not issued for up to three
43 years, and errors in those bills.
44
45 I was wondering if you could reflect on things that
46 NOW is planning to do over the next determination period to
47 ensure that there is more timely and accurate billing?

1
2 MR HARRISS: If I can just answer that at a high level
3 before passing over to Debra, should she wish to speak.
4
5 Yes, we did, in the transition from the Department of
6 Natural Resources to the Department of Water and Energy,
7 We have had some issues about the timeliness of billing. That
8 was subject to an auditor-general's report, which was tabled
9 in parliament and readily available.
10
11 In moving into the future, we recognise that the
12 billing provides us with a substantial amount of income to
13 undertake those water management functions that we
14 identified in the previous slides, so we will be moving to
15 get all of the outstanding payments up to date and then
16 bill in a timely fashion in the years to come, because it
17 impacts on us more than it potentially impacts on anyone
18 else.
19
20 MS CHADWICK: While accepting that the IPART-regulated
21 charges make up a small per cent of your overall
22 expenditure, the question before us is the efficient level
23 of costs for those IPART-related activities.
24
25 The PricewaterhouseCoopers report notes that the
26 information provided by NOW primarily focuses on the need
27 for additional resources rather than a strategic assessment
28 of the existing resources, and whether or not they can be
29 more efficiently applied.
30
31 Does NOW have evidence to demonstrate that its current
32 costs are efficient? Has there been market testing or
33 benchmarking, comparisons with other service providers?
34
35 MR HARRISS: In the slide where we looked at the
36 hydrometrics, we showed over the last 20 years that we are
37 servicing and providing twice as much information with half
38 as many resources.
39
40 I think the original PricewaterhouseCoopers report
41 supplied to IPART put us in good stead compared to other
42 jurisdictions in terms of how we're delivering. As we've
43 been through in the presentation, in our submission,
44 demonstrates that, I believe, we are providing enormous
45 service with very limited resources. We do go through a
46 business planning process, when we talk about getting new
47 staff. We do go through a business plan process when we

1 talk about undertaking new activities, which was contrary
2 to the report of PricewaterhouseCoopers, so I believe that
3 we are very efficient in doing what we do compared to other
4 jurisdictions.

5
6 At the same time, in 2008 the Department of Water and
7 Energy appointed Deloitte to undertake a review of the
8 functions of both the water and energy sides of the water
9 organisation. That was overseen by a steering committee
10 which included, I think, the deputy secretary of the
11 Department of Premier and Cabinet, one of the deputy
12 secretaries of the Department of the Treasury and it
13 included IPART as an observer status. That report came out
14 and said that they believed that we were about 100 staff
15 short as a department, and about \$36 million short of
16 delivering what was required of us statutorily and what was
17 required of us by our stakeholders.

18
19 I think in that context, we are doing exceptionally
20 well. In fact, that's one of the reasons, with that kind
21 of evidence, that we are coming and seeking additional
22 resources to enable us to undertake water management
23 functions in the future.

24
25 MS CHADWICK: In terms of the robustness of the strategies
26 that underpin that business planning process, and in terms
27 of the documentation of it, PwC has expressed concerns
28 about the extent to which planned expenditures are linked
29 to planned outcomes and the extent to which it is
30 transparent. There have been no processes to examine whether
31 or not existing resources can be more efficiently applied.

32
33 You have obviously spoken today about a number of
34 uncertainties about your costs, so there must be some
35 issues before you that you are currently considering. To
36 what extent has NOW considered the scope to use its
37 existing resources more efficiently to align them to the
38 higher priority?

39
40 MR HARRISS: We do that as a matter of course in our
41 day-to-day functions. We have established an executive
42 group and we have a group of managers and directors which
43 overlooks the whole scope and suite of what we are doing
44 within the organisation, and we regularly reallocate
45 resources from one area to another.

46
47 An example within the organisation is reallocating the

1 minimal number of resources we've got to enable us to
2 complete the water sharing plans in a timely fashion as
3 possible. Additional resources have been sought from
4 Treasury and additional resources have been reallocated
5 within our own organisation to nominate water sharing plans
6 as a high priority. That is, effectively, to establish the
7 benchmark before the Basin Plan comes in over the top. So,
8 quite frankly, it is in the users' interests to have that
9 benchmark established, because if there is any subsequent
10 challenge of compensation, that would be important.

11
12 Similarly, on a more internal basis, in hydrometrics we have
13 been very successful in getting capital funding from the
14 Commonwealth and the Bureau of Meteorology, from the
15 Murray Basin Authority, to implement additional gauging
16 stations. Where we believe these have been a priority, we
17 reallocate our hydrometric services people to service those
18 stations and, as a consequence, over the last probably
19 10 or 20 years we have actually closed down 400 stations
20 which we no longer service. We are regularly looking at
21 the priorities, both at the broader level and within each
22 part of the organisation for which our functions require.

23
24 We have also established internally a strategic plan
25 for all of the organisation which specifically identifies
26 the high priority outcomes which the office will be
27 responsible for for the next 18 months. I believe we have
28 made that available to IPART.

29
30 MR EDGERTON: If IPART were to set prices at a lower level
31 than what you are seeking, could you elaborate on what
32 services or activities would have to be cut or delayed, and
33 what would be the implications for this for water
34 management and water users?

35
36 MR HARRISS: In the first instance, with the water sharing
37 plans, we would probably have to reallocate the resources
38 back from the water sharing planning function. We
39 will reduce the functions which are being paid for by water
40 users. We are running as a sort of pseudo business.
41 We can't then fall back on the resources we are allocating
42 to externally funded projects, because they are by
43 contractual agreements, so we would have to cut back on
44 some of those areas.

45
46 Off the top of my head, water sharing plans would come
47 into effect. I think the information that we are providing

1 to users would have to be reduced. As I said before, as we
2 have gone through the drought over the last few years, we
3 have had 35 separate meetings of the Murrumbidgee critical
4 water users group, which was established by
5 Minister Koperberg. We have had 35 meetings with the
6 Murray critical water users advisory group and we have had
7 11 meetings with the Lachlan critical users advisory group,
8 and six additional meetings with the Lower Darling. We
9 have put out 35 separate communications, which are now
10 considered the norm, and we have had 11 meetings in the
11 Lachlan Valley, at six towns in specific. In fact, there
12 are meetings going on today and tomorrow about what to do
13 with the limited water in the Lachlan at the moment.

14
15 Clearly, that face-to-face contact with the
16 stakeholders would have to be diminished, because that is
17 what we are paying for. I don't know that that would be
18 supported by the stakeholder groups either, but simply we
19 can't reduce other activities which are not funded by,
20 effectively, water charges. Do you want to add anything?

21
22 MR O'NEILL: I think to add to what David said, it would
23 depend on the magnitude of the reduced availability of
24 funds, but we are also looking at the licence applications
25 processes and water trading approvals. Those would
26 probably be affected as well - all the things David
27 mentioned. We have also got a significant amount of work
28 involved in monitoring the performance and the
29 effectiveness of existing water sharing plans, to inform
30 their review so that they can recommence in 2014. We would
31 have to look at what resources we'd have available to do
32 that as well.

33
34 MR EDGERTON: You mentioned that you are proposing
35 a change to the method by which you allocate your costs to
36 water sources and across valleys. Given the effect that
37 that has on prices for individual users in various valleys,
38 could you please elaborate a bit more on your new method
39 about allocating costs to valleys and water sources?

40
41 MR HARRISS: It is effectively charging for the service we
42 provide in each of the water service areas.

43
44 For example, and I think this is one of the points
45 that might have been made in today's meeting and might
46 still be made in today's meeting, there is a substantial
47 increase in the price for unregulated water users in the

1 Murrumbidgee valley, particularly in the upstream areas.
2 We provide a significant service there. There are a lot
3 more gauging stations and there is a lot more monitoring.
4 The reason for that is because it is a long stretch of
5 river. There are a lot of tributaries because it's in the
6 highland areas. There is a lot more water than in the
7 lowland areas.

8
9 As a consequence, there are a lot more gauging
10 stations, a lot more service provided. We had issues like
11 water coming out of the Snowy catchment, and we had issues
12 like the management of water in Canberra, in that stretch
13 of river. At the same time, because it is in the upland
14 areas, there is not a huge amount of irrigation from
15 groundwater, for example, because there is a lot of
16 rain-fed stuff. So there are a small amount of users. If
17 you then transcribe the level of service provided for that
18 stretch of river and distribute that cost between the
19 smaller number of users, they of course they are going to
20 have a substantially higher bill than a lower area with a
21 lot more users.

22
23 MR O'NEILL: The detail the Commissioner is talking about
24 there, when we recognise that there are a number of
25 different cost drivers for the cost allocation, rather than
26 just simply entitlement, we actually look through each
27 individual water management activity and determine what
28 the most appropriate cost allocation parameters are for each
29 activity.

30
31 So, for example, in the water information activities,
32 we looked at the number of gauging stations in an area; for
33 water quality sampling activities, we looked at the number
34 of samples taken in an area; for some of the ground water
35 activities, we might have looked at the number of bores in
36 an area. So you can see there are a number of other key
37 parameters which do drive the costs rather than simply
38 entitlement.

39
40 MS KRIEGER: I think one of the things that emerges from
41 the submissions, and from what you have said this morning,
42 is that the user-funded part of your overall budget is
43 pretty much an immaterial amount, from your perspective,
44 but from the perspective of the user it's a very material
45 cost to them in running the farms and other activities that
46 they have.

1 There also emerges from the submissions an amount of
2 uncertainty on the part of users as to the services
3 provided by NOW and how it benefits them. In deciding what
4 the priorities of NOW are, how do you take into account the
5 value that users place on your services and how do you take
6 into account their preferences and their needs, given that
7 what they fund is, from your perspective, quite a small
8 part of your overall operation?

9
10 MR HARRISS: I acknowledge that we've made the point
11 that what the bulk of water users contribute to the overall
12 budget of the organisation is a relatively small
13 proportion. I hope I haven't given the indication that we
14 consider that less important than any other of the funds
15 that we receive. We've got \$107 million operating funds, of
16 which \$26 comes from --

17
18 MS BOCK: It is certainly not immaterial.

19
20 MR HARRISS: It is certainly not immaterial.

21
22 As we put up in the first overhead, much of the
23 \$433 million budget is through grants that flow through.
24 We then have a \$107 million operating and salaries budget,
25 of which \$26 million is provided for from bulk water user
26 charges on average, or supposed to be. That is not
27 insignificant whatsoever. We tend to focus our functions.
28 We do have quite a good relationship, I believe, with the
29 stakeholders.

30
31 Despite the government originally establishing the
32 Department of Natural Resources as being just the doers,
33 and then community consultation and stakeholder
34 consultation would be run by State Water through their
35 customer service groups and through the CMAs, we have
36 made quite a substantial effort, I believe, in maintaining
37 our stakeholder consultation process through either our
38 critical water advisory groups or participation in the
39 customer service committees - not so much participation
40 with the CMAs, but through that I think we get a pretty
41 fair feel about what the priorities of the stakeholders are
42 and we include that in our strategic plan and in our
43 service delivery during the course of the year, or during
44 the course of the determination. Please don't think that
45 I am underwriting the significance of the contribution of
46 water charges to the water management functions of the
47 Office of Water.

1
2 MS KRIEGER: I have another question about the MDBA costs.
3 You spoke about the fact that the MDBA will be asked to set
4 out in detail its programs and priorities, and you made the
5 comment that it's now being run as a financially managed
6 authority under Commonwealth legislation and that its
7 accounts will be audited. That's all fine, but I think the
8 question that arises out of the user submissions is the
9 question of the efficiency with which those programs are
10 going to be delivered.

11
12 The auditors don't review that. That's not what auditors
13 do. So who is actually going to review the efficiency
14 of MDBA costs? Given your comment about MDBA
15 staffing on the Basin Plan, for example, you can see why
16 users have great reservations about those costs being
17 under-scrutinised and passed through in a less than
18 transparent fashion.

19
20 Who is looking at efficiency of delivery in
21 particular?

22
23 MR HARRISS: First, I have identified about 50
24 staff working on Basin planning, and the cost of those
25 staff are not borne by any users in any of the
26 jurisdictions. They are totally by borne by the
27 Commonwealth. However --

28
29 MS KRIEGER: Sorry, that may be so, but it does raise the
30 question about efficiency of delivery of programs?

31
32 MR HARRISS: As to the efficiency of the delivery of
33 projects and programs, New South Wales has been strong,
34 first and foremost, in seeking a review of that before we
35 commit to funding the out-years beyond 2010/2011, for
36 contributions to the MDBA. That process will be reviewed
37 by the basin officials committee and established under the
38 IGA for Murray Darling Basin Reform and that basin
39 officials committee reports, in turn, to the ministerial
40 council, who will ultimately make the decision on the
41 funding arrangements for the MDBA.

42
43 THE ACTING CHAIRMAN: Thank you, David. Just a couple
44 of questions from me. Firstly, on the Murray Darling Basin
45 authority, since we are there, I understand that you can't
46 take responsibility for the efficiency of their costs and
47 I understand the efficiency studies are underway, but our

1 issue is we are setting prices for a number of years based
2 on assumptions about what those costs will be.

3
4 We won't know what the results of the efficient study
5 are for some period - I don't know, perhaps towards the
6 middle or the end of the year. In the meantime, we have
7 got to take a view on what the prices should be.

8
9 How do you think IPART should approach that?

10
11 MR HARRISS: I feel like I'm telling you how to suck eggs,
12 sometimes, Jim. I believe that the Murray Darling Basin
13 Authority has prepared a corporate plan for this year and
14 three out-years. That corporate plan has been agreed in
15 principle, subject to the review. So I suppose, in
16 principle, you should be considering the financial needs
17 reported in that corporate plan of the authority.

18
19 THE ACTING CHAIRMAN: But what would happen if, for
20 example, the conclusion was that less needs to be spent on
21 these activities?

22
23 MR HARRISS: What we have said, from New South Wales'
24 perspective, in seeking a review of the efficiency and
25 effectiveness, is not necessarily a reduction in the amount
26 of money provided to undertake those natural resource
27 management programs, but a redirection of those funds into
28 actually delivering greater outcomes on the ground. We are
29 not looking at a diminution in terms of the dollars which
30 would be paid to undertake the programs, but a redirection
31 of those.

32
33 Say, for example, just totally off the top of my head, we
34 currently have a fish program, which is worth about
35 \$5 million per annum, for which New South Wales contributes
36 what might be 20 or 25 per cent, something like that, which
37 in turn is then distributed between users and government.
38 We don't, as a consequence of that, see a great deal of
39 work on the ground. New South Wales' argument has been
40 we should be actually reviewing the contribution of those
41 dollars to be allowing people to desnag rivers, to desnag
42 creeks, to undertake fish passage works in the smaller
43 areas as opposed to the larger structures along the river
44 Murray. So it is more of a redirection of the funds as
45 opposed to just any reduction of the funds.

46
47 MR O'NEILL: Just to add a bit to what the Commissioner

1 has said, we think that is part of the justification for a
2 shorter determination period. That's one of our
3 uncertainties. Certainly by 2012/2013, we would have
4 better answers to that question, so that brings a
5 consideration for that determination period.

6
7 Secondly, I guess, it is a matter of how do we allow
8 for that number being incorrect? Can we have billing
9 scenarios or rules set by IPART that say if that's the
10 number, then these are the billing charges? If the number
11 is half that, then there are different charges. Rather
12 than getting into a situation of potentially needing refund
13 money or adjusted in the next determination, that might be
14 an option for the tribunal to consider.

15
16 THE ACTING CHAIRMAN: Thank you for that.

17
18 I want to ask one final question, and that relates to the slide
19 you have got up there which suggests that we are moving,
20 particularly for unregulated water and groundwater,
21 from the situation of less than full cost recovery to full
22 cost recovery in this determination. So, you are not
23 phasing in full-cost recovery, you are moving straight
24 there. Perhaps you can just explain why you thought this
25 move was appropriate?

26
27 MR HARRISS: I think there is an enormous amount of
28 interest with national water reforms to get appropriate
29 monitoring and appropriate water management, whether it
30 be groundwater, unregulated or regulated areas.
31 Currently we believe that to meet our National Water
32 Initiative requirements, it should be at full cost
33 recovery. What we are simply doing, in our submission,
34 is that saying that to meet our NWI requirements, we
35 believe that we should be at full cost recovery sooner
36 rather than later. At the same time, we recognise the
37 tribunal's responsibility to determine whether that should
38 be undertaken immediately or phased in over a certain
39 period.

40
41 What we have done, in our submission, is say, "Here
42 are our costs to manage water functions, water activities
43 determined by IPART in all of the regulated, unregulated
44 and groundwater areas, saying we believe that, in the first
45 instance, they should be fully cost recovered and, at the
46 same time, we believe, for the reasons I gave in the other
47 slide, that they should be fixed because our costs

1 associated with water management do not vary depending on
2 water availability. In fact, they go up during the
3 drought. The information requirements, the monitoring
4 requirements that we have had to do during droughts, have
5 been by far greater over the last few years than they were
6 in previous years when we had reasonable allocations for
7 all users.

8
9 THE ACTING CHAIRMAN: Thank you very much for your
10 presentation and for answering the questions this morning.

11
12 We will now have a presentation by the NSW Irrigators
13 Council. When you are ready, if you could come forward,
14 please, and introduce yourself.

15
16 For the benefit of the people sitting at the back of
17 the room, there will be an opportunity for you later in the
18 day to ask questions, including to the Office of Water.

19
20 NSW IRRIGATORS COUNCIL

21
22 MR ANDREW GREGSON: Thank you very much, and good
23 morning to everybody. Can I take this opportunity to
24 acknowledge the Commissioner that I am sitting next to. I
25 am delighted that you put me within striking distance for this
26 particular presentation. That said, it would be very easy
27 to see this determination process as water users sitting on
28 one side of the fence and the Office of Water sitting on
29 the other, sort of a "NOW and then" approach, which would
30 be entirely inappropriate.

31
32 Can I say at the outset that, particularly during the
33 course of the last few years of unprecedented - we used to
34 call it "drought", but the Commonwealth Government now
35 insists that we call it "the dryness", they have done some
36 excellent work during the course of that period,
37 particularly in terms of the critical water management and
38 ensuring that communities have been able to survive.

39
40 That, however, cannot, unfortunately, be read as an
41 endorsement for the submission that the Office of Water
42 have made to IPART. We have got some serious concerns
43 not only with the process of the submission, but also to the
44 content of it.

45
46 Before I turn to that presentation that you will see
47 on the slide show, there are a couple of points that the

1 Commissioner has made this morning that I would like to
2 pick up on. I noted that he introduced himself as the
3 Commissioner for NOW; we sincerely hope that that happens
4 to be a longer tenure, David, rather than just for now.

5
6 The Office of Water have made significant points with
7 respect to the uncertainty of Commonwealth programs,
8 Commonwealth policy, and so on and so forth. Obviously the
9 writs will be issued tomorrow for a federal election, as
10 I understand it. We think, and in our submission, it would
11 be entirely inappropriate for IPART, in that environment,
12 with a lack of certainty around what those projects and
13 operations will be, to endorse charges that relate to them,
14 particularly given they haven't been audited as to their
15 efficiency, nor indeed investigated as to their efficiency.

16
17 That said, we are not talking about an enormously long
18 timeframe. The Commissioner has told you this morning that
19 he expects to have further certainty, as I understand it,
20 by October of this year. As you'd appreciate, that's not
21 all that far away. With certainty comes the opportunity
22 for IPART to investigate the efficiency of those projects,
23 and surely that's what we should be talking about in terms
24 of a determination to last for a number of years.

25
26 The Commissioner also briefly noted that there has
27 been an increased value of water in temporary trade market,
28 and, to that extent, attempted to argue that an increase in
29 costs should not be seen as particularly relevant to which
30 water users, I'm sure, would respond almost unanimously
31 that an increased value of temporary trade and the value of
32 the entitlement is entirely irrelevant as to whether the
33 costs of managing it have got anything to do with it.

34
35 If that, indeed, were the case, I would suggest that the
36 Australian Securities and Investments Commission would
37 charge higher prices on an annual basis as the value of
38 stocks and shares and other equities goes up. It is
39 entirely irrelevant to the concept of water management,
40 what the value of the water asset actually is.

41
42 I turn now to an argument that I suspect we will make
43 before IPART in each of the three opportunities we have to
44 speak to you during this public evidence process, and that
45 is the suggestion made by the Office of Water that they
46 should be able to charge a return on assets. I notice that
47 the Commissioner this morning gave some examples of

1 organisations in regulated industries that levy a return on
2 assets charged as part of their determined charges.
3
4 None of the examples that the Commissioner provided to
5 you this morning were government departments. In our
6 submission, a return on assets for a government department
7 is known by a much simpler term; it's called a tax. We
8 believe that taxation should be solely within the realm of
9 the parliament, and certainly not, if you will excuse the
10 rather direct assessment, within the realm of IPART.
11
12 Government departments have no role in charging a
13 return on assets, otherwise you find the education and the
14 prison departments doing exactly the same thing. We are a
15 little confused on what the Office of Water wants. On the
16 one hand they suggest they want to be a business, in
17 charging a return on assets but, on the other hand, they
18 want to eliminate any evidence of business risk in charging
19 a one hundred per cent fixed charge. We are not entirely
20 certain what it is that the Office of Water wants to be.
21 If it wants to be a business and accept some form of risk,
22 then we are happy to contemplate return on assets and to
23 discuss it. If, on the other hand, they want to eliminate
24 risk and act as a government department, then a return on
25 assets is entirely without foundation.
26
27 The Commissioner talked briefly about comparative
28 efficiency and compared the Office of Water to the
29 efficiency in the Murray Darling Basin Authority and
30 compared the Office of Water's activities favourably.
31 Unfortunately, we can neither agree nor disagree with that
32 because we do not have any evidence whatsoever of the
33 efficiency of the Murray Darling Basin. We don't have too
34 many problems concurring with the Commissioner's theory
35 that the MDBA is likely to be inefficient, but
36 unfortunately we don't know and unfortunately IPART don't
37 know either. That's why we have made submissions, and
38 will continue to make submissions, to say that the inclusion
39 of the costs of the Murray Darling Basin Authority, if they
40 cannot be assessed for their efficiency, is entirely
41 inappropriate for this determination process.
42
43 The Commissioner says that he will be asking the
44 authority to justify their charging, he will be asking the
45 authority to justify their reasonableness allocation, and
46 whilst we have great faith in the Commissioner's capacity
47 to do that, we'd much prefer that it sat within the arm of

1 an independent tribunal, such as IPART, before these
2 charges are included.
3
4 With those brief comments, and with what the
5 Commissioner had to say this morning, I'll turn to the
6 presentation that we'd like to make to you this morning.
7 By way of introduction, New South Wales Irrigators Council
8 is the peak representative group for water access licence
9 holders right across New South Wales, not only with the
10 Murray Darling Basin, but also in the coastal systems that
11 don't connect to the basin.
12
13 We represent irrigators and other water users through
14 a series of membership groups who sit around our council
15 table. There are 26 of those, at last count, and they form
16 the policy body for the Irrigators Council. In setting
17 policies and making submissions to IPART we do so,
18 however, on behalf of all water access licence holders.
19
20 Council will be given the opportunity to appear at
21 three hearings before IPART, all three that are being
22 conducted as part of this determination process. In doing
23 so, we won't be making the same submission to you on each
24 occasion, you'll be pleased to know. We've split it into
25 three parts. Today we'll be talking about the
26 determination process and the operations of the New South
27 Wales Office of Water.
28
29 Later this week, in Tamworth, I believe, we will be
30 talking about the engagement of the New South Wales Office
31 of Water and, indeed, the State of New South Wales with the
32 Commonwealth and the processes that the Commonwealth
33 are going through in terms of water management.
34
35 At the final of those presentations in Sydney, we will
36 be talking about a number of specific matters in respect of
37 this determination. We'll be talking about user shares,
38 consumption forecasts and the concept of fixed charges.
39
40 I won't be held to that, however. You never know
41 what's likely to happen this week. We could well change
42 each and every one of those submissions just to keep the
43 Commissioner guessing.
44
45 Let us talk today about the determination process and
46 also the operations of the Office of Water. I don't think
47 anybody that had the opportunity to read our written

1 submission would be left in any doubt as to the frustration
2 that we felt in terms of this process, in terms of putting
3 together a submission to you, based on information that's
4 been provided by the Office of Water.

5
6 At our office in Sydney, we obviously retain
7 professional staff. It's our job to try to get this sort
8 of a determination process on to the radar of water access
9 licence holders and to provide information back to you as
10 an independent tribunal. In doing so, we wanted to consult
11 not only with our membership groups, but also with the
12 people that they represent. We need to put this into a
13 format that is digestible to those who will be greatly
14 affected by it, and to be able to distill that into a
15 submission to come back to you.

16
17 I don't have any hesitation in saying that that has
18 been a peculiarly difficult task during the course of this
19 particular process. We believe that there has been
20 significant reticence on the part of the Office of Water to
21 provide both timely and useful information. IPART itself
22 has had to request significant additional information from
23 the Office of Water. On at least one of those occasions
24 the Irrigators Council provided an interim submission to
25 IPART asking you to demand additional information.

26
27 We believe that the information has been provided in a
28 manner, in a form and in a time scale that has made
29 understanding, comprehension and appropriate response
30 from those that we seek to represent nigh on impossible. In
31 fact, each and every one of the queries that IPART has
32 raised has been responded to in the form of a letter, which
33 has then added to the submission process. We have not been
34 able to look at one single document or one single set of
35 appendices to that document to provide the information that
36 we need to respond to you appropriately. Instead we have
37 had to put together large reams of documentation, on
38 occasions conflicting documentation, to be able to come up
39 with some solutions.

40
41 That has been exactly the conclusion that the independent
42 consultants, PricewaterhouseCoopers, that IPART
43 have retained have reached as well. They found it
44 extremely difficult to understand exactly what is going on
45 in the Office of Water; indeed, in some instances, they did
46 not seem to be at all reticent in expressing that they are
47 making guesstimates as to what the efficient charges should

1 be or are, or exactly what is going on within the Office of
2 Water. To put it succinctly, we do not believe that IPART
3 has sufficient information to determine what the efficient
4 costs are within the Office of Water and it does not have
5 sufficient information in order to determine whether those
6 efficient costing processes have been met. We don't
7 believe in any way, shape or form that a guesstimate out of
8 PricewaterhouseCoopers is in any way sufficient to make a
9 determination.

10
11 So what is it that we want in terms of that submission?
12 We are asking that this process be deferred. We are asking
13 that the entire process be stopped until such time as
14 NOW provide a single, comprehensive submission with
15 adequate information. In terms of what is adequate, we are
16 saying that that should be determined by your independent
17 consultant, PricewaterhouseCoopers. What are the physical
18 implications of that?

19
20 First of all, we have already provided a submission to
21 you that it would be highly inappropriate to implement a
22 new pricing regime midway through a water year, which
23 obviously has just commenced. There is a determination
24 already afoot which has been extended by IPART, and that is
25 the previous determination, which has provided a sufficient
26 revenue stream for the Office of Water to continue to
27 exist.

28
29 Moreover a deferral of this process will get us, the
30 irrigators, the tribunal, and indeed the Office of Water,
31 past the period that the Commissioner has told us this
32 morning is a period of some sort of understanding of what
33 the Commonwealth programs would be - by October. In our
34 submission, we cannot see any negative - indeed there is a
35 significant amount of positive - in deferring this process
36 so that we could have adequate information not only from
37 the Office of Water but also from the Commonwealth
38 Government to enable us and our constituency to understand
39 what is going on and what their response will be.

40
41 Notwithstanding any of that, notwithstanding our
42 submission that the process should be deferred, we do have
43 some concerns about the efficiency of costs within the NSW
44 Office of Water. We are of the opinion that where
45 insufficient evidence of efficiency exists, then the cost
46 should be excluded altogether.

1 We have noted, particularly from
2 PricewaterhouseCoopers, that where efficiency of costs is
3 not evident or provable or where insufficient information
4 has been provided, then they have requested that a
5 percentage reduction be applied. We have noted also in the
6 State Water process that there were some percentage
7 reductions applied to the costs of the Murray Darling Basin
8 Authority, where efficiencies could be improved. With the
9 greatest of respect, we don't believe that that fulfills
10 the obligations of the tribunal at all. In fact if an
11 efficient cost can't be proven, if the costs can't be shown
12 as necessary and if the service provision is not vital, we
13 would suggest that those costs be excluded entirely not
14 only for this determination process, but also that future
15 determination processes provide for a clear obligation to
16 prove the necessity of the cost and to prove the efficiency
17 of the cost before revenue is created on the basis of it.
18
19 To provide some examples from the evidence in the
20 initial submission that the Office of Water made - and this
21 was picked up by PricewaterhouseCoopers as well - there
22 were some 24 staff who were shown as "unallocated".
23 PricewaterhouseCoopers picked up that, in a large number of
24 instances, business cases for new projects had not been
25 made, which would clearly suggest that the Office of Water
26 is not acting as a business in any way, shape or form.
27
28 We are also concerned that no real efficiencies have been
29 gained from centralisation. In fact we heard this morning
30 that significant costs were incurred in moving from one
31 department to another, both departments under which the
32 Office of Water no longer sits. We would expect that not
33 only are they now efficient in moving departments but there
34 were some efficiencies gained from having centralised those
35 departments particularly the super Department of
36 Environment, Climate Change and Water; yet the submission
37 bears out no evidence of those efficiencies.
38
39 We are very mindful of the fact that 60 per cent of
40 the costs of the Office of Water relate to staffing and we
41 are very mindful of the fact that PricewaterhouseCoopers
42 went into that in great detail, as we did in our written
43 submission.
44
45 We are very concerned, however, that there is very
46 little efficiency provided in the 40 per cent of non-staff
47 costs. We need to understand what it is that that other 40

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1 per cent of the revenue required by the Office of Water is
2 for and indeed where the efficiencies have been driven in
3 that 40 per cent of costs, because we have not seen any
4 evidence of that to date whatsoever. In particular, we
5 would like to know whether there were any efficiencies in
6 moving to the super department that occurred obviously late
7 last year.
8

9 Let me turn to the ironically named "new core
10 activities". If they are new, I would suggest that
11 potentially they are non-core, but with further irony, some
12 47.5 FTEs will be working on efficiency, so in fact costs
13 to those who apparently benefit from those efficiencies
14 increase significantly.
15

16 We reiterate that PricewaterhouseCoopers noted that no
17 business case had been made. We submit that rather than
18 applying a percentage reduction where no business case has
19 been made, where no necessity has been demonstrated for
20 the
21 project as a whole and no efficient costs have been proven,
22 no costs at all should be awarded. In fact those
23 additional core activities should not be considered core
24 and should be excised from this process.

25 We have noted that there has been some activity within
26 IPART where there has been a requirement in terms of
27 capital expenditure that "all resource requirements must be
28 proven", we would suggest that that exact same process
29 should be allowed within both opex and capex to ensure that
30 there is a definitive and demonstrable need for spending
31 before that spending occurs and before they come to our
32 constituents and seek the funding for it.
33

34 In summary, and to get us back on to time frame, in
35 our submission, this process to date has been flawed. It
36 has been flawed because of the lack of provision of
37 appropriate information in appropriate form. We believe
38 that the reporting requirements across the determination
39 have not been met. Indeed IPART have made some point of
40 that in the course of the last two years. We are greatly
41 concerned that the current submission from the Office of
42 Water reflects that approach that they have taken to
43 reporting. They are not providing the sort of information
44 that is necessary in order to judge efficiencies.
45

46 The time frames for this process, as everybody in this
47 room knows, have not been met. We don't see any damage

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1 whatsoever in extending those time frames until we have
2 sufficient information for IPART to do its legislative job
3 and for us to be able to provide appropriate and accurate
4 information to you to complete your job.
5

6 In our opinion, IPART should be giving NOW a very
7 clear choice: provide only those costs which are
8 independently verified as proven, as efficient and as
9 necessary or - start again. That is a pretty simple
10 submission. I thank you very much for your time and I am
11 happy to take questions.
12

13 THE ACTING CHAIRMAN: Thank you very much for that.
14 I do understand, because of the way this process has
15 unfolded, the difficulties that has caused for you and your
16 constituency. I am also very conscious of the very
17 substantial effort that has been made by the stakeholders,
18 NOW and ourselves to get the process effective today. In
19 that context, it seems to me that your suggestion for
20 deferral is really asking your members to make an effort
21 again for an uncertain benefit. I would be interested in
22 your thoughts on that.
23

24 MR GREGSON: It is an interesting question, but I suspect
25 it is more that the constituency that we seek to represent
26 is interested in due process and in an outcome that is
27 achievable and supportable. I don't think it is going too
28 far to suggest that if full, accurate and timely data were
29 provided that was digestible and understandable that the
30 requirement for costs to be granted to the Office of Water
31 would decrease, particularly in respect of the Murray
32 Darling Basin Authority, particularly in respect of the
33 47.5 FTEs that have to be assigned to these new core
34 activities, which we are not convinced will either occur or
35 are necessary.
36

37 THE ACTING CHAIRMAN: Thank you. I will pass over
38 to Colin now.
39

40 MR REID: Thanks very much, Andrew. One of the
41 suggestions that has come forward is that the minimum
42 charge be increased from \$60 to \$200. Firstly, I am just
43 wondering whether you have an answer or a response to that;
44 and, secondly, how representative your organisation is of
45 small users and would it be aware of the impact upon them?
46

47 MR GREGSON: Our written submission obviously made some

1 reference to this matter; indeed it specified, and we have
2 reiterated this, that there should be an interim period
3 before that minimum charge is proposed - an amnesty period,
4 as it were, to allow people to consolidate a number of
5 smaller licences. Our concern is that some of them hold a
6 number of smaller licences and if they were to be given the
7 opportunity to consolidate them, then the minimum charge
8 should not be something that affects them greatly
9

10 As to who we represent, we make no distinction at all
11 in terms of size, water access licence and megalitres; we
12 attempt to represent each of them equally. Will some
13 people face a higher water charge out of this? Yes.
14 However, I would suggest that to do otherwise - we heard
15 the Commissioner's own words this morning - would mean a
16 cross-subsidy from one user to another. I do not believe
17 that is particularly within the remit or within the
18 direction that IPART is attempting to achieve.
19

20 MR REID: To take Jim's point a bit further, obviously
21 David Harriss has outlined the activities that would be
22 curtailed in the absence of any adjustment to prices. You
23 are suggesting that a short-term deferment may not have
24 much impact. That would appear to be contrary to what
25 David is suggesting.
26

27 MR GREGSON: If I can turn to the example that the
28 Commissioner used, and it was in terms of critical water
29 group meetings. I think he suggested that there were about
30 70 of them. From my understanding of those critical water
31 group meetings - I was involved in a few of them, our
32 constituency was involved in just about all of them - each
33 of them was less than hour. All bar one of them was a
34 teleconference. There was never an agenda and they were
35 primarily advisory. So whilst the critical water group and
36 planning sessions worked very well, I don't think anybody
37 would suggest it was entirely resource hungry and something
38 that would be difficult to run in a resource constrained
39 environment. In fact it was run in such an environment.
40

41 MS CHADWICK: The other example that the Commissioner
42 referred to is the potential to delay water sharing plans
43 that are needed to be done in order to provide a benchmark
44 before the Basin Plan is implemented. Surely any delays on
45 those water sharing plans would be of concern to your
46 members.
47

1 MR GREGSON: For those that are not completed, yes, they
2 would be of concern if they happened to be within the
3 basin. Obviously not all water sharing plans are within
4 the basin, as we cover the whole state. There was a time
5 frame for the completion of water sharing plans in the
6 previous determination and it was not met. Obviously there
7 is a time frame for completion of plans in this
8 determination process and we expect that it will be met.
9 That said, in terms of any new determination work to
10 commence prior to 2014, we are very much on the public
11 record as saying that we want to see those water sharing
12 plans in the basin that currently expire in 2014 and very
13 shortly thereafter extended to 2019, in any event, to meet
14 the time frame that Victoria will be implementing the Basin
15 Plan.

16
17 MR REID: You suggested or indicated the need for
18 improved reporting by NOW to users. I am just wondering if
19 you can outline what you are suggesting your requirements
20 are in that regard?
21

22 MR GREGSON: We were very happy with the reporting
23 requirements that were structured by IPART that
24 unfortunately were not met.
25

26 MR REID: One of the things that the Office of Water is
27 suggesting and which you have commented on briefly is
28 obviously the structure of prices. That has impacts
29 between coastal valleys and inland valleys and even between
30 different inland valleys. I am just wondering whether you
31 can expand a bit on that.
32

33 MR GREGSON: I was intending to do that in Sydney on
34 Friday, but do you want me to do it now?
35

36 MR REID: Perhaps you could give us some indication.
37

38 MR GREGSON: Our indication is that, no, we do not
39 accept a 100 per cent fixed charge. We did not accept it for
40 State Water. We do not accept risk shifting in terms of
41 any operation in water. We think the current two-part
42 pricing mechanism is appropriate and should indeed be
43 continued.
44

45 MS CHADWICK: You offered IPART a number of alternatives
46 as to what to do with imperfect information. Unfortunately
47 information is rarely perfect. I guess there is a third

1 alternative, and that would be a short determination
2 period. Your submission favours a four-year determination.
3 One response to this kind of uncertainty would be a shorter
4 determination period. What would you think of that?
5

6 MR GREGSON: The third way! That would be compounding
7 uncertainty. There is sufficient uncertainty with regard
8 to policy and pricing at the moment. That is why we
9 suggested a four-year determination in the first instance.
10 The great uncertainty, of course, is what will happen in
11 terms of the Basin Plan. It affects not only irrigators
12 and water users in the basin but also those right across
13 the state. There is great uncertainty in terms of what the
14 ACCC will do. Where the capacity or certainty exists for
15 our constituency, we pursue it with all vigour, which is
16 why we have asked for a four-year determination.
17

18 I don't have an opinion to provide you on a shorter
19 determination in terms of the issues that you raised. I
20 would have to ask our membership about that, but I suspect
21 their answer would be, "No. We have provided a submission
22 for a four-year determination. We do not support anything
23 shorter."
24

25 MS KRIEGER: To follow up on that last issue, the original
26 concept was to align the investigation into NOW charges
27 with that of State Water to have the hearings of both go in
28 tandem. Obviously there is a cost associated with
29 participation in these processes for everyone concerned.
30 Are you saying then that in terms of four years of
31 certainty as opposed to alignment of the two, the longer
32 period is more important to your constituents?
33

34 MR GREGSON: I do not necessarily have any formal
35 submission to make in terms of alignment other than to say
36 that, at operational level, the resources that we have
37 available to commit to this have been much better able to
38 be used with the two being split. We simply did not have
39 the capacity to do two at once.
40

41 THE ACTING CHAIRMAN: Andrew, thank you very much for
42 your presentation and for answering the questions this morning.
43

44 We will now take a short break. I am hoping we can
45 confine it to about 15 minutes, which is slightly behind
46 time. That means by my watch we will resume at 10 to 12.
47

1 SHORT ADJOURNMENT

2

3 MURRAY IRRIGATION

4

5 THE ACTING CHAIRMAN: We will now resume. We
6 will now have a presentation from Murray Irrigation and I
7 invite their representative to come forward.

8

9 MS JENNY McLEOD: Good morning, and thank you for
10 the opportunity to speak on this IPART determination. I
11 have a few slides to outline our views. I have not chosen to
12 repeat all of what is written in our submission, but I will
13 focus on a few key points which we believe are relevant to
14 this determination.

15

16 Firstly, I will give a bit of background to Murray Irrigation,
17 which influences our position basically. I wish to
18 provide some introductory comments about the IPART
19 process and where Murray Irrigation sits at the moment. I
20 propose to raise some issues about the NOW submission for
21 more money and also to talk about Murray Irrigation's
22 recommendations in relation to this determination.

23

24 In terms of some of the history, a few of us in this
25 room have been at several of these hearings - over more
26 than a decade I think it has been. Essentially at each
27 determination, we are meant to be, at the end of the
28 determination process, at full cost recovery.

29 Unfortunately the basket of costs keeps changing with the
30 end result being that irrigators are faced with increased
31 water charges. David Harriss and I discussed this issue
32 over morning tea. It is Murray Irrigation's view that NOW
33 is seeking a contribution to costs that should not be
34 attributed to water users where we see they are essentially
35 the role of the New South Wales Government, not as a
36 commercial organisation but as a policy organisation
37 representing the interests of New South Wales.

38

39 I also want to note that Murray Irrigation is a strong
40 supporter of the process that NOW put in place in terms of
41 decision making and critical human needs, including the
42 communiques and the communication with the people
43 impacted since the suspension of water in 2006. In terms of
44 the water industry, they would have to be described as the
45 dark days and we strongly support the actions of David and
46 his team in managing through what was a really difficult
47 situation. In the Murray we are a shared resource, so

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1 there were some really difficult negotiations between the
2 states and we certainly support the decisions that NOW has
3 made.

4

5 Unfortunately, as we all know, the water reform
6 industry is constantly changing. I really think that the
7 2006 and 2007 years have put a new benchmark in the churn
8 with the Water Act. As a result, NOW is placed in a really
9 difficult and very demanding position in terms of the
10 policy framework it is operating in and that is placing a
11 lot of pressures on the department.

12

13 We, as probably NOW's largest customer in the Murray,
14 see a very small part of NOW as the face of the
15 organisation. So from where we sit, we look at the
16 organisation and would argue that they need to recognise
17 the significant changes that are happening and analyse and
18 focus to reduce their costs and not to seek price
19 increases. David has argued that they do do that, but from
20 where we sit, we do not see that happening.

21

22 To give you some background, Murray Irrigation is an
23 unlisted public company. Our area of operation is about
24 three times the ACT. We have a channel network of earthen
25 channels and stormwater that would run from Deniliquin to
26 Darwin. We have 2,400 land holdings. We have five water
27 access licences. We have two really key licences. One is
28 our New South Wales Murray general security licence, which
29 is 67 per cent of the total New South Wales Murray general
30 security license. We also have a conveyance licence, which
31 has been really fundamental to our operation, and that is
32 300,000 unit shares. We are NOW's single largest customer
33 in the Murray, so we are a big company. We cover a large
34 area and a lot of people, but we have one New South Wales
35 general security licence for a very large amount.

36

37 We operate in a regulatory environment that is not dissimilar
38 to the environment that NOW operates in. We are part of
39 the COAG water reform process. We became separated
40 from the regulator. We are the operator and NOW is the
41 regulator. Initially that led to really significant improvements
42 improvements. In New South Wales the private irrigation
43 operator model and the separation from government that
44 created Coleambally, Murrumbidgee and Western Murray
45 led to a lot of improvements. We have established a lot of
46 parallel systems in terms of our registers for water
47 entitlement. We have streamlined accounts. We have

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1 streamlined our water management and aim to improve our
2 customer relations.

3
4 What we now face through the water reform process is
5 enormous demands for compliance and reporting. We have
6 our reporting. The first two line items on the slide relate to
7 NOW and the EPA, which has been established since
8 separation, and I have no issue with that reporting. It
9 makes us accountable for the responsibilities we have taken
10 on. But now we have the ACCC with its water market rules,
11 water charges rules and actions under the Trade Practices
12 Act. We have to comply with their rules or else we are
13 breaking the law, and I can guarantee they will take action
14 against us if we do not comply with those rules. We also
15 have to report annually on our compliance with the rules so
16 they can assess that performance.

17
18 The national metering strategy or metering framework
19 has been agreed to and New South Wales is in the process of
20 putting in place its implementation plan. We will need to
21 agree with that. We have responsibilities for reporting to
22 the Bureau of Meteorology, the National Water Commission
23 and obviously through ASIC. Some of the demands that are
24 on NOW are also the demands on our organisation.

25
26 Turning to the Water Act, it is a very real concern
27 that the Water Act will undermine the efficiency of the New
28 South Wales model, and there has not really been any debate
29 about that issue. The other issue with the Water Act - and
30 you are probably wondering where I am going to with all
31 this - is that there are significant gaps in its
32 application that disadvantage organisations like Murray
33 Irrigation. An example of that is the water market rules,
34 which are about the tradability of water entitlements that
35 are non-statutory water entitlements.

36
37 The Water Act does not regulate the Victorian
38 statutory rights, so the 4 per cent rule exists in Victoria
39 but it does not exist in New South Wales. The ACCC can
40 only strike a charge when a charge is fully made, which
41 means that because New South Wales is at significantly
42 higher levels of cost recovery from water users, those
43 users will be impacted more by the water management and
44 planning charge rules than the Victorian and South
45 Australian irrigators. We are therefore concerned that
46 that does not lead to competitive neutrality.

47

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1 We are also concerned that the end result will be a
2 reduction in efficiency for our business. Also there is
3 duplication in things that we do and duplication of things
4 that happen through NOW. So we are concerned that Murray
5 Irrigation customers are paying at least twice for
6 regulation. If you were then to impose the MDBA, we would
7 possibly be paying three times for some things.

8
9 This leads us on to some general comments about the
10 price increases requested by NOW. I should say that I had
11 difficulty understanding from all of the information what
12 aspects of the cost drivers were actually then being
13 attributed to what you wanted to collect from us. Some of
14 these comments are really based on that fact that we do not
15 think that some of the things for which you are looking for
16 additional funding are necessarily particularly relevant to
17 the New South Wales Murray.

18
19 We believe the Commonwealth-related reform is something
20 that the New South Wales Government has signed up
21 for. We believe its policy and we argue that it should not
22 be passed on to water users. There are some elements of
23 the Commonwealth reform that they argue they are paying
24 for. We believe we have duplication in the MDBA at both a
25 water resource management level and a natural resource
26 management level, and we do not believe that Murray water
27 users should have to pay twice because of the governance
28 arrangements agreed to by governments.

29
30 With regard to some of the activities, it was unclear
31 what the purpose or the outcome of the activity was. We
32 believe that NOW needs to focus on existing activities and
33 on identifying cost savings so that essential activities
34 can be completed. Maybe there is a role for water users
35 being involved in that prioritisation.

36
37 In terms of MDBA costs these issues have been raised
38 in your questions already. They are monopoly costs that
39 are not regulated. We have had the IGAs and the public
40 comments that have been made about governments need to
41 be no net increase, but we now see that that is unlikely to be
42 the case. Some of the costs are duplicated by NOW and
43 the MDBA. So the MDBA does it and then NOW needs to
44 check it; but we believe we only need to pay it once. A large
45 increase in MDBA cost is asked for with virtually no detail
46 about it and there is competitive neutrality for water
47 users where other states are not paying.

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1
2 When you talk to our customers about the MDBA costs
3 and the massive increases, they align it with the Basin
4 Plan, because that is the main thing they see the MDBA
5 doing. David said earlier that the MDBA planning costs are
6 not included in the MDBA natural resource management costs
7 they are requesting more money for. Essentially we predict
8 that a lot of activities of the MDBA will lead to reduced
9 future water access for irrigators and we would argue that
10 it is not appropriate that water users contribute to that
11 cost.

12
13 In our submission we proposed that IPART consider a
14 tiered usage. We have not suggest what tiers IPART would
15 use, but I wanted to talk about some of the rationale why
16 we think a tiered usage is relevant for you to consider.
17 The first few megalitres that are available to all water
18 users - stock and domestic, towns, industry - require
19 significant volumes of water to deliver it to that point.
20 That is the water that is required to operate the river.
21 As David Harriss said earlier, when you do not have very
22 much water, it is actually much more difficult and more
23 complex for NOW to manage the decision making. We have
24 had to change the way we allocate water in order to meet
25 water demands for critical human needs. As a result of what
26 we experienced in 2006 and 2007, permanent change had
27 been made to the way water is managed through the Water
28 Act and I think the Basin Plan will further change the critical
29 human needs stuff that has been put in place.

30
31 The majority of NOW revenue from both fixed and user
32 charges is coming from general security entitlement holders
33 who are the last beneficiaries of the regulated river
34 system and the price paid by stock and domestic and small
35 users does not reflect the benefit received. The
36 introduction of a \$200 minimum charge may be very
37 politically unpopular but it would lead to some adjustment
38 there.

39
40 This is a graph of the licence entitlements by volume.
41 It just demonstrates that the majority of the volume is in
42 the general security licence, which is the largest column
43 on the graph. It is for the New South Wales regulated
44 Murray. We have 1 per cent of the licence volume for stock
45 and domestic water, but there is nearly 1,000 of those
46 licences. Then 2 per cent is town water supply and that
47 comprises 18 or so customers. We have 15 per cent of the

1 water as conveyance and there are two licences involved,
2 one of which is Murray Irrigation's. Then we have the
3 general security at 75 per cent, and there are about 1,200
4 of those. High security irrigation is 8 per cent of the
5 total volume and 600 or so licences. It is very skewed
6 between the people; the majority of the water is held by
7 the least secure licence.

8
9 Looking at allocations, I have a really important
10 error in this. This graph shows the New South Wales Murray
11 allocations by licence types from 2006/2007 to 2009/2010.
12 That is across the bottom axis. The colours are brown for
13 high security and green for stock and domestic. The blue
14 is general security. But there was an error in my Excel
15 sheet. In 2008-2009 general security had 9 per cent, but
16 you can see that, with the exception of 2007/2008, which
17 was impacted by the suspension in 2006, high security and
18 stock and domestic users have essentially had the majority
19 of their water entitlement, if not all of their
20 entitlement, available over the last four years and general
21 security has had two zeroes, one nine and 27 last year.

22
23 I want you to note two things on this graph. This is
24 a Murray Irrigation graph, but I wanted to demonstrate the
25 point about how much water it takes to deliver not very
26 much water to users. Along the bottom axis, the X axis,
27 are our on-farm deliveries; on the Y axis, or the vertical
28 axis, is the amount of water we need to deliver a megalitre
29 of water to farms. David could probably do a similar graph
30 for running a river.

31
32 Essentially if you look at the blue line - ignore all
33 the little dots; just look at the blue line - for the first
34 100,000 or 70,000 megalitres we need nearly 80,000
35 megalitres to deliver on-farm. The first few megalitres,
36 whether you are in a river or when you are an off-river
37 system like ourselves, take a large volume of water to use.

38
39 Therefore we conclude that the small users, the stock
40 and domestic users, the high security industrial users are
41 receiving very significant benefits. They are consuming
42 large volumes of conveyance water for operating the river
43 and not paying a lot. That is why we have argued for a
44 tiered usage charge. You could also look at having
45 different rates between high security and general security
46 entitlement charges.

1 You asked the question about supplementary water. Our
2 position is that it should only incur a usage charge. It
3 is an opportunistic licence. The costs of licence
4 administration are minimal. Access is based on resource
5 assessment and an announcement and is only available in
6 some years. In the New South Wales Murray water sharing
7 plan, if you do not have a supplementary water licence and
8 the general allocation is less than 60 per cent, you can
9 access that water anyway. So to introduce an entitlement
10 charge to supplementary water licences, when we frequently
11 have allocations less than 60 per cent, so that people who
12 do not have the licence could use the water, would be
13 inequitable.

14
15 The other issue which we raised in our submission was
16 to ask IPART to consider reintroducing the large customer
17 rebate for large diverters like Murray Irrigation. There
18 are several in the Murray - West Caragan, the Western
19 Murray Irrigation. It was removed from your last
20 determination.

21
22 One issue that we believe is a case for having a large
23 customer rebate is that many NOW costs are licensed-driven,
24 not volume-driven. We have one licence for 67 per cent of
25 the general security volume. Without single licences,
26 NOW's costs would be dramatically less.

27
28 Transformation pressure. "Transformation" is the new
29 word for a permanent trade. The Commonwealth Water Act
30 requires Murray Irrigation - to allow its customers who
31 want to stay as customers, but to own statutory water
32 rights - to approve a transfer to a general security
33 entitlement on the river, but to continue to maintain
34 access to our services as if they hadn't done that.

35
36 We have a conveyance licence, for which our fixed
37 costs are about \$400,000, so it's important that a case for
38 transformation, just to avoid paying the fixed government
39 costs of our licences, shouldn't occur. I haven't
40 explained that very well. You are looking at me blankly.

41
42 What I mean is say I own 1,000 Murray Irrigation water
43 entitlements, and if I take them out and put them on a
44 river, become a transformed licence, but wish to transform
45 the yield annually back into our business, because of our
46 fixed conveyance charge, our water entitlement charge per
47 entitlement will be higher than the river one. That's the

1 point. We don't want the situation where we have, from
2 Murray Irrigation's perspective, pressure for
3 transformation just to have a lower fixed charge on the
4 entitlement.

5
6 The other issue is that NOW is seeking additional
7 resources to respond to issues like transformation of more
8 licences. They previously argued that there were no
9 benefits of group schemes, large customers. Now they are
10 raising that as an issue requiring additional resources.
11 You can't have it both ways.

12
13 I have been talking about regulated water charges.
14 This determination covers NOW's costs for regulated,
15 unregulated and groundwater charges. I'm representing the
16 interests of Murray Irrigation, who only hold regulated
17 licences. We don't hold unregulated licences, or
18 groundwater licences. From our perspective, the
19 unregulated and groundwater requirements are significant
20 for increased regulation. Volume doesn't necessarily drive
21 the costs for proper regulation. NOW has effectively
22 completed the water sharing plans for the big regulated
23 systems, and they are now dealing with the much smaller
24 systems. Often they are similar costs, but spread over a
25 much smaller volume and it doesn't necessarily reduce the
26 costs significantly.

27
28 I have a double negative in here. What I'm aiming to
29 say is that the regulated service water system has been
30 better regulated than the unregulated and groundwater
31 systems, so there is a bigger opportunity for improvement.
32 That opportunity brings greater costs. We actually support
33 increased regulation of unregulated and groundwater users,
34 but that has obvious implications for the prices that they
35 pay.

36
37 I had difficulty understanding, from the information
38 presented by NOW, how well the costs of NOW are split
39 between those systems. But, in principle, we are looking
40 for IPART to ensure that regulated Murray users are not
41 funding the costs of better regulation of the unregulated
42 and groundwater licences.

43
44 In terms of the length of determination, we argue that
45 the determination should apply from 1 July. We are seeking
46 price certainty. Murray Irrigation is about to publish its
47 charges for 2010/2011. Our published charges include the

1 government charges. A mid-year determination will impose
2 additional costs in terms of publication and communication
3 and administration on Murray Irrigation.

4
5 State budgets, presumably, have already been set at
6 this point in time, and IPART did provide NOW with
7 significant clarity about the information they required for
8 the determination in ample time.

9
10 In conclusion, IPART's role is to protect water users
11 from monopoly powers. We are concerned that water reform
12 agreed to by New South Wales, including within the MDBA,
13 are driving cost increases and water users have not been
14 involved in the decision-making. In relation to MDBA, as
15 Andrew has pointed out, there is no opportunity to even
16 view their costs and they are not regulated.

17
18 Of the remaining NOW costs, only the efficient costs
19 of regulation of each licence type should be passed on to
20 water users, and large customer rebates and tiered usage
21 charges would be more equitable.

22
23 Thank you.

24
25 THE ACTING CHAIRMAN: Thank you very much. We will
26 now move on to questions. I will move to Colin in the first
27 instance.

28
29 MR REID: I have no questions.

30
31 MS CHADWICK: Firstly, I have a question about your
32 slide of the water involved and the costs involved in
33 delivering water to small users. In the earlier questioning
34 NOW indicated that stock and domestic rights holders, and
35 some of its domestic licence holders have not been charged.
36 Would it be your position that the stock and domestic
37 rights holders ought to face a water planning and
38 management charge?

39
40 MS McLEOD: This is the basic landholder right.

41
42 What is your basic landholder right? How do you know
43 what somebody has, in terms of their basic landholder
44 right? Our view would be if they have got a licence, they
45 should pay something for their licence. My understanding
46 is that basic landholder rights is not quite done that way,
47 but you might be able to clarify.

1
2 MR O'NEILL: Yes, I can answer that question. At the
3 moment, that legislation in sections 52, 53 and 54, covers
4 basic landholder rights into three different components:
5 there is the domestic and stock right; there is a
6 harvestable right; and there is a native title right.

7
8 For the domestic and stock right, we are looking at
9 making, as the Commissioner mentioned earlier in his
10 presentation, a publicly available mandatory guideline. We
11 will seek feedback on that in the next month or two,
12 hopefully, with a view to getting that guideline in place
13 this calendar year.

14
15 That will set volumetric limits on the domestic and
16 stock rights holders, but it will not issue them with
17 entitlements, per se. So there will be volumetric units,
18 but not entitlements.

19
20 For harvestable rights, it is managed under the
21 10 per cent harvestable right allowance.

22
23 For native titles, although we allow for that in the
24 legislation, as I said, there is no uptake at this point in
25 time.

26
27 MS McLEOD: That would be different from somebody who
28 has actually been issued with a stock and domestic licence.

29
30 MR O'NEILL: Yes, that's correct.

31
32 MS McLEOD: Yes. I have been referring to the people
33 who have actually got stock and domestic licences to extract
34 from a point of supply.

35
36 MS CHADWICK: I guess, following on from that, matters
37 were raised in the course of questioning of NOW. A number
38 of projects were identified as the projects that NOW might
39 not be able to proceed with at the same pace in the event that
40 it did not receive the prices that it has asked for. In
41 particular, the finalisation of water sharing plans.

42
43 I was wondering if you could elaborate on the extent
44 to which that would affect your operations.

45
46 MS McLEOD: The Murray regulated sharing water plan was
47 completed several years ago, so our issue is the remaking

1 of the water sharing plan in 2014. Our view, in terms of
2 starting that process, it is premature until the Basin Plan
3 is concluded, and we have also been looking to have our
4 water sharing plan extended to 2019, so it is consistent
5 with the water sharing plan that applies in Victoria, which
6 we can trade with.

7
8 In terms of water sharing plans, the Basin Plan is the
9 most significant issue for us, and the transition from that
10 to the new water sharing plan. The Basin Plan is perhaps
11 going to come out as a draft later this year. So, each
12 time frame is unclear. I would have said in the immediate
13 term, it is not an issue. In the longer term, there are
14 probably more significant issues about the transition
15 process.

16
17 MR REID: You indicated that there are some activities
18 that you perform that are common to the activities
19 performed by NOW. I am just wondering if you can identify,
20 or if you have attempted to identify, the costs you incur
21 for those activities relative to what NOW incurs, to give
22 us an indication of the benchmark?

23
24 MS McLEOD: I would be happy to provide costs for
25 activities that we perform. Our water share register is
26 probably the best example. I think in our submission,
27 I put in the number of transactions we did and our two FTEs
28 for those transactions.

29
30 MR REID: That would be the main one, the main
31 common activity?

32
33 MS McLEOD: That's directly aligned. Some of the other
34 issues relate to activities that State water would do. The
35 water delivery/water ordering is a State Water issue as
36 opposed to a NOW issue. The most common issue is our
37 water entitlement registers which run in a similar way, but
38 not exactly the same way. We have a different process for
39 assessing the land management impact. We have a policy
40 process, whereas some of the NOW processes for
41 groundwater and unregulated would be different and not
42 apply to us. But, for surface water, they are probably not that
43 dissimilar.

44
45 MR REID: As to the charges you have within your area,
46 I presume you don't distinguish between water planning and
47 management and infrastructure?

1
2 MS McLEOD: No, we don't, except that we do have an asset
3 renewal charge, which is more aligned with the State Water
4 annuity. When we set our budget, we have lines for
5 different things and we have previously disclosed what our
6 asset renewal charge is, but we haven't broken down our
7 other costs in terms of disclosure, although the water
8 charge rules which the ACCC is in charge of will require
9 much more disclosure of our costs.

10
11 MR REID: And that 70 per cent fixed/30 per cent usage,
12 that applies broadly across all your costs?

13
14 MS McLEOD: We use a different model for our costs.
15 We collect the government charges. Up until this year, we
16 have collected the government charges as they come to us
17 from entitlements and usage. Our own charges are collected
18 differently. We have altered our cost base significantly
19 in response to lower water availability. We have lowered
20 our total cost base and we have made different assumptions
21 about sales, so we are actually collecting a higher
22 proportion of our costs from the fixed charge. But, of
23 course, we operate on a break-even basis and we don't have
24 a government department or a government that may or may
25 not wish to subsidise us. We have to break even, basically.
26 So, we have altered our costs and we collect more from
27 fixed.

28
29 MR REID: You indicated that you believe there were some
30 activities that formerly NOW was funding through government
31 funds, which you now believe are being passed on to users.
32 Obviously one of those you nominated was the Commonwealth
33 reform activities. Are there any other activities that you
34 think fit into that bracket?

35
36 MS McLEOD: I don't know that it is necessarily activities
37 that NOW used to fund and now they are asking us to.
38 I think the demands on NOW have increased as a result of
39 the Commonwealth agreements, or agreements with the
40 Commonwealth Government, so it's placed increased
41 demands on NOW, which they are now seeking to pass on to
42 water users, as opposed to things that they were doing
43 before. I think that clarifies our position.

44
45 MS CHADWICK: One of the comments you made in the
46 course of your presentation was that we should be ensuring
47 that the costs of the unregulated and groundwater were

1 attributed to those users. In the event that IPART does
2 accept scenario two costs within NOW's cost base, that
3 raises the question from who scenario two costs ought to be
4 recovered.

5
6 NOW's proposal - the cost allocation method - would
7 result in some of those scenario two costs being recovered
8 from coastal users, where it does not appear to have the
9 same link to the drivers. Do you think those scenario two
10 costs, if they are allowed, should only be recovered from
11 the Murray Darling Basin users?

12
13 MS McLEOD: Our basic position is that the costs should be
14 recovered from those who drive the costs. As a principle,
15 we do support costs reflective pricing. Having said that,
16 we also have issues with the question of policy and should
17 government actually fund some of the policy, which is what
18 actually happens in other States.

19
20 THE ACTING CHAIRMAN: You suggested in your
21 submission, I think, today, that NOW saves costs because you
22 are undertaking various activities, and that should be
23 reflected in, if you like, a discount on charges that NOW
24 should charge you.

25
26 Have you suggested in your submission the methodology
27 by which those savings can be estimated? I realise you
28 probably can't tell us what the savings are, but I wonder
29 if you could indicate for our consideration the
30 methodology?

31
32 MS McLEOD: We haven't given that a lot of thought.
33 I suppose the main issue is volume doesn't necessarily
34 drive the costs, as opposed to the licence. That would be
35 my first suggestion, in terms of looking at what are the
36 drivers of the costs and to what extent are they volume
37 related or licence-type related.

38
39 Some of the costs are actually avoided costs of NOW,
40 as opposed to savings. If we weren't there, they would
41 have an increased cost, so it is an avoided cost.

42
43 THE ACTING CHAIRMAN: Thank you very much for that.
44 Thank you for your presentation and for answering questions.

45
46 We will now have a presentation from the high security
47 users - Murrumbidgee Irrigation. I ask their

1 representative to come forward and introduce themselves.

2
3 MURRUMBIDGEE IRRIGATION - High security users

4
5 MR ROGER HOARE: I am Roger Hoare. I represent the
6 Murrumbidgee Irrigation high security waters users. You
7 are probably aware that, being a small organisation, we
8 don't have the facilities of super-duper presentations, so
9 you will have to put up with me talking.

10
11 Why high security irrigators? We, in the Murrumbidgee,
12 are fortunate enough to have most of the high
13 security water in the State. Sometimes it is a mixed
14 blessing but, overall, we have done fairly well out of
15 allocations. Most years we get 95 per cent allocation.
16 In case you are wondering what happens to the other
17 five per cent, we, out of the goodness of our heart, in
18 1996 gave up 5 per cent fully paid with all charges to the
19 environment. We believe in the first few years it was
20 going to the environment but, in later years, it has
21 probably been going into general mixed or other
22 allocations. I am sure David Harriss will be able to
23 enlighten me on that later on, bearing in mind, which is
24 probably irrelevant to today, we will be pursuing that in
25 the next round of water sharing plans.

26
27 I would like to start with the current situation with some of
28 our irrigators, the bill, that we pay and the costs that are
29 likely to be imposed upon us. In the first submission,
30 submission, we mentioned what was happening with some
31 of our commodity groups. Particularly the wine grapes were
32 finding it very difficult. Since then our worst fears
33 have been realised, and the wine industry is in severe
34 trouble, as you probably realise, and many of our growers
35 are finding it difficult to make ends meet. So, any
36 increased charges will be very difficult for them to find
37 in any proposed increase.

38
39 Just to give you an example, some people are receiving
40 \$100 a tonne and are producing 20 tonnes to the hectare, so
41 their overall income per hectare is \$2,000. Out of that,
42 for those irrigators that are on this, which is the
43 super-duper system that produces the best results for water
44 use efficiency, some of those charges are now as high as
45 \$400 a hectare. What that means is that in terms of water
46 use efficiency, the people most viable are the people that
47 actually haven't gone down the road of increasing their

1 water use efficiency by investing high-tech irrigation.
2 That's a sad thing because, in the long term future, that's
3 the way it has got to go.
4
5 In terms of what we are talking about in an increase
6 suggested by NOW, it's not all that much. However, in
7 total terms, when we look at the percentage increase, in
8 scenario one we are talking roughly a one hundred per cent
9 increase, and in scenario two, which is the extra
10 ten million, it's a 120 per cent increase. I would suggest
11 to you that if that was in Sydney, being applied to public
12 transport, there would be huge headlines and people
13 marching on parliament and IPART offices, and goodness
14 knows whatever else, but because it seems such a small and
15 insignificant rise, most people sort of see it slipped
16 under the carpet, but we don't. So, therefore, we are
17 making a very strong stand as to why we are opposed to it.
18
19 In terms of the fixed charge versus usage charge, we
20 are, like other irrigators, totally opposed to a one
21 hundred per cent fixed charge policy. In terms of
22 consistency, since we have been forced to accept the fixed
23 versus usage charge for State Water, we would accept
24 whatever State Water has in terms of fixed versus usage
25 charge.
26
27 That is purely for consistency, because when we look
28 at most of our irrigators' bills, while they sort of come
29 out with various charges, now we would probably be faced
30 with four separate government charges and most of my
31 members just look at that - expletive deleted - another
32 government charge. They are not really understanding the
33 separation between State Water and NOW. This is one issue
34 that we have to contend with. It's very difficult to make
35 some of them understand the difference.
36
37 As far as the Basin Plan is concerned, you have
38 heard - no surprise - that we would support no additional
39 net cost to irrigators, along with all the other
40 irrigators. If it is good enough for the government of
41 this State to be included with no net costs; we certainly
42 think that irrigators shouldn't be included either. We say
43 that, purely and simply for the point that Andrew has made
44 before, if IPART can't examine those costs, then they
45 shouldn't be included in any determination you are looking
46 at in the future.
47

1 As far as some of the additional costs that NOW has
2 put up, we don't understand some of them, they being why
3 NOW is involved in structural adjustment. We don't
4 understand what that means. We accept that there is some
5 Basin planning but, again, we don't believe that we should,
6 as users, have that total cost pushed on to us.
7
8 The other thing we don't understand is why we, as
9 irrigators, are being charged through ACCC costs. We would
10 have thought they were totally independent of the office of
11 NOW, and therefore why is NOW being charged for that sort
12 of stuff as well? We don't understand that.
13
14 The other part we find difficulty coming to grips
15 with is the extra people required for the assessment
16 of water purchase. We would have thought that was
17 solely a Commonwealth responsibility and should be funded
18 as such.
19
20 In terms of consumption forecasts, surprise, surprise,
21 we don't support the 20-year rolling average, or the
22 15-year rolling average. We believe the most equitable way
23 of doing that is still going with the historical basis of
24 the 115-year average. Doing it any other way, we feel that
25 we, as irrigators, are disadvantaged because we can't
26 insulate ourselves against periods of drought. It is all
27 very well for people sitting in offices in Sydney saying,
28 "Wouldn't this be nice, we get funded", but our people
29 don't have that choice.
30
31 As to the PwC report, we found it amusing that a large
32 organisation like them were having difficulty understanding
33 some of the submissions from the Office of Water. You can
34 understand why we had an even greater difficulty. We agree
35 with most of the points they make. As I said, we agree
36 with most of their points, and I guess I would leave it at
37 that, other than to say that we do support Andrew's
38 contention that we would be quite happy for this whole
39 process to be delayed until there is proper information,
40 and we support the Irrigators Council's submission on that.
41
42 THE ACTING CHAIRMAN: Thank you very much. Now
43 we will move on to questions.
44
45 MR EDGERTON: Your submission identifies uncertainties
46 arising from the development of the Basin Plan with the
47 operations of the NSW Office of Water and for farmers. How

1 does your organisation see the Basin Plan affecting IPART's
2 price determination process?

3
4 MR HOARE: We feel we will be getting charged double
5 because if we have to pay for the development of the Basin
6 Plan through the Office of Water, and we may be looking at
7 a fairly severe cut through whatever the Basin Plan
8 delivers to us, we think that is a double-edged sword, so
9 we are getting slugged twice for it.

10
11 MR EDGERTON: We heard from the Office of Water this
12 morning that their costs, I guess, are largely fixed in
13 terms of water delivery. Given this, could you please
14 elaborate a bit more or explain a bit further your
15 opposition to their proposal for 100 per cent fixed
16 charges.

17
18 MR HOARE: That is fairly simple. Our people don't have
19 that sort of luxury. It would be nice for our people to
20 be rewarded for all their fixed costs as well. If the
21 Office of Water were to get its 100 per cent allocation for
22 fixed charges, then our people would have no option but to
23 cough up for that, regardless of what various commodity
24 prices and returns are on their operations. It is just
25 another added cost that would be very difficult for most
26 people.

27
28 MR EDGERTON: Do you have any view on the
29 appropriate fixed variable split or ratio?

30
31 MR HOARE: Yes; I mentioned before that we would be
32 happy with whatever State Water has had, so we would go
33 along with that.

34
35 MR EDGERTON: NOW's activities are directed at ensuring
36 the sustainability of surface and groundwater systems. If
37 IPART were to set lower charges than those proposed by
38 NOW, that would suggest that NOW would either undertake
39 less water management activity and/or deliver activities and
40 services more efficiently. What activities proposed by
41 NOW, do you think could be curtailed or delivered more
42 efficiently?

43
44 MR HOARE: That is a fairly good question. Because most
45 of our irrigators are not involved in any groundwater or
46 metering projects, we probably don't have an opinion on
47 that. Most of our irrigators come within the bailiwick of

1 either Coleambally or Murrumbidgee Irrigation. So whatever
2 metering charges they have, we assume they are efficient -
3 they keep telling us they are efficient - but I wouldn't
4 comment further on that.

5
6 MR EDGERTON: Under NOW's proposal, the overhead costs
7 associated with their transaction charges are put into the
8 general cost base to be recovered from water management
9 charges and the direct costs of consent transactions are
10 recovered through consent fees. Why does your organisation
11 suggest that individual works approvals and other
12 transaction charges should be set to recover both overhead
13 and indirect costs?

14
15 MR HOARE: Our basic philosophy is that you can't have
16 cross-subsidies. I think in the past we have shown,
17 through our history, through separation of the general
18 charges, going back into the 1990s, we just don't think
19 cross-subsidisation is on; therefore it is a user pays on
20 that basis.

21
22 MR REID: Just a quick question from me, Roger.
23 Jenny McLeod talked about the very important role that NOW
24 has played for the critical water users and the benefits
25 that were derived from that. But in a more general sense,
26 do you believe you have sufficient communication with NOW
27 and that you receive sufficient information from them on
28 the activities they are performing for you and how well
29 they are performing those activities?

30
31 MR HOARE: We do. If the point is would we pay more
32 for it, I guess the answer is no, because we believe that is
33 one of their core functions. If any activities have to be
34 cut, we would not consider that would be one of them.

35
36 THE ACTING CHAIRMAN: Thank you very much for your
37 presentation and for answering questions. We will now have
38 a break for lunch and we will resume at 1.15.

39
40 LUNCHEON ADJOURNMENT

1 UPON RESUMPTION

2
3 MURRUMBIDGEE IRRIGATION

4
5 THE ACTING CHAIRMAN: Ladies and gentlemen, we will
6 resume. We have a presentation from Murrumbidgee
7 Irrigation. I would ask the presenters to come forward
8 and introduce themselves.

9
10 MR JOHN HOWE: My name is John Howe. I should begin by
11 thanking you for the opportunity to make a presentation.
12 There are a couple of contextual issues that I would like
13 to refer to. The first is that we have spent a lot of time
14 today talking about NOW. In fact to us WAM, or WAMC, is
15 really at issue here. Sometimes I think the two sort of
16 get mixed up in people's minds. NOW, it seems to me,
17 provide services to New South Wales residents in general.
18 WAM very much targets NRM services to irrigators and
19 other stakeholders that use water.

20
21 I think the reason for that distinction becomes clear
22 with the MDBA or the forthcoming Basin Plan cost element.
23 If a lot of the resources were moved into WAM to help
24 defend the interests of New South Wales farmers,
25 environmental groups, et cetera, in relation to the
26 implementation of the Water Act, I think the irrigators
27 would probably pay for that pretty comfortably. By and
28 large there is a bit of a separation that occurs there.
29 The way to illustrate that probably is to ask today how
30 many farmers are here? There are not many. It is really
31 the farmers who pay this. Murrumbidgee Irrigation
32 basically collects the money on behalf of farmers. The
33 farmers are feeling under a lot of pressure because of the
34 Water Act, drought and a lot of other things.

35
36 In making my presentation today, I have to say too
37 that we understand the position of NOW and WAM, and it is
38 very difficult because NOW and WAM are the farmers'
39 champions in relation to property rights and the protection
40 of property rights and in providing NRM services - so often
41 that is the separation. It is often not clear to farmers
42 what they are getting and I suspect it is not often clear
43 to WAM what their specific relationship to farmers is. It
44 is not a typical service provision situation. So it is in
45 that context that I will present some of the thoughts that
46 we wish to put to IPART.

47

.19/7/10 70 MURRUMBIDGEE IRRIGATION

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1 The question a farmer would ask is are we getting a
2 fair go out of all this? From our point of view and
3 referring to this, what WAM is asking for is, in effect, a
4 doubling of prices and charges to the user group. That on
5 its own would normally suggest a massive increase in
6 services. Farmers are not getting that benefit. Farmers
7 are not seeing this massive increase in services. To us
8 just that doubling of charges and the request for doubling
9 of charges suggests that there is a big disjunct between
10 the service provider and the payer. Add to that that we
11 have had the worst drought in recorded history and that
12 farmers are being reformed in the biggest way in history,
13 and that reform is really aimed at reducing the level of
14 irrigation farming. When you add the fact that other
15 states have had relief granted to their farmers - in fact
16 South Australian farmers don't even pay NRM charges at
17 all - then you get a feel for why farmers might be
18 extremely disappointed to see an increase from \$2 to \$4 per
19 megalitre, which is a doubling of charges.

20
21 What farmers don't see, and perhaps the subject of
22 what we are seeing today, is that WAMC has basically failed
23 to justify the massive price increases. If farmers had to
24 wade through the documents they would probably draw the
25 conclusion, "What are we getting here?" It is not really
26 absolutely clear to users what exactly they are getting.

27
28 The second point is that in terms of the IPART process,
29 it has not been demonstrated that that has been provided
30 efficiently or effectively. The conclusion that I would make
31 is that farmers would say, "We are not getting a fair go
32 here." At some stage I think that responsibility for farmers
33 to know that they are being treated well has to come back
34 on us all. I mentioned before that NOW and WAMC
35 are our champions. Part of that championing has to come
36 back to the people who are most affected and that is the
37 farmers. I think that has to be part of future planning;
38 but right now, we have to deal with it inside this process.

39
40 From our point of view, the major problems are,
41 firstly, that the MDBA costs are just being passed through.
42 From the farmers' point of view they don't understand why
43 they are being charged for somebody effectively to take
44 their living or a share of their business away from them.
45 I think Roger Hoare pointed that out. The more telling
46 point here is lack of exposure of those costs and services
47 to efficiency assessment or indeed whether it is applicable

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1 to farmers or not. This is leaving aside all of the issues
2 of potential duplication and layers of governance. It
3 reminds me of the old "Yes, Prime Minister" show where on
4 visiting a hospital, he was told it was the most efficient
5 hospital in the world because it had no patients. I am a
6 bit worried that we are going that way with farming. If
7 the efficiency costs are that high that farmers have to get
8 out of farming, you have to ask, "Is it really efficient?"
9

10 It seems that we are not getting any cost savings with
11 the federal reform program. I think Andrew Gregson
12 referred to this problem. With reform, we are actually
13 just getting layers of government. There are just so many
14 layers that businesses that have to deal with highly
15 competitive international markets will find it hard to
16 continue to meet those costs. The same sorts of issues
17 apply to the implementation of the Commonwealth Water
18 Act. Here PricewaterhouseCoopers make it clear that the
19 business cases have not been very well made.
20

21 There are other problems in so far as we are still in
22 the planning phase. There are issues as to where costs
23 will actually be incurred in the next determination period
24 and, perhaps most significant of all, we have the no net
25 costs agreement with the Commonwealth.
26

27 The interesting thing here is that you have the
28 possibility, it seems to me, that the Commonwealth may
29 reject projects that have been put to it and there is
30 almost a fall-back that if the Commonwealth rejects them,
31 they will be passed to paying customers. The analogy that
32 flicks through my mind every time that I think about this
33 is "The fish that John West rejects." If the Commonwealth
34 rejects spending to provide services in the NRM area, you
35 would have to ask why customers would accept it. That
36 perspective needs to come into the discussion of who should
37 pay for Commonwealth Water Act costs.
38

39 In relation to the other major programmed increase,
40 the core NRM program of WAMC, I think the PwC report
41 probably highlights the deficiencies better than an outside
42 person can. They referred to deficiencies in process, cost
43 allocation - whether efficiencies have been met - and in
44 performance monitoring and review. Our conclusion on the
45 basis of the PwC report is that WAMC are just not meeting
46 the minimum standards required.
47

1 PwC, as Andrew Gregson pointed out, says, "In the
2 absence of clarity, we will arbitrarily reduce costs", I
3 think it was a two-third reduction or something like that.
4 We think that there is probably a case for taking that a
5 bit further. What can IPART do about all this to ensure
6 that farmers do get a fair go? We think the first thing
7 is to actually take account of what is happening in the
8 other states. There is really an emerging competitiveness
9 issue in rural water supply throughout Australia. The
10 potential for water rates to increase costs for one state
11 relative to another is becoming much more important than in
12 the past in terms of where resources are allocated. You
13 have trade. Massive reforms have taken place -
14 transformation and things like that, where it is not
15 actually trade; it is transferred to another location.
16

17 It is becoming very easy to transfer the irrigation
18 and, so naturally, we have the of costs and are taking
19 advantage of differential opportunities. I think Murray
20 Irrigation pointed it out in relation to transformation,
21 that taking advantage of differential opportunities caused
22 by different rates and charges and different circumstances
23 pertaining in regions is increasing - that opportunity is
24 increasing. We think that IPART, more so than it has in
25 the past perhaps, should take account of what is happening
26 in other states.
27

28 The second thing we think should happen is that there should
29 be no real increase in MDBA and Commonwealth Water
30 Act charges. The reason is simply it comes back to this:
31 If it is not subject to the evaluation for efficiency and
32 applicability, it becomes a coin toss. Particularly when
33 farmers are going through such a bad time, it is a pretty
34 unfortunate coin toss.
35

36 We also don't believe there should be a real increase in NRM
37 charges. As an example, PricewaterhouseCoopers, when
38 reviewing the capex program, found that there had been
39 no real justification of a number of the estimates. They
40 then said, "Well, you go back to square zero until that
41 justification is provided." What we say is that really you
42 go back to zero increase unless full justification for the
43 operating costs is provided as well. There is sort of a
44 tendency to say, "We have to increase our costs because
45 there are these things happening." We believe that it has
46 to be done with zero budgeting, although the term probably
47 has bad connotations, where you have actually proved your

1 case for each expenditure item. That is really the
2 starting point. It is the principle that PwC applied in
3 capex when they recommended that those capex projects not
4 be included in the costs. We would therefore recommend the
5 same thing on core NRM charges. If that is not possible,
6 we would at least suggest limiting the core NRM charge
7 increases to those recommended by PricewaterhouseCoopers.

8
9 We think this is really important because it would
10 provide some incentive for reform by critical agencies in
11 the overall water delivery system. Thus far, I think
12 farmers could be forgiven for thinking, "Jeez, we've
13 bugged up this system for a couple of hundred years", or
14 however long; say a hundred years - because all of the
15 reforms have been focused on farmers. I am leaving aside
16 some important public sector reforms that were made early,
17 so I am being unfair with that, but over the last few years
18 a farmer would have to think that he is probably the
19 problem. Ongoing reform by people like Murrumbidgee
20 Irrigation and the relevant government agencies, like State
21 Water really has to be part of the successful delivery of
22 the water reform objectives.

23
24 Another thing that we think IPART should do is to take
25 account of the reform program that is going on and the
26 drought. Roger Hoare mentioned this. The best analogy I
27 can think of is that it is almost like being a member of a
28 golf club, where 100 per cent fixed costs services are
29 being provided irrespective of whether people play golf.
30 To continue the analogy, what is happening here is we are
31 getting a doubling of members' charges and we are getting a
32 reform that is taking out the 17th hole and the 13th hole
33 and all these sorts of things are going on at the same
34 time. I don't think that the two can be separated that
35 readily. We think that the reforms and the drought should
36 be taken into account, especially in relation to
37 portability.

38
39 I am probably taking too long, but there are important
40 supporting decisions which we think should be made. I
41 don't think these will be much of a surprise, so I will go
42 through them quickly. We don't think the RAB approach is
43 applicable. The PwC review shows, we think on the capex
44 side in particular, that WAMC is not ready for that.
45 Consumption forecasting has been a bit of a problem in the
46 past. We acknowledge that it is a real difficulty for the
47 service providers to shore up their revenue. In the State

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1 Water determination, we suggested that a direct measure of
2 the costs be made for under-recovery in the event there was
3 still a move to the 20-year consumption forecast with a
4 consequent insurance cost included.

5
6 Our proposal was really a way to try and make smoother
7 the costs of a transition within consumption forecasting
8 whenever such change took place. In other words, that
9 consumption forecasting has the ability to change price
10 dramatically. If we recognise that that trade-off will be
11 with us continually, we can adopt methods so that that
12 transition does not present a shock to either customer or a
13 service provider or a huge shock. So our thoughts now are
14 that if we do go to a changed 20-year moving average in
15 consumption forecasting, we probably need not worry about
16 the insurance charge, especially in relation to WAMC who
17 are probably not as vulnerable as State Water, but that we
18 use IQQM and the 20-year average to get a smooth transition
19 to the full 20-year moving average. We think that some
20 methodology there would make it more acceptable to both
21 the customer and the service provider.

22
23 We reject the move to 100 per cent fixed charges
24 largely because we think the separation between WAMC and
25 customers needs to be closed and the 100 per cent fixed
26 charges is an incentive really to maintain the status quo
27 and keep them all more separate. We think the move from 90
28 per cent to 100 per cent recovery should be rejected also
29 because of the competitiveness issue.

30
31 We have some concerns about cross-subsidies. We note
32 that there has not been full cost recovery for water
33 consents in the past and there have been several questions
34 today about what would be sacrificed if we do not have
35 sufficient resources to do everything that NOW has asked
36 for.

37
38 I would cite what happened in the last determination
39 period, where there was quite a provision made for water
40 sharing plan production and it didn't occur and the
41 resources were redirected, it seems, in this case, largely
42 to overruns in the water consents side of the business. If
43 I am wrong in that, I am sure NOW would correct it, but
44 there was certainly a big unders in water plan sharing
45 expenditure and a big overs in the water consents
46 expenditure relative to expectations at the start of the
47 last determination. We would want that not to happen again

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1 because, in effect, it is cross-subsidisation from water
2 users to water traders and we don't see why that should
3 occur.

4
5 We also note from the PwC report that overheads are
6 excluded from the cost calculation that is used to set the
7 water consents charges. We think that too is a
8 cross-subsidy. I am presuming from the PwC report that the
9 charges - the overhead charges - are just WAM charges and
10 it just changes the distribution of who pays rather than
11 another fixed charge coming in. It is sometimes difficult
12 to interpret the financial statements, but certainly our
13 expectation is that there would be a transfer currently
14 from users to traders and we think that that should cease
15 in the next determination.

16
17 We were interested to note in the PwC report that
18 there was references to metro water costs. Just on the
19 face value, we cannot understand why metro water costs
20 would be paid by rural customers. We think that the
21 problems identified by PricewaterhouseCoopers that are
22 associated with allocating costs across valleys should be
23 addressed because that is just cross-subsidisation across
24 valleys.

25
26 We note that that probably relates back to the old
27 arguments about discounts for ICs. They called it
28 customers with large entitlements. To the extent that it
29 is working against IC customers, obviously we have a
30 particular interest, but it is just another one of those
31 things where there is cross-subsidy and it is unnecessary,
32 we think it should be addressed.

33
34 It is very difficult to know what is really going to
35 happen with the increased monitoring, measuring and meter
36 upgrades projects. Our concern there is again that we, as
37 an entity with a huge number of farmers, don't want our
38 farmers to have to pay again for upgrades in metering and
39 measuring and monitoring because we know that we have
40 been state of the art for a decade. Perhaps because of the
41 volume of water that comes through, we have very, very high
42 quality monitoring and measuring of services. If there are
43 costs going on to the rest of the valley - and we
44 understand that, that is coming in to the rest of the
45 valley - it really should not be impacting customers in
46 companies like Murray Irrigation and Murrumbidgee
47 Irrigation, Coleambally, et cetera.

1
2 We don't think minimum charges should be insulated
3 from cost increases. Unlike New South Wales IC, we are not
4 sure what the levels should be, but we certainly don't
5 think it should be just left where it was. We can't see
6 any reason why that should occur.

7
8 We are concerned about the general treatment of unders
9 and overs in the budgets given the experience in the last
10 determination. It is critical when planning that we charge
11 the right people. It is also critical that NOW and WAM
12 have the flexibility to respond to current circumstances.
13 If those two things mean a big difference after each
14 determination period, then perhaps we need some sort of
15 retrospectivity perhaps, or adjustment in the next period.
16 I would refer. For example, if water traders have gotten a
17 big boost out of the last four years and users have paid
18 for that, in effect, then maybe we need some adjustment
19 mechanism in this one that even corrects it.

20
21 We acknowledge that we don't want WAM doing stuff just
22 because they thought it was the best thing to do at the
23 start of a determination period and then, when reality
24 takes over, saying, "Look, the priority here is now an
25 activity that was not foreseen at the start of the
26 determination." We want them to have flexibility in
27 judgment, the flexibility to respond to judgments later.
28 But perhaps there might be some mechanism to improve that
29 unders and overs sort of outcome especially when it means a
30 big differences for who pays and who receives the service.

31
32 We don't like just the general consolidation of
33 things, like the groundwater to inland and coastal,
34 irrespective of who wins and who loses, unless it is proven
35 that there really is no cross-subsidy. In this case, we
36 don't think that has been proven, and it just seems a
37 massive difference for groundwater users - we haven't got
38 that many - in one part of the Murray Darling Basin and in
39 New South Wales, relative to another, if their costs were
40 exactly the same. It just seems unexpected.

41
42 Finally, we think any attempts to improve future
43 performance measuring, monitoring and the customer liaison
44 would be really beneficial.

45
46 The final thing that I wanted to talk about was the
47 question of affordability. This chart here is drawn from

1 an average survey of irrigation farms in the Murray Darling
2 basin in 2007/2008. What it shows on the horizontal axis
3 is the percentages. It goes from nought to 50 per cent in
4 20 per cent increments. On the top left-hand side it shows
5 rates of return for average Murrumbidgee farms in those two
6 years. In 2007 it was about one per cent, and in 2008
7 about 6 per cent rate of return. They are not good rates
8 of return and the outlook for farmers right now is not much
9 better. We have had a good start to the year, as everybody
10 knows, but sometimes that can be more costly because you
11 put in the planning costs and make the investments, and if
12 the second half of the year goes sour, you actually use
13 more than if you had a nice prolonged drought for the whole
14 year. It sounds ironic, but it's probably the case.

15
16 I will refer now to what IPART generally uses, which
17 is water rates as a percentage of cash costs, this item
18 here, and water rates as a percentage of cash receipts in
19 the Murrumbidgee valley. This is averaged over
20 everybody - high security, general security, large areas,
21 small areas. They are at levels I think predicted by IPART
22 in its past assessments of affordability.

23
24 Above that, though, is water rates just as a
25 percentage of cash surplus in those years. You can see
26 there that it is between 20 and 40 per cent. That is just
27 cash surplus. It is not counting things like costs of
28 depreciation. I believe it needs to be better clarified,
29 but I believe that those results include water trading cash
30 receipts.

31
32 The affordability of farmers, when measured relative
33 to cash surplus, is much, much less than relative costs.
34 So, what we would ask IPART to do finally, I suppose, is to
35 take a broader view of affordability than they have in the
36 past and, in that line, I'd probably recommend that average
37 survey, because it does have a very large range of
38 information, that IPART could probably use in such an
39 exercise. We think that if the indicator affordability was
40 expanded, it may show affordability is somewhat more
41 difficult at the moment than simple ratio relative costs or
42 income.

43
44 Thank you very much for the opportunity, again. I am
45 happy to take questions.

46
47 THE ACTING CHAIRMAN: Thank you, John, very much for
that.

1
2 I just wanted to make one comment on the presentation,
3 if I may. I do appreciate what happens in New South Wales
4 in terms of cost recovery differing to what occurs in
5 South Australia and Victoria, but, nonetheless, we've had a
6 consistent policy requiring full cost recovery of
7 activities of water management, and the benefit has been
8 now for a number of years and I don't think it's likely
9 that that is going to change. I wouldn't want to encourage
10 you to think that it might.

11
12 MR HOWE: I am very aware that IPART has to make
13 decisions in relation to the IPART framework. When making
14 presentations like this, we have got the proposer and IPART
15 together. In that context, some of these issues that may
16 not be directly related to the IPART framework might be
17 dealt with.

18
19 For example, New South Wales putting on their NOW hat
20 might say to the WAMC side of their business, "Well, taking
21 these things into account, maybe we should withdraw that
22 part of the bid", it would make it easier for IPART.

23
24 THE ACTING CHAIRMAN: Thank you.

25
26 MS CHADWICK: In terms of your view about valley-based
27 pricing, Murrumbidgee Irrigation is concerned that a move
28 towards the inland coastal groundwater pricing is a move
29 away from cost reflective pricing. However, according to
30 NOW, the consolidation of groundwater tariffs is about the
31 fact that those aquifers extend across valley boundaries
32 and that the cost drivers are more closely aligned to
33 inland and coastal. Also, as we heard earlier, costs are
34 not recorded against those particular resources in the way
35 you perhaps might have otherwise thought. Given this,
36 would Murrumbidgee still seek a continuation of valley-
37 based groundwater prices?

38
39 MR HOWE: It's difficult. We don't know the analysis
40 behind the conclusion that WAMC and NOW has drawn.

41
42 To us, it seems that one of the biggest problems in
43 rural water supply is that where there is a small customer
44 base, you can end up with providing services at a fairly
45 high level, but being unable to charge that customer base
46 for those services. It is not economical, I suppose. You
47 can't charge them and expect them to keep operating. We

1 think that that's one of the problems. With this issue of
2 cross-subsidy, we think that at every investment or
3 decision to provide services, that needs to be taken into
4 account, and to just lump all groundwater users into two
5 areas on the basis proposed by NOW doesn't seem to us to
6 address that issue. It is much more than just the basin;
7 it is the servicing of the sinking - I am not a technician,
8 but banging the spur in and, you know, monitoring that and
9 measuring. All of those things drive the costs. We would
10 expect them to be pretty differential.

11
12 MS CHADWICK: Some of the issues you were referring to
13 then relate to transparency and the communication of
14 information to users. One of the issues that is before us
15 is about how to improve the link between performance and
16 prices, and presumably also communication with customers.
17 Does Murrumbidgee Irrigation have some suggestions that
18 we ought to be considering?

19
20 MR HOWE: It is really difficult. As I mentioned earlier,
21 WAMC is sort of part of NOW - well, it is part of NOW, but
22 it is sort of a different service provider. NOW is
23 probably juggling that service provision in order to reduce
24 overheads, and rather than setting up another unit, which
25 might be a high cost, NOW is probably trying to keep costs
26 low in not doing that sort of thing.

27
28 Likewise, I note that they do piggy-back other
29 consultative forums, like State Water. It is very
30 difficult to sit back and say, "Why don't you try that?"
31 I wouldn't propose to do that. When I mentioned that those
32 problems exist, I think the importance of that is
33 acknowledging the divide and perhaps allowing current
34 processes to address it over time.

35
36 MR EDGERTON: Building on that previous question a little
37 bit, in your presentation you mentioned briefly that you'd
38 support reporting requirements being imposed on NOW, or
39 the provision of information being provided by NOW. What
40 sort of information or reporting requirements were you
41 thinking of, and what would be the benefits of that?

42
43 MR HOWE: Basically I was referring more to the
44 recommendations there from PricewaterhouseCoopers. Again,
45 it's very difficult to sit outside an organisation and make
46 a constructive suggestion about things of that nature.

47

1 I have to acknowledge that NOW and WAMC have improved
2 their reporting relative to determinations. I think there
3 is an improvement occurring. I guess I'd leave it to
4 consultants such as Pricewaterhouse, in consultation with
5 NOW and IPART. I think they'd do a better job than me just
6 standing back here and making suggestions.

7
8 MR EDGERTON: Your submission mentions that IPART should
9 eliminate the potential for double-counting of measurement
10 and monitoring charges for customers such as
11 Murrumbidgee Irrigation, from implementation of metering
12 upgrades and additional monitoring elsewhere in the system.
13 Could you please explain what you mean by this and can you
14 provide a suggested course of action for IPART to ensure
15 that such double-counting or double-charging does not
16 occur?

17
18 MR HOWE: I think the issue relates to both. That problem
19 is essentially one of the irrigation discounts sort of
20 still living on. In effect, our farmers, within our system
21 are a very simple customer in so far as they have got a
22 couple of delivery outlets. A lot of the natural resource
23 management operational deliverables have been passed to
24 us. The measurement, because it's so critical to get it right,
25 has been high quality for a long time. So, it is in those
26 areas that a lot of the increases in expenditure are
27 occurring, but if you then just even it out across water
28 entitlement volumes, you end up having our farmers pay
29 twice. It is exactly that which we'd be seeking to avoid.

30
31 It's a tricky one. The irrigation discount was there
32 to deal with that, but we went a different way there, so
33 I guess we would suggest vigilance and perhaps in those
34 critical areas where the irrigation discounts were seen to
35 apply or still apply in State Water, such as measurement
36 and monitoring - I can't remember the other areas off the
37 top of my head, but there's about three or four. To the
38 extent that they are in WAMC's costs, that they be
39 particularly looked at in so far as whether irrigation
40 companies or farmers in irrigation companies are being
41 forced to pay twice.

42
43 THE ACTING CHAIRMAN: Thank you very much for your
44 presentation and for answering questions.

45

46

47

1 QUESTION SESSION

2
3 THE ACTING CHAIRMAN: Now people sitting in the
4 audience can ask questions or make comments if they wish to
5 do so. In some cases you may wish to ask an additional
6 question or make an additional comment.
7

8 MS LOUISE BURGE: Thank you very much for the opportunity
9 to make a brief comment. I am representing Southern
10 Riverina Irrigators, which is a body of irrigators within
11 the Murray Irrigation region of southern New South Wales.
12

13 I would just like to take this opportunity to support
14 Murray Irrigation's submission and also New South Wales
15 Irrigators Council submission. I will leave the detail of
16 their submission as is and I won't go through that, but I
17 would just like to make a comment from perhaps a farmer's
18 perspective, representing Southern Riverina Irrigators, and
19 also make a brief comment on groundwater, which is outside
20 the Southern Riverina Irrigators, and that is made from a
21 personal perspective.
22

23 The biggest concern I think many irrigators have is
24 that full cost recovery has no boundaries. It is not just
25 about delivering an entitlement; it is increasingly about
26 delivering policy areas, and that's where our notion of
27 full cost recovery has gone way beyond perhaps original
28 discussions.
29

30 John Howe, from Murrumbidgee Irrigation, mentioned
31 before about the layers of government departments. I think
32 we are seeing that very much with both NOW and the MDBA.
33 If you look at examples of, say, policy areas, we have
34 policy areas with department name changes. For example,
35 even if we look at NOW's history, we have Water Resources,
36 we have DLWC, we have the Department of Planning and
37 Infrastructure, and I do believe there was another name,
38 but I can't remember it.
39

40 However, while we might make light of those comments,
41 it is a serious issue. We don't know, through the
42 transparency arrangements, what costs are coming through
43 to us. I am concerned that increasingly irrigators are being
44 subject to policy decisions, and we know over time with
45 these water reforms there is going to be fewer entitlements
46 out there. Therefore, any cost increase being imposed on
47 an entitlement becomes more significant over a period of

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1 time.

2
3 For example, with the Murray Darling Basin Authority,
4 we were told initially that there would be no net costs to
5 the States. Now, already before the ink is dry, that
6 principle of no net costs - sorry, no cost increase, has been
7 forgotten. There is a lot of uncertainty with the MDBA.
8

9 We are told, for example, that environmental
10 entitlements will retain their characteristics. We are
11 told, or we presume, that planned water will have a cost
12 ratio that is somewhat different and may come back to us.
13 The real issue about that is we simply don't know and we
14 should know as we are moving forward.
15

16 If we are expected to have full cost recovery, I think
17 we need, and should be entitled to, transparency,
18 audibility and accountability, and we are now facing
19 multiple costs of NOW and MDBA. I appreciate that IPART
20 is not necessarily involved in all aspects of that.
21

22 One of the greatest things is that the goalposts are
23 forever changing. Every time we have an IPART
24 determination, we are meant to be closer to full cost
25 recovery. We get there and the goalposts have changed
26 again.
27

28 I will come back to groundwater shortly. Farmers are
29 increasingly being asked to absorb any inefficiencies
30 within NOW and potentially MDBA. For example, some of
31 the public service conditions, employment conditions, might
32 not be as flexible as what we might want, so, therefore,
33 skills-based staffing is something that we don't have any
34 influence over. For example, as staff move around to
35 various positions, we are not sure, or we don't know,
36 whether that's the best skills-based area, and we may - we
37 may or may not - have some inefficiencies that could come
38 about because of staffing arrangements, and yet we are
39 expected to maintain those costs.
40

41 With the meters and other sort of projects, again,
42 there is not a lot of transparency in how those costs will
43 come about. I was somewhat disturbed this morning about
44 some of the comments from NOW, and I would just like to
45 repeat a couple of these, because they are very important
46 as to why we get some level of uncertainty. For example,
47 NOW always sought to reflect costs associated with IPART.

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1 Another one was some problems do exist, and who to report
2 to. It is not easy, and it does require some organisation.
3 We may improve reporting time and activity. We believe we
4 can report in a timely manner.

5
6 We understand the difficulties in any department, and
7 it is incredibly hard, as we know also with our own
8 businesses, but we have to have confidence in order to pay
9 full costs recovery. That's what we are asking for and
10 I think we can achieve that level of confidence with
11 transparency.

12
13 We are moving into very difficult times and a level of
14 uncertainty. We have an uncertainty of policy, uncertainty
15 in costs, and I think if we are going to be expected to
16 have that full cost recovery, I think that's not a lot to
17 ask. We need that certainty and we need that transparency.

18
19 In relation to, finally, groundwater, taking a very
20 simplistic approach to groundwater in terms of inland and
21 coastal zones, I can certainly understand it from a NOW
22 management scenario, but I do think we need to consider
23 that there are a lot of water sharing plans still not in
24 place, or a number of water sharing plans put in place, and
25 perhaps now could explain what are the price increases
26 being absorbed from other non-water sharing plan areas that
27 will be put on to those people? In other words, you will
28 get cross-subsidisation of some areas that already have a
29 water sharing plan, and for those that perhaps haven't had
30 a water sharing plan.

31 Thank you.

32
33
34 THE ACTING CHAIRMAN: Thank you very much.
35 Another question?

36
37 MR REL HECKENDORF: I will be as brief as possible,

38
39 With regard to unregulated water supply, I just find
40 that difficulty with the anomalies in the stock and
41 domestic and unregulated system - I have a stock and
42 domestic licence which I can't change either temporarily or
43 permanently, and I get charged for it. I have landholders
44 not far away from me that just use basic landholder rights
45 and can use the same quantity of water and it doesn't cost
46 them anything. They'll get it metered; nothing happens to
47 it.

1
2 I just find that an anomaly, and if the charges go up
3 significantly, then I would have to consider ending the
4 stock and domestic licence and just using the basic
5 landholder rights. I would be no worse off; I would be
6 better off because I would have lower charges, or I would
7 have no charges at all.

8
9 I am a bit concerned about the metering costs. State Water
10 put up a metering charge to IPART, and I assume IPART
11 has accepted that. We've got NOW putting up a similar sort
12 of cost. I am not too sure whether this is not doubling
13 up.

14
15 I can't see where we get extra costs from the drought.
16 The allocation announcements have come out on the same
17 basis as before, it is just a matter of adding up the
18 figures. There is no difference whether you've got
19 20 per cent or none.

20
21 Eliminating regional people is where there is a cost
22 saving, but we have paid for it because we now do not have
23 a say in what services we want; it is all determined by
24 government and people in Sydney. I would be opposed to
25 any increase in the minimum, simply because the State Water
26 system of billing does not allow you to amalgamate the
27 bills. I get about eight different bills with different
28 amounts on them, and I get a minimum on about three of
29 them. If I could amalgamate them, I'd only get one
30 minimum. So I find that if the minimum changes, it's a
31 severe disadvantage to me, and I can be paying \$600 instead
32 of \$200.

33
34 The other issue with metering is I understand that NOW
35 said this morning it was a 20 per cent under-reading.
36 I don't think that's correct. From the work of Water for
37 Rivers has done, it's a lot less than that. It's unders
38 and overs.

39
40 My next-door neighbour has a meter, and he's been done
41 like a dinner by about 10 per cent for years. So, there
42 are unders and overs in some of the information, and
43 I think that they can get that information from Water for
44 Rivers, from their project. So, there is no real savings
45 in changing the meters.

46
47 The other issue is national standards. National

1 standards are costing us a lot more money to install meters
2 with very little benefit. I think the benefit could be
3 less than one per cent to go from a reasonable standard to
4 national standard. I think you should be looking at some
5 of these things and coming up with a reasonable
6 determination.
7
8 THE ACTING CHAIRMAN: Thank you. Are there any
9 further comments or questions?
10
11 MS McLEOD: I have a question for David Harriss about
12 the hydrometrics service. David, with regard to the
13 hydrometric service in the expansion for your sites versus
14 the sites that we pay for through State Water are you able
15 to explain where the benefits of your expanded network are
16 for regulated water users?
17
18 MR HARRISS: Yes, I can. The first thing is if you look
19 at our broader hydrometric network, it is paid for from a
20 number of sources. A lot of our sites are paid for by the
21 Bureau of Meteorology. Others are paid for by the Murray
22 Darling Basin Authority. We have sites for operational
23 purposes paid for by State Water and we have sites that are
24 paid for out of purely recurrent funding, which involves
25 things like our flood gauging systems particularly in the
26 coastal areas and the fast-moving streams. We also have
27 gauging downstream of weirs and downstream of tributaries
28 to assess all that kind of stuff.
29
30 With the enhancement funds, what we have put in for is
31 for a capital increase to put into those sites. Then we
32 have looked at where we are going to get the people, if you
33 like, the other resources to service those sites. We
34 prioritise the sites that we want to keep going, making
35 sure that we look after our contractual commitments to
36 State Water and our contractual commitments to the Murray
37 Darling Basin Authority and maintaining the high priority
38 flood networks.
39
40 We are trying to get additional funds and additional
41 staff on to undertake that work, which we believe is
42 important - that is the only reason why the Commonwealth
43 are funding it. Until then, we are starting to move
44 people from some of those lower priority sites. As I said
45 earlier in my presentation, since 1980 we have closed down
46 400 sites. It is not as if we are maintaining sites for
47 the sake of maintaining sites; we are looking at the

1 priorities and moving our people to best deliver those.
2
3 THE ACTING CHAIRMAN: Thank you. Are there any
4 further comments or questions?
5
6 MR HOWE: I want to take up something that was
7 mentioned in the presentation. I noted that when Jenny
8 McLeod was talking about costs for small clients, she
9 mentioned that the benefits were not being reflected in the
10 costs. From our perspective also, the costs really are not
11 being reflected.
12
13 There are very significant costs associated with small
14 suppliers per unit and I think that should be a
15 consideration when we take into account the minimum
16 charges. The minimum charges are usually to small
17 suppliers and their unit costs are, in our experience,
18 very, very large. In terms of the IPART framework, it is
19 really cost drivers and not beneficiaries. I think that is
20 an important distinction. Thank you.
21
22 THE ACTING CHAIRMAN: Thank you. Any further questions?
23
24 MS BURGE: Could I direct a question to David Harriss. In
25 relation to stock and domestic or BLR, perhaps you could
26 clarify my understanding. If it moves to a volumetric
27 entitlement, is it likely that each one will require a
28 meter? If that is the case, who will be expected to pay?
29 In terms of compliance, what is the expectation that the
30 compliance factor will extend to the multiple sites on
31 peri-urban areas or is there an expectation that only
32 random compliance factors will occur perhaps in rural areas
33 and not necessarily in peri-urban or urban areas?
34
35 MR HARRISS: Could I hand that question over to
36 Rob O'Neill.
37
38 MR O'NEILL: That is a multi-pronged question. What we
39 are intending to do with the landholder rights management
40 or D&S users issue, as I mentioned earlier, is to go into a
41 public phase for the volumetric limits. While those limits
42 will be mandatory, there will not be licence entitlements.
43 Our intention is not to meter those either except where
44 there might be an indication of somebody being
45 non-compliant with their volumetric limit. In that
46 instance, we will have the legislative power to require
47 them to put a meter on and to demonstrate that they are in

1 compliance with the volumetric limit.

2
3 I think you also asked the question in relation to
4 proliferation of basic landholder rights. Is that what you
5 were getting at? Once we get the volumetric limits in
6 place and the clear description and the purpose to which
7 those limits can apply, then we will need to address the
8 issue of proliferation of that through subdivisions, for
9 example. It is something we have not addressed
10 sufficiently yet, but it is on the books to do after the
11 guidelines are in place.

12
13 MR HARRISS: Can I add to that question on the peri-
14 urban areas that one of the whole purposes of basic
15 landholder rights was because of the proliferation of
16 subdivisions in peri-urban areas, mainly around places like
17 the North Coast and, say, Mildura and Buronga, where we
18 are getting all sorts of battleaxe blocks so that people can
19 have direct access to frontage to the river.

20
21 It is a very difficult issue to address. It is one of
22 those issues that will not be the first order of issues in
23 the development of basic landholder rights, but how we
24 address that is something we will look at in the coming
25 years.

26
27 THE ACTING CHAIRMAN: Thank you.

28
29 Are there any further comments or questions? Let me
30 then invite David Harriss and his colleagues to respond to
31 what has been said during the day.

32
33 NSW OFFICE OF WATER - STATEMENT AND RESPONSE

34
35 MR HARRISS: Thanks, Jim. I would like to thank you for
36 the opportunity to talk here today. I think the
37 interaction has been good. I am really surprised there are
38 not many people here, and John Hoare made the point.
39 Whilst Halcrow and others have previously demonstrated
40 that the water price is not a huge component of all the
41 business, it is greater in droughts and it is coming on top
42 of a turn-down in commodity prices and what have you, and I
43 am surprised that we did not get, as a consequence, a lot
44 more people here because it was reasonably well advertised.

45
46 Notwithstanding that, I have to comment, firstly, on
47 the concerns for the priorities and policies made by people

1 living in Sydney that have been mentioned by speakers
2 today. I am from Albury. Deb was born and grew up Wakool.
3 Tony is from Tamworth and Rob is from Sydney. Whilst we
4 are no longer regionally based, we do draw on a whole lot
5 of people who have a lot of regional experience.

6
7 There has been substantial concern that we are not
8 transparent in our costs and our efficiencies. I find that
9 somewhat amazing, really. We provided IPART with every
10 bit of information that has been requested of us.
11 Notwithstanding that, if it does not enable us to identify
12 our costs and our efficiencies, I think it is really up to
13 IPART and ourselves to work out what is the future process
14 and how we can be more succinct and more clear and how
15 we can engage the stakeholders in another way that we are
16 not challenged.

17
18 Quite frankly, this process that is included in New
19 South Wales is streets ahead of the other jurisdictions in
20 even coming to a table and coming to a forum like this and
21 outlining the costs. I think Victoria now has the
22 Essential Services Commission, but I don't think there is
23 any other forum anywhere else in Australia for the same
24 process.

25
26 I would like to thank those people who have
27 acknowledged the good work that has been done and the
28 collaborative work that has been done between stakeholders
29 and the NSW Office of Water.

30
31 I suppose we should have clarified our position in the
32 first instance. The Office of Water is neither an advocate
33 for industry nor is it an advocate for the environment. We
34 have other organisations which do that. Our role has been
35 to weigh up all of the issues and then report to a separate
36 minister about issues for good management of water in
37 consideration of the socioeconomic, environmental and
38 cultural impact. We have a completely different role from
39 other environmental advocacy agencies or industry
40 advocating agencies.

41
42 A few points were made, and these might not be in
43 order, that I would like to comment on. Andrew Gregson
44 made a point about eliminating the unallocated resources.
45 This was work that particular individuals in the Office of
46 Water had done but had not charged as specific activities.
47 Many of those are charged to cost centres and

1 disaggregated.

2
3 I will give you a perfect example of that - myself. I
4 don't sit down every day and allocate 50 per cent of my
5 time or 20 per cent or 5 per cent or 2 per cent or 0.1 per
6 cent across all of the activities that are undertaken under
7 IPART business. Nor would it be appropriate that the
8 directors who handle activities state-wide do so because
9 they can be on the phone or doing work in one region for
10 five minutes, then another region for another two minutes
11 and then back on. It would be illogical to try to allocate
12 that time. It would require a significant increase in
13 administration which is just not worthwhile and is
14 certainly not efficient.

15
16 There was talk about the lack of information. As I
17 have said before, I think we have provided all information
18 that has been requested of us.

19
20 I would like to talk about the inconsistency with the
21 other states. A number of issues were raised about that,
22 particularly by Andrew Gregson and by John Howe. There
23 are a couple of particular items about that; namely, that
24 South Australia doesn't charge for natural resource management
25 costs and Victoria subsidises or has picked up the water
26 use charges in the recent years when allocations haven't
27 reached a certain point. South Australia has paid its
28 users subsidies so they can go on the market and buy water.

29
30 My personal opinion is that New South Wales was
31 charged with implementing the COAG water reforms. We
32 were charged with implementing those and with the national
33 water initiative. We are doing that and we are honouring
34 that. I think it would actually compromise good water
35 management if we were all to aspire to the lowest common
36 denominator. That would not meet our requirements of
37 making water management efficient or effective if we were
38 not to go along and try and implement as best we can all of
39 the principles of the COAG water reforms. I think it is really
40 aspiring to mediocrity to go to the lowest common
41 denominator.

42
43 We have been quite upfront with the concept of fixed
44 charges. I know that just about every other presenter has
45 said otherwise. Quite clearly that is in the ballpark of
46 IPART, but I do note, Jenny, that MI has moved to higher
47 fixed charges during the dry period. As we are going in

1 and trying to point out a 15-year or 20-year horizon, we
2 are in a far dryer period than we have been over the
3 modelled history.

4
5 John, you talked about not achieving our expenditure
6 on the water sharing plans. We had a slide devoted to
7 that in our presentation. What we said on that will be in
8 the transcript. I won't repeat that because I believe we
9 have that covered.

10
11 Andrew Gregson said that there was a reticence on
12 behalf of the Office of Water to provide information. I
13 don't believe that is so. He said that there was not much
14 work involved in critical water user groups and the
15 administration of those. Well, I would like to clarify
16 that a bit. It might seem easy that we have had
17 35 meetings each in the Murray and the Murrumbidgee.
18 Some of the issues that those groups determined and
19 provided advice on - and they were only advisory groups - to
20 the minister were quite substantial.

21
22 As an example, in the Murray Valley, where we had no
23 water available in 2006/2007, we had to distribute what
24 limited water we had just to keep citrus trees alive and
25 vines alive. We had to work with a number of feedlot
26 owners who said it would look good on the front page of the
27 Australian that they had to shoot 50 head of cattle because
28 they did not have any water to maintain them.

29
30 We had to go through quite a comprehensive process in
31 determining how water would be allocated to individuals.
32 Whereas, if we had just gone through a blatant process of
33 honouring where we could the water sharing plan and letting
34 the market take its course, it would not have been a very good
35 outcome for New South Wales and it would not have been
36 a very good outcome in the valley. I think we had the
37 support of the user groups in doing that. Our priority was
38 to maintain the long-term viability of our water use
39 industries, including feedlots, including horticulture,
40 including viniculture, including town water and industries
41 which depend on water.

42
43 Another one of the major issues was trying to reach
44 agreement on town water restrictions, which even after
45 three years I don't think we have reached agreement on.
46 However we still we have a policy that I think is better
47 than anybody else in the Murray Darling Basin which links

1 town water restrictions to the availability of high
2 security water. I think that has been effective and people
3 are beginning to realise why we have restrictions.
4 Unfortunately whilst every stakeholder, every individual,
5 including my wife, asks why do we have to have restrictions
6 in town water supply as we only use, as John or Jenny
7 pointed out, 1 per cent, it is part of sharing the pain and
8 we will wear that and link it. I think we have a far
9 better policy, a policy which has been co-operatively
10 developed with our stakeholders, than any of the other
11 jurisdictions.

13 Andrew, I think, and John and Jenny talked about
14 extending our water sharing plans and any cuts that come
15 with the Murray Darling Basin Plan to 2019 to be consistent
16 with the Victorian process, which is again the lowest
17 common denominator. My equivalent has said whilst they
18 have to the capacity to do that, he does not believe that
19 that will happen in Victoria. Even so I do not think there
20 is a provision in the Commonwealth Water Act for that to
21 happen.

23 There is a five-year transition period in the
24 Commonwealth Water Act for the implementation of the new
25 water sharing plans we have, which actually takes it
26 through from 2014 to 2019. I think it would be pretty
27 unrealistic to go out to the general public and say, having
28 gone through the water reform process that we have had in
29 the last your fears, that we won't be doing anything in the
30 next nine years. I don't think that would win the hearts
31 and minds of people, particularly in the major urban
32 centres.

34 There was talk about competitive neutrality. New South
35 South Wales can do nothing but agree. We don't believe we
36 should compromise our water management process and the
37 COAG reforms and the NWI reforms and really distort the
38 markets. We are out there leading and I don't think we
39 should take a backward step.

41 John, you said you can't afford the costs of farming.
42 It is highly competitive. But we want to articulate our
43 costs and what we are trying to achieve as clearly as we
44 possibly can because we believe they are legitimate costs
45 to be afforded by either government or stakeholders. Those
46 stakeholders are just not farmers. When we talk more
47 broadly in Sydney, we will be talking about power

1 generators. We will be talking about miners. We will be
2 talking about the environmental water holders, a whole
3 range of users - high industry users. Albeit, when we are
4 in Wagga or Tamworth the discussion will be dominated by
5 irrigation and, quite rightly; irrigation uses probably
6 about 75 to 80 per cent of water used in New South Wales.

8 It was said that if the Commonwealth were to refuse to
9 fund the projects, the fall-back is on the users. I don't
10 believe that is the case. What we have sought from the
11 Commonwealth is a capital injection that would otherwise
12 have to be made by users certainly over a long period of
13 time. For example, with metering there is a \$221 million
14 injection for the Commonwealth - \$90 million for
15 unregulated rivers and \$131 million for unregulated and
16 groundwater.

18 If the Commonwealth is not going to come to the party
19 with that capital injection through the due diligence
20 process, then we will not be saying to the irrigators or
21 the water users, "You have to pay for that." But I will
22 put one specific caveat on that. There will be national
23 standards introduced over the coming years as part of the
24 COAG water reform and it will be incumbent on water users
25 to actually upgrade their meters to national standards.

27 We are trying to offset the cost burden on irrigators
28 by getting a capital injection from the Commonwealth. Then
29 there are our metering charges, which comprise the ongoing
30 operations and maintenance, and the depreciation, which we
31 would have to bear, generally speaking anyway, whether as
32 an individual user or whether as a collective, when those
33 meters are owned by State Water, ourselves.

35 By the way, they will be owned by the Water
36 Administration Ministerial Corporation, because that is
37 just the legal entity. Effectively what we are submitting
38 to IPART is no different from the Water Administration
39 Ministerial Corporation. It is a legal entity. So the
40 Hume Dam is owned by the Minister for Water. Meters will
41 be owned by the Minister for Water. If, some time down the
42 track, the name changes and NOW becomes something else,
43 which it does reasonably often, or if the minister changes
44 his title, the assets will still be owned by the same
45 entity, so there will be some kind of legal endurance.
46 Effectively what we have talked about in our submission
47 about the Water Administration Ministerial Corporation and

1 the NSW Office of Water is the same.
2
3 There was some concern expressed about NOW's
4 involvement in the Basin Plan. Our involvement to date has
5 been that we have provided models. We have provided
6 interpretation. We have shown them how to use those models
7 because, other than the Murray Valley, the Murray Darling
8 Basin Authority has relied upon our models around New
9 South Wales because they simply didn't have them. We have
10 provided expertise in the use of that modelling and we have
11 provided information and factual data, but under no
12 circumstances have we provided any interpretation or
13 contributed to the development of policies or to
14 sustainable diversion limits. That has been wholly and
15 solely the responsibility of the Murray Darling Basin
16 Authority.

17
18 Any of the modelling that we have provided has been
19 for fee for service. We have actually provided some kind
20 of advice, superficially. We talked about this with a
21 couple of people at lunchtime when they were talking about
22 the cuts that might have to be made in applying the
23 sustainable diversion limits. Our argument has been that,
24 for about 20 years, New South Wales has strongly advocated
25 water trade. In many instances we advocated the water
26 trade of volumes to enable that capital to update people's
27 technology.

28
29 I will use an example in the Lower Darling where a
30 person who used to flood irrigate 20 years ago traded half
31 of their water and they now have the most efficient
32 vineyard system in the Lower Darling. They use every bit
33 of their water in every year, just about. They sold off
34 their spare water to get the capital to increase their own
35 system; so everyone was a winner. If there had been
36 across-the-board cuts, those people would be the losers and
37 people who had nothing and still splashed water around
38 could cope very easily. That is not good for irrigation
39 and it is not good for Australia. We have been quite
40 upfront in giving gratuitous advice, to say the least, that
41 that should not be where the Murray Darling Basin ends, but
42 that has not been formal.

43
44 We have been providing advice to the ACCC in the
45 establishment of trading rules and market rules, as has
46 IPART. There has therefore been an input by the NSW Office
47 of Water on behalf of the government in many respects to

1 make sure that these rules are not developed in isolation
2 from people who actually prepare these rules on the ground.

3
4 I know John Howe said that farmers really don't know
5 what they are getting. If nothing else, the Office of
6 Water is not good at blatant self-promotion. Where I live
7 on the border, I listen to John Brumby talking about
8 Victoria being the best water managers in the universe -
9 and I hope they read this transcript. I like taking
10 Victorian ministers to the Mildura area, where we will see
11 dilapidated channel systems with water going over the road.
12 They cross the river, past a constructed wetland, past an
13 efficiently run salt interception scheme into Western
14 Murray Irrigation where you have low pressure pipelines, no
15 wastage, an online ordering system, and then we cross back
16 over the bridge at Curlwaa straight across the Merbein
17 channels which are broken and there is water across the
18 road. I think we can actually put our hands on our hearts
19 in New South Wales and say we are streets ahead in water
20 management than the other jurisdictions in the Murray
21 Darling Basin - and they would probably disagree.

22
23 If I can mention the metro plan, that will be a cost
24 that is borne by the Sydney South Coast but, as I said,
25 those costs will be shared not just by irrigators but
26 probably by the biggest user, which is the Sydney Catchment
27 Authority. They will pass on their cost to Sydney Water,
28 to be shared by Hunter Water Corporation, power generation,
29 the mines and by the environmental water holders. That is
30 how those costs are distributed there.

31
32 There has been a lot of focus on the
33 PricewaterhouseCoopers report. There is no point getting
34 into an argument other than to say I think IPART recognises
35 that we don't believe that it is gospel and we have some
36 issues with the PwC report. Today I have pointed out some
37 of what we believe are discrepancies; the suggestion that
38 there is only one water planning initiative in the last
39 four years, where we have demonstrated at least five and
40 others in the shortcoming.

41
42 The benchmarks for overheads are a direct proportion
43 of the cost. We have demonstrated they are less than
44 12 per cent and NOW does prepare business cases for new
45 programs, particularly for when we are getting new staff.
46 So, I think one of the things that's coming out of this is
47 whilst this process itself is incredibly comprehensive and

1 it involves a lot of resources, if it's not reaching the
2 stakeholders' goals of being transparent so they can assess
3 how effective and efficient the programs that we are
4 delivering are, I think we realistically have to review
5 this particular determination and say what we can do for
6 the next one.

7
8 Thank you very much, Jim.

9
10 CLOSING REMARKS FROM THE CHAIR

11
12 THE ACTING CHAIRMAN: Thanks very much. This brings
13 us to the end of the Wagga Wagga component of our
14 meeting. There were some that thought this event deserved a
15 larger audience than it did in fact attract. Be that as it may,
16 I think we are very grateful to the people that did come
17 and for the constructive considerations made during the
18 day. We have had, I think, a very good discussion on some
19 very important issues.

20
21 I am sure you will all agree with me in saying that
22 IPART does not face a particularly easy task in making a
23 determination, but we have been most considerably assisted
24 by the considerations made. Once again, thank you very
25 much for that, and we will see some of you in Tamworth on
26 Thursday.

27
28 MS BURGE: Could I just make one comment as to perhaps
29 why a lot of farmers are not here. I think we appreciate that
30 level of anxiety, and the business issues that people have
31 been going through, and I think many farmers have been
32 going through a lot of reforms. They are almost punchdrunk
33 with the amount of reforms that they have been going
34 through, and I would suspect that there are many not here
35 because they see this as part of another round of reforms
36 that they are enduring and, as I said, they are almost
37 worn out by the amount of reforms being put on their
38 businesses.

39
40 MR HOWE: I think they are also worn out just by the
41 drought, and the self-assessment of how much they can
42 actually influence the things that are bearing on them.

43
44 I know I raised that issue, and I think it's a bit
45 sad. I am not a farmer, but lots of my friends are and
46 I have never seen them the way they are at the moment. I'd
47 say clinical depression would be way higher than average.

.19/7/10 96 CONCLUSION
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1
2 In raising that, I didn't want to make any judgments,
3 but I honestly think that issues such as that mean they
4 really have come to the view that they can't make a
5 difference.

6
7 MS BURGE: I would endorse that.

8
9 MS BLAKE: And a reminder of the negativities is too
10 much for them and can push them over the edge.

11
12 MS BURGE: In assessing whether to take a day off their
13 business again - in relation to your point about what
14 changes can they make - they feel that another day of lost
15 wages on a consultation process, which may or may not
16 mirror a lot of other consultation processes, is something
17 they would weigh up. Perhaps because they have been very
18 disenfranchised before, they simply don't come.

19
20 THE ACTING CHAIRMAN: Thank you for those comments.

21
22 AT 2.55PM THE TRIBUNAL ADJOURNED ACCORDINGLY

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