

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARINGS INTO BULK WATER MEDIUM TERM PRICE REVIEW

Tribunal Members

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

Held at Moree Ex-Services Club
Warialda & Albert Streets, Moree, NSW, 2400

On Wednesday, 1 February 2006, at 10.35am

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6(Abel IMMARAJ, Jubrahil KHAN, Dan BERRY and

7Geoff ELLERTON)

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9 27; 102 DEPARTMENT OF NATURAL RESOURCES

10(Rob O'NEILL, Rick RUNDLE, Peter CHRISTMAS,

11Randall HART and Matthew COOPER)

12

13 43GWYDIR VALLEY IRRIGATORS

14(Michael MURRAY and Ian CUSH)

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16 52NAMOI WATER

17(John CLEMENTS)

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19 62PEEL VALLEY WATER USERS ASSOCIATION

20(Laurie PENGELLY)

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1 THE CHAIRMAN: I would like to begin by welcoming you all
2 to this public hearing being conducted by IPART into bulk
3 water prices. For those of you who don't know me, my name
4 is Michael Keating, Chairman of IPART. I would like to
5 begin by first introducing my fellow tribunal members, Jim
6 Cox, who is the Chief Executive, and a full time member;
7 and Cristina Cifuentes, who is the third member of the
8 tribunal.

9
10 At the table next to us are the Tribunal secretariat
11 members, Colin Reid, who is the Director of Water Programs,
12 and Michael Seery, who is the Program Manager For Bulk
13 Water Pricing.

14
15 The tribunal is conducting this hearing under section
16 11 of its act and the hearing is part of a price review
17 that will ultimately result in the tribunal setting a
18 medium term price path for bulk water prices to be charged
19 by the State Water Corporation and the Department of
20 Natural Resources, with that price determination taking
21 effect from 1 July 2006.

22
23 Before commencing the hearing from the key
24 stakeholders who are here today, I would like to speak
25 briefly about the review process. The tribunal's general
26 approach to price setting and the matters its act says it
27 must take into account in conducting an investigation were
28 previously set out in an issues paper that the tribunal
29 released in September 2004. Now, I know that September
30 2004 is a fair while ago, but the problem we found in
31 proceeding following the issue of that issues paper was
32 that there were some major changes made in the
33 administrative arrangements for the supply of water in New
34 South Wales, specifically the former Department of Land and
35 Water Conservation was broken up and a new statutory
36 corporation, State Water, was set up, and then the
37 regulatory functions were given to what is now called the
38 Department of Natural Resources.

39
40 A consequence of those major administrative changes
41 was that there was some difficulty in providing the
42 information that the tribunal needed in order to make a new
43 pricing determination. That difficulty was particularly
44 acute when it came to information. As a consequence, the
45 tribunal decided last year to make only a one-year
46 determination and to recommence proceedings following that,
47 which I will elaborate on later. So in August 2005 the

1 Tribunal released a price determination for 2005/06, that
2 is the current one, and in the report that accompanied that
3 determination the tribunal outlined some of the matters the
4 tribunal considered important for this longer term review.

5
6 The tribunal also indicated at that time that it
7 expected State Water and the Department of Natural
8 Resources would make submissions by 30 September last year,
9 with other interested parties able to make submissions up
10 until 18 November. In the event, State Water and the
11 department did provide their submissions in the first week
12 of October 2005 and that was followed by a large number of
13 submissions from other interested parties which were
14 received mostly in November 2005.

15
16 Submissions from all parties are available on the
17 tribunal's web site and the tribunal is grateful for the
18 large number of submissions that have been made to the
19 review and indeed for the effort that people have put into
20 making these submissions. I have been reminded at previous
21 hearings that some of the organisations that made
22 submissions are pretty small and it is quite a demand on
23 them to make submissions and we are grateful for that.

24
25 Some of the organisations that have made submissions
26 of course will be presenting their case to this hearing
27 today. You can be assured that all of the submissions
28 received will be carefully considered by the tribunal in
29 developing its findings and recommendations.

30
31 I think it is fair to say that the submissions have
32 helped the tribunal to understand stakeholders' views on
33 the key issues for review but the tribunal is also
34 undertaking further public consultation. That consultation
35 commenced with a public hearing in Sydney towards the end
36 of last year and has now been followed up with three
37 additional hearings in regional areas. We had two hearings
38 last week in Griffith and Dubbo, and the third of those
39 three hearings is today's hearing in Moree. I can add that
40 I think our experience of both Griffith and Dubbo was that
41 we have been considerably helped by the oral presentations
42 and the discussions of the submissions.

43
44 A key part of the process of price determination by
45 the tribunal is the review of State Water's and the
46 department's operating capital costs by independent
47 consultants that the tribunal has engaged. We had

1 anticipated to have the preliminary findings of the
2 consultants by now and we had expected that they would in
3 fact be available for this hearing and the hearings last
4 week, and indeed that the consultants would be presenting
5 their findings at these regional hearings. Unfortunately,
6 the consultants are running behind schedule and they have
7 not been able to present their findings. That is a matter
8 of considerable regret to us and no doubt to other people
9 here.
10
11 Our best expectation at this stage is that the
12 consultant's final report will be available in mid-February
13 and, as soon as it is available, we will be posting it on
14 the tribunal's web site. All stakeholders will be given an
15 opportunity to formally respond to the consultant's report
16 on capex and opex. However, given the tight time frame for
17 review, I anticipate that the stakeholders will only be
18 given two weeks to provide a formal response to the
19 consultant's report.
20
21 The tribunal does anticipate providing further
22 opportunities for consultation with interested parties
23 through the course of this price review, in particular all
24 parties will also have the opportunity to respond to the
25 tribunal's draft determination which is anticipated to be
26 released at the end of March 2006. And the reason why we
27 do a draft determination is because we want to give people
28 an opportunity to argue the toss where we might have got it
29 wrong or whatever.
30
31 The tribunal has been involved in setting bulk water
32 prices since 1996/97. One of the tribunal's key objectives
33 for price reform over this time has been to set charges to
34 progressively increase the level of cost recovery, and that
35 is in accordance with the objectives agreed by the Council
36 of Australian Governments, but at the same time, even while
37 we move progressively towards that, that we take account of
38 the impact on customers.
39
40 The tribunal has also restructured prices to improve
41 cost reflectivity and to improve the conservation signals
42 to users. As you are no doubt aware, the last major review
43 of prices for bulk water services conducted by the tribunal
44 was in 2001 and that was when the former Department of
45 Land and Water Conservation was responsible for providing
46 the services.
47

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1 The task before the tribunal now is to actually set
2 prices for bulk water extraction from regulated rivers,
3 unregulated rivers and groundwater. In doing so, it will
4 have to take account of a wide range of matters as this is
5 required by its act. These matters include, but are not
6 limited, to the impact of prices on the financial viability
7 of the regulated agencies and the potential impact of
8 prices on customers.
9
10 This hearing is a very important part of a broader
11 price review process. It provides an opportunity for the
12 tribunal to hear in a public forum from the water
13 businesses and other key stakeholders and for the tribunal
14 and other stakeholders to question the propositions being
15 put forward. Before we actually commence proceedings
16 today, I want to say just a few words about the process of
17 this hearing.
18
19 I think you all have available to you an agenda which
20 indicates the order of presenters. The proceedings today
21 are being recorded and a transcript will be available on
22 the IPART web site early next week. For each organisation
23 appearing, a presentation time has been allowed. In the
24 case of the two water authorities, State Water and DNR, we
25 want you to finish ten minutes inside your time so that
26 there is time for questions. And for other stakeholders,
27 who have been given normally 20 minutes, we want you to
28 present in 15 minutes to allow five minutes for questions.
29
30 In addition, at the end of the time allowed for all
31 the various presentations, we then want to have a session
32 which allows all stakeholders, or any stakeholder, to
33 express their views on issues relating to the determination
34 or to pose questions or to comment on the presentations,
35 particularly by State Water and the Department of Natural
36 Resources.
37
38 Following that period of questions and comments from
39 the floor, there will be an opportunity for the two
40 agencies to respond.
41
42
43
44
45
46
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1 STATE WATER CORPORATION

2
3 THE CHAIRMAN: We will commence today with the State
4 Water Corporation, followed by the department, so I would
5 like now to welcome Mr Able Immaraj, Chief Executive Officer
6 of State Water, to make the initial presentation, if you could
7 introduce yourself and your colleagues at the table.

8
9 MR IMMARAJ: Mr Chairman, members of the tribunal, a brief
10 introduction: I am the Chief Executive Officer and I have
11 with me making the presentation Mr Jubrahil Kahn, customer
12 service manager, and Dan Berry, who will also be involved
13 in question and answer sessions.

14
15 At the outset, the IPART process, arduous as it may
16 seem, is a fairly reasonable approach for a state owned
17 corporation such as State Water which is providing services
18 on a monopoly basis and we are committed to making sure
19 that the right information is made available to all parties
20 when coming up for determination.

21
22 I would like to first of all go over some brief points on the
23 State Water submission. At the hearing on 2 December
24 we made a presentation which covered in detail the key
25 points of our submission. A number of areas in the past
26 which had no explicit consideration, for example, variable/
27 fixed charging ratios, wholesale discounts and high security
28 pricing premiums, we have attempted to deal with in this
29 round. So they are significantly different to the past
30 determinations.

31
32 With valley-based pricing, although there was some
33 consideration, particularly in the north of the state to
34 look at postage stamp pricing for the whole of the state,
35 it is our submission we propose that we continue with
36 valley-based pricing.

37
38 State Water's pricing submissions are separate to
39 DNR's for the first time and deal only with regulated river
40 charges. Any services that State Water provides to DNR for
41 groundwater and unregulated are under contract
42 arrangement, therefore they are not considered as part of our
43 costs for cost recovery from our pricing.

44
45 We sought a three-year price path in our submission
46 and we welcome three years or longer as being an absolute
47 minimum in terms of this determination.

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1
2 A brief introduction to the particular area we are
3 looking at: We are looking at three river valleys in the
4 north area which are relevant today - Border Rivers, and in
5 particular the difference between Border Rivers and any
6 other valley system apart from the Murray in New South
7 Wales is that this operates under two different state
8 jurisdictions, both New South Wales as well as Queensland,
9 and there is a Border Rivers Agreement that determines most
10 of the resource assessment decisions in that valley.

11
12 There is a joint operational arrangement with Sun Water
13 in Queensland and the Department of Natural Resources
14 and Mines in Queensland and State Water and DNR in New
15 South Wales. The operation and maintenance of Boggabilla
16 Weir is under contract to the Border Rivers Commission.
17 State Water has in this particular valley an operations
18 officer in Goondiwindi and a site office at Pindari Dam.

19
20 In the Gwydir Valley, the headworks for this valley are
21 at Copeton Dam and we have numerous diversion weirs in
22 the valley. We have an area and operations office at
23 Moree, who looks after the whole of the north area, and a
24 site office at Copeton, so the maintenance and management
25 of structures is carried out jointly from Moree and
26 Copeton.

27
28 In the Namoi valley there are two major headworks,
29 Keepit and Split Rock Dams. We have operations offices in
30 Narrabri and Tamworth and site offices at the dams.

31
32 The Peel Valley, we have Chaffey Dam headworks, which
33 is predominantly to provide services to Tamworth for high
34 security waters. We have a site office at Chaffey Dam and
35 an office at Tamworth.

36
37 The presentation will take roughly this form, where we
38 have the key points of regulatory asset base, return on
39 assets, business strategy, corporate costs - we will
40 address that particular issue with overheads - and also the
41 concept of why we should use one standard deviation below
42 average, and also a discussion on high security agreements;
43 then Mr Khan will follow through with the capital works
44 program.

45
46 The key proposal in our submission was to move to the
47 building block approach using a regulatory asset base,

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1 moving away from the 30-year annuity approach, to make
2 transparent all such subsidies. Both inter-valley as well
3 as intra-valley subsidies is another key issue. The RAB
4 needs to consider several things and in particular we have
5 addressed all these issues at the time of corporatisation
6 of State Water.
7
8 First of all, what is the replacement value of the
9 assets, and for the whole of the state the replacement
10 value is \$2.9bn. If you were to replace those assets using
11 modern engineering equivalents, the latest technology and
12 techniques, the MEERA value is valued
13 at \$3.3bn. That is not what we have adopted as the
14 regulatory asset base. What we have in fact adopted is a
15 regulatory asset opening balance as at 1 July 2004 of
16 roughly \$300m.
17
18 Zooming in on the north area, the MEERA value for the
19 north valley assets is roughly \$580m, and the regulatory
20 asset base is split into two major components: A
21 government regulatory asset base component and a customer
22 regulatory asset base component. This recognises the
23 Government's unique role in State Water as a customer, and
24 on a regulatory asset basis, a building block approach, the
25 government also pays its contribution towards maintenance
26 and consumption of those assets.
27
28 Just to give you some details, in the Border Rivers
29 Valley, the Government customer split is \$0.6m to
30 government and \$3m to the customers. A total of \$3.6m of
31 regulatory asset base value in the Border Rivers, so \$0.6m
32 for government, and \$3m for the customers.
33
34 In the Gwydir Valley it is \$42.7m to the Government
35 and \$13.9m to the customers. In the Namoi Valley, \$47.7m
36 to the Government and \$10.4m to the customers. And in the
37 Peel Valley, \$10.1m to the Government and \$2.4m to the
38 customers. So for the north area, the total regulatory
39 asset base valley portion to the Government is \$101m and
40 the total regulatory asset basis apportionment to the
41 customers is \$29.3m, so this was the opening regulatory
42 asset base values.
43
44 The building block approach assumes then that
45 efficient and prudent regulatory asset base expense can be
46 capitalised on to that opening regulatory asset base. So
47 what we proposed in our submission is what is the

1 regulatory asset base accumulated as at June 2005 and for
2 this particular determination what should it be at the
3 opening date of July 2006.
4
5 The closing balance at the end of June 2005 we
6 proposed is \$145m and the regulatory asset base closing
7 balance as at June 2006, or 1 July 2006, should be \$158m.
8
9 Most of the regulatory asset base capitalisation has
10 occurred in the area of dam safety capital, which means any
11 expenditure on dam safety capital is apportioned to the
12 government portion of the regulatory asset base, not to the
13 customer regulatory asset base, so when we talk about the
14 return on assets we should keep in mind which portion of
15 the regulatory asset base is being increased and on which
16 one is the return on assets being determined.
17
18 In particular the benefit of the building block
19 approach, the RAB approach in particular, is that we can go
20 on a three- to four-year cycle of forecast of capital
21 expense rather than going through the 30-year forecast.
22 Our argument is that our 30-year forecast does tend to be
23 quite nebulous and hard to get accuracy in those estimates
24 when you are looking at 10 to 15 years away, whereas a
25 three- to four-year forecast is far more reliable, and in
26 particular when you are looking at capital investment
27 requiring detailed designs there is quite a considerable
28 investment needed to get information on detailed design
29 point estimates.
30
31 The last thing is in the building block approach
32 allows for a price adjustment for over and under-recovery
33 and it also allows IPART to have a final say on what should
34 be capitalised and what should not. A critical criteria
35 for IPART is, is it prudent and efficient expenditure.
36
37 The other thing that we also check is to see whether
38 the opening balance represents the net cash flows of
39 business, and this is in accordance with good accounting
40 practice, where the future cash flows for our business
41 result in a similar sort of regulatory asset base value and
42 using a discounted cash flow methodology we come up with
43 roughly \$305m as being the fair valuation of the assets.
44
45 We have also used in our proposal a 7.0% weighted
46 average cost of capital representing a return reasonable to
47 State Water, and for state-owned corporations the range for

1 the weighted average cost of capital is 5.9 to 7.7. The
2 return on assets, as I mentioned earlier, is to be levied
3 on both customers and the government. So the weighted
4 average cost of capital of 7 per cent on the government's
5 share is what State Water will be get paid from the
6 government to maintain the assets; and the return on assets
7 from the customer share will be paid through water charges
8 to allow State Water Corporation to maintain its assets.
9 This effectively is no different to an annuity except for
10 the time frame that we are looking at, and also gives us a
11 much better planning horizon and allows for checks and
12 returns on efficiency.
13
14 The business strategy that State Water follows is,
15 first of all, to identify what are the business drivers for
16 State Water, and we looked at three key areas of our
17 business drivers: regulatory drivers through legislation
18 or regulations, operating drivers through our operating
19 licence, and service delivery drivers which are largely
20 through customer service charters and through memoranda of
21 understanding. We have a statement of corporate intent
22 which is struck between the board and the shareholders, and
23 the shareholders being the treasurer and assistant
24 treasurer, and that in turn determines some of the key
25 factors for what should be a reasonable
26 cost to government and what should be a reasonable return
27 on assets.
28
29 Having determined what the drivers are, we need to
30 determine what our response to those drivers is - how far
31 do we go in meeting the requirements of those drivers.
32 Some of the drivers are quite explicit and are related to
33 certain standards that we must comply with, whereas others
34 allow us to adopt a more risk management type of approach
35 where State Water can consider the risks and make a
36 decision on what type of response is required.
37
38 For example, in the area of regulatory drivers, we have
39 regulations, such as Water Management Act requirements
40 for delivery of water to customers, and we also have the
41 Dam Safety Act, which requires us to maintain assets to a
42 certain standard of safety for the whole of the community.
43 Both these have different levels of response from State
44 Water. Some are very specific, requiring us to maintain
45 certain types of systems and accounts, whereas others allow
46 us to have a process that allows us to make a decision on what
47 should be a final response to certain risk.

1
2 So as far as practical, we have adopted standards and
3 we have adopted performance measures, and in the operating
4 licence there are performance measures that we have looked
5 at to see how State Water should respond. We have
6 developed our response into a program structure which
7 allows us to code all our activities and responses to those
8 drivers against key products. Those products are
9 essentially what we deliver. So if we deliver a certain
10 thing called metering and billing, we can consider that as
11 a product and we should be able to code all our costs
12 against that and at the end say this is what we have done
13 in response to a driver.
14
15 We have allowed both an operating and capital
16 allocation of resources in order to deliver those services
17 to the customers and to government, and we have developed
18 our plans and budgets accordingly. Coming out of that is
19 our works program, with its capital costs for asset
20 maintenance and management, and an operating budget for
21 operation of State Water services. We have allowed a
22 process for review of those, both internally as well as
23 obviously externally, but we are also going through a
24 process of looking at benchmark to see how well we deliver
25 our services and how efficient and effect those services
26 are.
27
28 In the 18 months from the date of corporatisation, we
29 have moved towards this process internally within State
30 Water, under a state-run corporation model. We have looked
31 at delivery of services both internally as well as
32 externally using outsourcing of services, and up to about
33 60 to 70 per cent of the capital expenditure program in the
34 north of the state is delivered through external sources.
35 As a rule across the state, it ranges from 60 to 80
36 per cent. So we do look at competitive sourcing of our
37 products. It's not as if we do every bit of hard work
38 ourselves; we look at the market to see who can provide it
39 most efficiently and effectively. A large part of our
40 upgrade program, in particular, is outsourced through
41 competitive tenders and we use methods such as open tender
42 processes to make sure we are getting value for money.
43
44 One particular issue that has come up is how does
45 State Water meet the corporate costs, the costs of interest
46 dividends and income tax and other commercial costs. Our
47 operating expenditure does not include interest dividend

1 and income tax, because these are explicitly or implicitly
2 recognised within the weighted average cost of capital. So
3 our operating expenditure doesn't include those, but the
4 weighted average cost of 7 per cent recognises that we have
5 to pay interest and we have to pay dividends, and there's a
6 certain cost to that.

8 The second issue in several submission is how State
9 Water allocates its overheads. As far as practicable,
10 where direct allocation can be achieved to specific values,
11 this is the way forward. Good examples are billing costs.
12 Where State Water head office carries out a corporate
13 activity called billing for the whole of the state, those
14 billing costs are directly attributable to each valley,
15 depending on the number of bills that we process, for
16 example. So those sort of direct costs are directly
17 allocated to those valleys, they are not spread.

18
19 Second, engineering services. Where a group of
20 engineering services provides services to a particular
21 structure or a function in a certain valley, then those
22 costs are directly attributable to that particular
23 valley. Similarly dam safety surveillance, which is
24 another significant cost, as well as maintenance and
25 surveillance equipment, that is directly attributable to
26 those structures in that valley, therefore that valley
27 takes those overheads.

28
29 This generally accounts for roughly about 75 per cent
30 of our total overheads, so direct allocation of 75 per cent
31 of the overheads, and the balance of 25 per cent we cannot
32 directly attributable to valleys because they are general
33 in nature, they support the whole business by way of
34 systems, standards and processes that benefit the whole
35 state. Those, we have allocated on the basis of logged time.

36
37 So in that particular valley, we recognise that those
38 services are supporting the people working in that valley
39 and we consider this is the most appropriate approach where
40 all the time that is logged to each of the jobs in the
41 valley. Whether it is function of output or delivery or a
42 contract job or an external service that we are providing,
43 all those jobs are allocated a portion of those indirect
44 overheads, and this accounts for roughly 25 per cent of the
45 operating expenditure.

46
47 For each of the valleys, the overheads come from these

1 sources. In the area itself, there are some overheads
2 arising out of the offices at Moree and Tamworth. There are
3 overheads arising out of the operations and information
4 technology services provided from Dubbo and Parramatta, so
5 the wide area network and the local area network hardware
6 and software. We also provide legal and risk management
7 services from our Parramatta office and head office
8 services for myself and business services, things like
9 payroll and so on.

10
11 The components of these include the sort of functions
12 that Dan Berry provides, which are river operations system
13 support, referred as CAIRO, computer aided integrated
14 operation system, our information technologies systems,
15 finance, payroll, purchasing, accounts payable, business
16 support, profit risk management, legal services,
17 communication and media support. All these are indirectly
18 spread to the jobs in the valley based on the time logged
19 in the valley itself.

20
21 So for Moree, the overheads are roughly 27 per cent of
22 the total costs and the breakdown is shown in the pie
23 chart. For the Gwydir, the overheads account for up to 26
24 per cent and for the Namoi also 26 per cent, and for the
25 Peel Valley as well 26 per cent for overheads. We believe
26 this the most appropriate way of expending a lot of effort
27 in trying to identify jobs through overheads.

28
29 The next issue which came up in several submissions is
30 whether the proposal by State Water to use one standard
31 deviation below the average is a reasonable approach or
32 whether it is too conservative and takes advantage of the
33 customers. We proposed this mainly because of the
34 requirement in our operating licence to move from the
35 current 30 per cent variable revenue to 60 per cent
36 variable revenue. In other words, under current
37 determination, the pricing is set such that 70 per cent of
38 our total costs are recovered through fixed charges. So
39 the entitlement charge allows us to recover 70 per cent of
40 our costs, regardless of whether the allocations are zero
41 per cent or not.

42
43 Whereas the operating licence for State Water - and
44 this comes back to one of the drivers - requires us to move
45 progressively from that 30 per cent up to 60 per cent
46 variable. While we welcome that approach, we have also got
47 to consider the impacts for State Water and the risk

1 exposure. What we have proposed is that, given that our
2 costs are largely fixed and the risk to State Water is
3 fairly high in valleys where the variability is
4 significant, we have suggested that one standard deviation
5 below the average be used except variable for variable unit
6 charge for water usage.

8 We recognise that high use is a cost component, but we
9 also recognise that IPART has the ability to reset prices
10 at yearly determination periods, recognising these overs
11 and unders. If you do consistently over-recover from the
12 three or four year price determination process, then the
13 following IPART determination will set the prices
14 accordingly to adjust for these over-recoveries.

16 We looked at the option of risk mediation, using an
17 external insurer, and we consider what we proposed is
18 internal risk insurance through customers paying a premium,
19 whereas using external insurers means that the insurance
20 premium becomes a cost to the business and is effectively
21 lost to customers.

23 In discussions with insurers such as GIO, their basic
24 insurance proposition would be based on what is the
25 variability in that particular valley. Our proposal is to
26 look at one standard deviation which recognises that one
27 number standard deviation will vary depending on that
28 particular valley.

30 The other issues that has come up in the north of the
31 state is high security premiums. The basis for State
32 Water's proposal of using the premium multiplied by two is
33 to recognise that there is a greater reliability of supply
34 to high security water users. The water chain plan allows
35 for this to be recognised in the allocation of the resource
36 assessment process. But beyond that, State Water is
37 required to hold two years of supply to make sure that that
38 water is available to high security users. Therefore, the
39 asset is there mainly to provide that reliability of supply
40 and the volume of that asset, such as a dam, is dominant
41 for high security entitlements.

43 So what we have proposed in each valley is to look at
44 the water plan high security premium multiplied by
45 the number of years that State Water must hold reserves
46 for, and it varies from valley to valley depending on the
47 water plan as well as the period of time that we must

1 hold water.

3 I will pass it on to Jubrahil to take us through, in
4 particular, the north area description of resources as well
5 as the capital expenditure program.

7 MR KHAN: I am the customer service manager for State
8 Water in the north area, and I wrote the submission on
9 asset management in this area. Before I go into some of
10 the works and drivers, I would like to say that we do work
11 here in a combination of outsourcing and in-house work, and
12 for that I am assisted by my asset team, which includes the
13 senior engineer, maintenance and planning engineer. Our
14 dams are managed so we have storage at the dams, and senior
15 asset officers looking after weirs and the river sections.
16 Some of these staff have a skills that are specific to this
17 industry, and it's not possible for us to easily go out
18 into the market, and even if we find some of them, that
19 leads to major costs in supervising and maintaining
20 standards.

22 Getting on to some of the works that we have done as
23 part of our asset management strategy, the first thing I
24 would like to discuss is the drivers, why do we do this
25 work. So all our asset management and strategy is based on
26 ensuring that when we do the work, they have to meet our
27 conditions. Each of our structures has been built for a
28 purpose and there are a number of components, no matter
29 how small, which are critical to the successful operation of
30 that particular infrastructure.

32 We have a very comprehensive inspection and assessment
33 process, condition assessment, and also some risk
34 assessment as well because not only do we have to look at
35 what we are going to do, but we also have to ask the
36 question, "What if we do not do this?" So this is part of
37 the whole assessment, of assessing what works need to be
38 done. Our structures have to be not only safe and
39 operable, but the work has to be done so that we have
40 long-term life and we preserve and maintain that structure
41 for its operation.

43 The second thing that drives our strategy are the
44 strategic requirements and the regulatory requirements that
45 require us to meet things like occupational health and
46 safety, the need for us to comply with the dams safety
47 requirements. The third area is efficiency gains. This is

1 whereby investing in those structures, we can either have a
2 cost-cutting or improve the operations, and there could be
3 a combination - sometimes there are operation improvements,
4 at the same time we improve the occupational health and
5 safety.

6
7 I will go through some of the works we have done in
8 the part, one of them being Keepit radial gate arm
9 painting. What you see is the gate at Keepit Dam, we have
10 six of them. While we have done a lot of work in the past
11 in maintaining the skin of the gate, the radial arms have
12 not been worked on or maintained since they were put in.
13 We did some patch painting, but over the years it became
14 uneconomical for us to do more and more patch painting.

15
16 As a result, we embarked on a program to paint these
17 gates. Because there are six gates, we had to make sure
18 that the work was done at a time when we were having the
19 least use of those gates. The second thing we did here was
20 make a decision that we will do it with our own staff. We
21 have skilled staff and equipment there, and that resulted
22 in us looking at investing in our own scaffolding work and
23 training our staff to be accredited as riggers.

24
25 This decision was made based on the painting of the
26 bulkheads where the cost of hiring of the scaffolding was -
27 if we had gone ahead and done that, it would be very
28 expensive. What we have done in that case is make a
29 decision to invest in that and train our own staff. So
30 that was part of the overall assessment.

31
32 The other thing we had to make sure is we complied
33 with all the environmental requirements. Any gate painting
34 now means that we have to encapsulate so that the dust and
35 the paint work does not fly into the atmosphere. Quality
36 assurance meant that our work had to be done to the highest
37 standards. This is a process of doing tests on the wells
38 and joints in the gate to ensure that it meets the state
39 standards, and this is a finished product that we have at
40 the end of it.

41
42 The next one is diving inspections. We have all heard
43 of opportunistic maintenance work. Also there have been
44 times when some of our customers have said that, at a time
45 of low sales when there is less water, "You are spending a
46 lot of money." But this is one example where we have to go
47 and do these works because when there's low allocations and

1 low dams, that is when we get the opportunities to do this
2 work. In this particular case, the biggest constraint was
3 the depth of water because if we had to do diving
4 operations, divers can only go to a certain depth and,
5 beyond that, we do not get it.

6
7 At Copeton and Pindari Dam, we had these outlet works
8 that had not been inspected or looked at since they were
9 put in, and this was an opportunity where we could
10 reschedule. We sought approval for funding and went and
11 did this job.

12
13 Over here, you can see the work that had to be done,
14 which was for the divers to go and close or put a flap in
15 front because there are no gates closing, and this tunnel
16 had not been inspected in more than 30 years. So we were
17 able to de-water that and inspect it and do some patch
18 painting and maintenance work on this. This is an example
19 of some of the works we do which are opportunistic, and
20 when that opportunity comes, we must do it because we do
21 not have the window. We were just lucky to finish that
22 work because fortunately it rained and the dam started
23 rising, and we had to make sure the divers could go in to
24 close and open what was necessary.

25
26 Spillway gate ropes - this is another of those
27 condition assessments, where inspection showed there was
28 excessive corrosion. We had to look at whether to do this
29 or to leave it for a couple of years. The corrosion was
30 sufficient, as you can see over here, for our expert to say
31 that we should not be taking that risk, and changing that.
32 This involved further investigation to find what was the
33 reason for this increased corrosion, and we did some stray
34 current testing to see if there was any unlike metal or
35 polarity issues or something that was doing that. In the
36 end, the replacement was done in conjunction with gate
37 painting, so that we had a new set of ropes with completion
38 of the gate painting.

39
40 SCADA at Chaffey Dam, this was done initially from an
41 OH and S consideration, in that prior to the installation
42 of SCADA, this is the entrance to the outlet works, the
43 operator had to go down through this little door here, go
44 down eight metres of steps and then a little lift to go to
45 the outlet works and then perform his duties of opening or
46 adjusting the valve. He then had to come out and hope that
47 the adjustment was right because when we are doing dam

1 releases, the release starts, then we have to watch the
2 downstream gauges to see that the opening was what we
3 wanted. In case he got it wrong, he had to go and do the
4 same operation again.

5
6 Once the confined spaces regulations came in, this was
7 requiring two people, because we could not have a person go
8 in and do it on his own. So this was where we looked at
9 it. There was risk to us. Firstly, there is cost. The
10 other thing was that we have to make sure that we are
11 changing valves as often as necessary to maintain
12 efficiency of reliefs.

13
14 What has happened is with the installation of SCADA,
15 that operation can either be done remotely from the office
16 using SITEC software or from a control panel on top of the
17 bridge. So it eliminates the need to go down there
18 unnecessarily every time, only when we need a special
19 inspection, in which case we make sure that we meet all the
20 OH and S requirements. Secondly with this, we are able to
21 monitor the release much better.

22
23 I think Laurie here would realise that if we get our
24 releases out by just 10 megs, 10 megs is not a lot of water
25 when we do regulations, but if it was 10 megs a day, that
26 could over a year result in the equivalent of 11 per cent
27 allocation to the Peel Valley - and people like Laurie
28 would be very happy if there was a 10 per cent allocation
29 at the beginning of the year each year, which he hasn't had
30 for two years. So that is another thing where we can
31 justify the efficiencies in these, by making sure that we
32 are more accurate and better able to control those
33 releases.

34
35 Erosion control at Combadello Weir, this is another of
36 those conditions. As you can see, this is the downstream
37 apron area there. Over the years, it has had major erosion
38 and scouring and that was resulting in instability of the
39 structure, in that that undermining could go further
40 underneath the structure and could result in the
41 overtopping of that structure. So this is one of the works
42 we have done. This is the final works. We have
43 re-established that and made sure there is a buffer there
44 so any erosion happens further down, but we are able to
45 monitor that and will be doing that for the future.

46
47 Security has become an issue for us in that over the

1 years, we have had major issues of vandalism. We have had
2 to repair doors, gates, but it came to the point where we
3 did a risk assessment of some of the new equipment and also
4 the fact that we noticed there were playing not only with
5 gates but also with power points and electrical
6 installations. We have 444 volts on the bridge decks of
7 weirs and if somebody was to get in contact with that kind
8 of voltage, it was a major issue. We tried a number of
9 methods until we finally found that the only way of
10 ensuring that we had better control was having razor wire,
11 so we have installed that. While we had other things,
12 people still would find a way to go onto the dam.

13
14 Access to the spillways on Copeton Dam is an
15 occupational health and safety issue. This overhead shows
16 you the bridge deck from the spillway and these are the
17 piers that need to be inspected. Because of the design,
18 there were power lines strung along here and then, from
19 below the crane, after considerable works we were able to
20 access that.

21
22 As seen here, we could not put any fixed structures
23 here and what used to happen was that the maintenance staff
24 had to firstly drop a ladder, harness themselves on ropes
25 to ensure if they were to slip there was protection, and
26 then they came down, but there was no access in areas,
27 which was an issue. What we proposed and did was we
28 eliminated the bus bar and instead you can see this yellow
29 cable. This cable is retractable as the crane moves it
30 retracts, so that it is powered. The bus bars were removed
31 and these ladders were installed, so now we have a ladder
32 here at each of these so we can easily access that. Again,
33 that has eliminated a safety risk and we are able to meet
34 our occupational health and safety conditions better.

35
36 Among the proposed works we have the Mallowa Creek
37 regulator. This regulator is part of the Mehi system and
38 is firstly there to protect the regulated flows in the Mehi
39 River. The Mallowa Creek has a domestic allocation and
40 environment flows are passed from high flows and from flat.
41 At the moment, this has got a mechanical winch but the
42 biggest issue is when it rains the access becomes very
43 slippery and we are not able to operate it, so sometimes we
44 are not able to operate it. By installing a SCADA unit
45 there and a remote control, we are able to do this from the
46 office. This work is done in conjunction with other
47 measures.

1
2 Finally, we are looking at the painting of the
3 penstock at Copeton Dam. We did an inspection in the 2005
4 winter and we identified some works while doing painting.
5 We need to do a full refurbishment that will involve 10
6 metres of the penstock and the butterfly valve. This valve
7 is the emergency closing valve, so it is a safety device at
8 the dam.

9
10 We will also be refurbishing the 19-inch FDC valve.

11 Thank you.

12
13 THE CHAIRMAN: Thank you very much for that
14 presentation. There will obviously be a chance for people to
15 ask questions, but at this stage I will confine it to the
16 secretariat and the tribunal.

17
18 MR SEERY: Abel, I wonder if you could help me out with an
19 issue that has been raised in a number of submissions. The
20 key theme in the submissions is that there is some concern
21 regarding State Water's under expenditure compared to that
22 forecast in the 2001 determination. Could you explain
23 whether there has been under expenditure in the northern
24 valleys in particular since 2001 and, if so, why this has
25 occurred?

26
27 MR IMMARAJ: I guess I will start it off and Mr Khan will
28 add some information. State Water Corporation has only
29 existed since 2004, so there are a number of reasons that
30 were outside our control prior to July 2004 which I think
31 we have elaborated on in our submissions at the hearings in
32 the question and answer sessions. Certainly there has been
33 under expenditure since 2001. Some of it was related to
34 budgetary constraints or lack of resources, some relates to
35 the fact an opportunity of doing some of that work did not
36 arise. In the north of the state the track record is
37 actually quite good.

38
39 I will ask Mr Kahn to comment on particularly the
40 north of the state, how maintenance and expenditure and
41 particularly the capex has gone.

42
43 MR KHAN: I think the issue of financial expenditure needs to
44 be considered in two different categories. One is major works
45 for upgrade, which was where we made a lot of provisions
46 and have had under expenditure, certainly Copeton Dam.
47 We proposed to do some work about three years

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1 ago but we have not yet started some of that work because
2 of the delay in getting the hydrology figures and getting
3 the community consultation process finalised. Certainly in
4 that area there was under expenditure. But in the major
5 areas of maintenance, the north area actually embarked on a
6 major program. A lot of that was backlog due to under
7 allocation in pre-State Water days and so in that area we
8 have done a lot of work and we were able to get all our
9 budgeted works done.

10
11 Similarly in the river structures, both in the Barwon
12 Darling area and in the three valleys, that includes the
13 Combadello Weir downstream works we have done. In the
14 north, our budget allocations for major maintenance and
15 river structures we were very much on target, because the
16 capital works upgrade is where we were showing under
17 expenditure.

18
19 MR REID: The Gwydir Valley Irrigators Association has
20 indicated that there was a 16-month delay after
21 corporatisation of State Water for the sending out of bills
22 which had previously been sent out quarterly. Has the
23 billing problem been resolved and, secondly, how was the
24 recovery of outstanding moneys handled given the size of
25 the bills that would have gone out at that time?

26
27 MR IMMARAJ: That is correct, there has been a significant
28 delay in sending out bills, for two reasons. One is
29 internal State Water systems were changed. We have now set
30 up our own integrated financial management system so we
31 have gone off the Department of Natural Resources' SAP
32 system on which we used to do the previous billing. That
33 was a very conscious decision made to make sure that the
34 receipting could be done on our own system. We could have
35 sent the bills out on the old system and receipted it on
36 the new system, but that was the internal reason for not
37 doing that. Externally there was a consideration of, due
38 to the drought, either a deferral of interest or waiver of
39 charges in one or two valleys, and our systems for billing
40 in particular are run for the whole of the state and we
41 were conscious that we didn't want to go back and reissue
42 bills, so there was an external influence on that in terms
43 of when we sent the bills out and if it was going to cover
44 the whole state or not.

45
46 The complexity in the north of the state is that it is
47 billed on a quarterly basis as against the rest of the

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1 state, and that meant that we had to make sure that the
2 billing protocol and billing rules picked up the issue of
3 quarterly billing in conjunction with the new water access
4 licences which came into effect 1 July 2005. So there were
5 a number of complicating factors. I am assured that the
6 bills did go out and that debt recovery has been fairly
7 good.

8
9 MR REID: It could be claimed that State Water is double
10 counting its risk in the variability of sales by both
11 setting the sales figure on which prices are set at one standard
12 deviation below the long-term average and also seeking to
13 recover a 7 per cent rate of return, which could be
14 considered to be at the high end of returns looked for by
15 water agencies, so do you have any response to that?

16
17 MR IMMARAJ: We have not done any sensitivity testing to
18 see how much double counting or double dipping there could
19 be in risk mitigation. There is a potential for it
20 obviously if you pick a very high WACC to recognise this
21 risk but also take a very conservative position with sales,
22 you could end up with that, so we do recognise that there
23 is that element of potential. However, we think that in
24 the price reset that can be quite easily accounted for.

25
26 MR REID: There has been much discussion both at the other
27 hearings and also in the submissions to this hearing over
28 the recovery of costs from non irrigators and town users,
29 for example, recreational users and stock and domestic.
30 What additional costs do these other users impose on State
31 Water and what action has been considered for cost recovery
32 from them?

33
34 MR IMMARAJ: I guess this leads to the question of cross
35 sharing and who should pay for what services that we
36 deliver. We have adopted in our current proposal that 100
37 per cent of our operating expenditure should be recovered
38 from access licence holders. The main reason for this is
39 the others do have an opportunistic access to water. Even
40 stock and domestic, while their annual totals are
41 reasonably well defined in the water sharing plans, they
42 don't have anything but an opportunistic access to water.
43 We didn't consider them as potential for charging, mainly
44 because there is no property rights associated with the
45 day-by-day access to water and the amount of recovery from
46 them in comparison to the access licence holders is fairly
47 minimal; and whether that would lead to cross-subsidisation

1 was another problem.

2
3 We did recognise that increasingly under the water
4 sharing plan the definition of how much water is delivered
5 to the environment is clear and we would argue that in a
6 few years time we would have a much better handle on how
7 much water or effort goes into delivering environmental
8 water and environmental services which would then become
9 the basis for potential cost sharing but at this stage that
10 information is lacking.

11
12 MR REID: One of the major issues that has arisen through
13 the hearings and also covered in these submissions is the
14 impact of the national water initiative, and the impost
15 that has imposed on State Water and DNR for that matter.
16 Specifically what additional activities or conditions has
17 the national water initiative imposed? What are the
18 associated costs that are being passed on to irrigators,
19 and obviously in relation to that, one of those is the
20 question of upper bound pricing and the timing of getting
21 to that upper bound pricing.

22
23 MR IMMARAJ: The initial comment is that the national
24 water initiative in our interpretation has been an
25 extension of the COAG 1995, with this one single
26 clarification of pursuing upper bound pricing. It doesn't
27 go much beyond that in terms of the time frames, whether it
28 should be achieved over one year or five years or ten
29 years, and what we have proposed in our submission is a
30 five-year price path with a three-year determination, so we
31 initially envisage at the end of three years we will take
32 stock of that and how well we are tracking.

33
34 Apart from that, the NWI has not resulted in new
35 activities for us other than in the way we report on our
36 services and our accountabilities, particularly water for
37 the environment and water for customers. But it has
38 affected how we do things, whether it is current activities
39 such as compliance with water sharing plans or compliance
40 with the Water Management Act or in particular for the
41 south of the state, water for the environment and the
42 Murray.

43
44 MR REID: For the Border Rivers, how do State Water's
45 current prices compare with those charged in Queensland?

46
47 MR IMMARAJ: I believe they compare pretty much on par.

1 The Queensland prices might be slightly higher than ours
2 but there are some reasons for the differences.

3
4 MR KHAN: I am not sure if the Queensland prices include a
5 resource management charge at this stage.

6
7 THE CHAIRMAN: In some of the submissions from people who
8 are represented here today I think there was criticism that
9 you didn't make sufficient use of cost benefit analysis in
10 your capital program and I think instances were cited of
11 decisions to automate various processes where the people
12 writing the submissions were sceptical that it was
13 worthwhile automating because the automation would only
14 be used a limited number of times and the argument was it
15 was cheaper to use labour.

16
17 Certainly in the presentation today most of the slides
18 put up were things that were really mandated by
19 occupational health and safety considerations and that sort
20 of thing. I can't remember if there was a cost benefit, to
21 put two people where you used to have one, but could you
22 elaborate on the role that economic valuation plays in
23 determining all that?

24
25 MR IMMARAJ: There is actually a good example in the north
26 of the state with regard to Keepit Dam, where cost analysis
27 was undertaken. The difficulty with large dam operators
28 and that analysis is that the sort of frequencies that we
29 are looking at for some of those maximum flood events is
30 very low, so with that low frequency or likelihood of a
31 maximum flood you end up with the difficulty of a very low
32 cost benefit ratio, so you have to look at that analysis in
33 context, the difficulty of assigning a value, or economic
34 value, to loss of life, for example, but the summary is
35 that cost benefit analysis has been used extensively for
36 the large dam projects and is looked at within context to
37 decide whether to proceed or not.

38
39 In the area of automation of structures, in one
40 instance in State Water we have actually won a state award
41 and a national award for return on investment through
42 automation and it was clearly demonstrated at a national
43 level that the sort of investment that we made in saving
44 water, in saving staff time and the number of resources
45 that have to go into the operation of structure, even if
46 you were setting that structure only once a week, some of
47 these require three-hour or six-hour travel time, or in the

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1 case that you saw at Chaffey Dam, an occupational health
2 and standard safety factor, so we believe that we have made
3 wise decisions in the automation of structures.

4
5 We do consider, even at that level, what the benefits
6 are for the risks in undertaking that automation. The
7 difficulty is when these are cumulatively added up, such as
8 a SCADA network, the first SCADA project that you undertake
9 might look borderline but the last one that you embark on
10 might get the benefit of the system that is already in
11 place, so when looked at, a SCADA program over a five-year
12 horizon for the whole state for example, some projects that
13 might be border line will come into fruition because they
14 are part of a system.

15
16 THE CHAIRMAN: Thank you for that specific reply, and
17 thank you for your presentation.

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1 DEPARTMENT OF NATURAL RESOURCES

2
3 THE CHAIRMAN: I would now like to ask the Department of
4 Natural Resources to come forward. Robert, if you would
5 introduce your colleagues.

6
7 MR O'NEILL: Thank you for inviting the department here
8 today in Moree to give a presentation. I am Rob O'Neill, I
9 am the Acting Manager of Water Planning, Policy and
10 Regulation Unit in the Water Management Division of DNR. I
11 have got Randall Hart with me, the Regional Director; Peter
12 Christmas, the Manager, Water Management, Access and
13 Compliance; Rick Rundle, Principal Policy Analyst who is
14 coordinating the pricing submission; and Matthew Cooper is
15 a member of the consulting group working on our pricing
16 submission.

17
18 In the interests of brevity, I will talk for about ten
19 minutes and Randall will talk for about 20. I will cover
20 some background and statewide overview of our submission,
21 Randall will then talk about regional-specific cost
22 drivers.

23
24 In terms of an overview, the statewide information in
25 our pricing submission was covered fairly comprehensively
26 at the November hearings so we will not reiterate that, but
27 I will go over a couple of the major proposals that we have
28 got in our submission and I will also try to explain our
29 submission from a slightly different angle, from a top down
30 approach in terms of our cost recovery. Randall will then
31 provide a detailed explanation of historical water resource
32 management activities and future activities that are going
33 into our costs.

34
35 In terms of proposed cost recovery, I thought I would
36 take a slightly different tack to what has been explained
37 before and look from a top down approach. So starting
38 right at the top, we look at the department's total budget
39 for 2005/06. This is by way of example, so I have done
40 some simplifications to keep it short and simple: Total
41 budget of \$423m for 2005/06; and in terms of cost recovery
42 we go through a number of excluding stages. The first
43 stage is to eliminate all the land use, soil and vegetation
44 activities that the department does. We eliminate the
45 coastal and estuaries program, the DG and his support
46 staff, and that brings us down to a rivers and groundwater
47 program, as we call it, which is budgeted this year for

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1 \$134m.

2
3 We then go through a number of exclusions again. We exclude
4 things that are funded elsewhere, like NRT for salinity
5 management, and GAB funds for cap and pipe bores and the
6 Australian Government Water Fund for wetlands and the
7 Living Murray. We exclude the DBBRC and MDBC to avoid
8 double counting, that WRM activity is also excluded, and
9 water consent transactions are excluded because they expect
10 to be covered in the transaction fees. That brings us down
11 to water resource management activities, which in the
12 forecast average out to approximately \$53m.

13
14 If we take a more detailed look at that, starting with
15 the \$53m, we then go through another process and examine
16 each of those activities. We take out the ministerial and
17 parliamentary services, we also exclude any activities that
18 are for legacy impacts, pre-1997 impacts, and we then get
19 down to I guess what is probably the area of main debate,
20 an assessment of how much of an activity is attributable to
21 users and how much is attributable to government.

22
23 We have decided in that process to try to remove the
24 subjectivity, so what we do is we have said, the water
25 sharing plans are effectively the minimum standards that
26 are required so any activity that is seen to be in excess
27 of water sharing plans is excluded as well and paid for by
28 government. Any activity that comes under water sharing
29 plans is included. We have got details of that decision
30 framework in our submission, of course.

31
32 After going through that process for each activity, we
33 come up with attributable costs, as we call it, which if we
34 achieve what we are calling full cost recovery, equates to
35 about \$45m, again using indicative numbers to keep it
36 simple. It represents about 15 per cent of those
37 activities that have been deemed to be payable by
38 government.

39
40 On top of that, there will be some sort of subsidy
41 which will recognise the price path set by IPART to head
42 towards that and the component that IPART decides is a
43 reasonable cost recovery.

44
45 Just by way of example, using historical figures
46 again, we can look at the water resource management
47 activities for 01/02 to 04/05 costing approximately \$43m on

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1 average. The attributable costs based on the IPART
2 determination for 2001 was approximately 65 per cent of
3 that, which equates to \$28m. The actual notional revenue
4 that we would have recovered using the IPART tariff
5 structure that was in place over that time and an average
6 usage figure for that period equates to approximately \$17m
7 of recovered money. This represents about 39 per cent of
8 the historical water resource management costs, so the
9 effective subsidy there is \$11m.

10
11 Just moving onto the key proposals in our submission
12 before I hand over to Randall, the first one of course is
13 our simplified tariff structure. The second one is the
14 removal of discounts for irrigation corporations, which is
15 not as big an issue up here as some of the other hearings,
16 and, finally, the removal of the security premiums for
17 licences.

18
19 The tariff structure: We are working under a new
20 environment where DNR is separated from State Water so
21 water resource management activities are separated from
22 water delivery. Water resource management is seen to do
23 two things: It both protects environmental elements and it
24 also protects the environmental requirements. As I said,
25 we define those as minimum standards.

26
27 What we are doing is proposing that the water resource
28 management charges should be allocated based on entitlement
29 only. We recognise that costs do vary from valley to
30 valley. In our submission we mention that there is a
31 possibility for grouping north and south in the regulated
32 systems, the possibility of grouping east and west in unreg
33 and grouping in groundwater to highly managed and other.
34 That is only our proposal. Of course, it is up to IPART to
35 make a determination on that.

36
37 We also recognise that these costs vary from year to
38 year depending on what stage of the planning cycle we are
39 at.

40
41 In summary, we are saying that water resource
42 management is not a function of the volume of water
43 delivered, it is not a function of the licence class or
44 security, any user efficiency where we assert that should
45 be driven by the market, and the market will make that
46 possible because we are putting in place licences that are
47 easily tradable.

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1
2 The security premiums issue: As I said, DNR is
3 proposing to remove the premiums on licence security, high
4 security licences, and as I just said before, the water
5 resource management is not a cost, it is not a function of
6 licence security, it is more a function of managing and
7 monitoring that resource. So it is our assertion that any
8 cost differences there is a function of delivery, and as
9 State Water has covered in their submission it is an issue
10 covered by them.

11
12 The removal of discounts: DNR is proposing to remove
13 the discounts for irrigation corporations. Discounts were
14 originally granted for metering services, services provided
15 by ICDs predominantly. State Water and DNR have separated
16 so we are looking at the water resource management
17 component. We have to ask what of that work is provided by
18 ICDs for water resource management? We are saying that the
19 removal of these discounts will not result in any net
20 change to the department but make a more equitable share
21 between the users. Having said all of that, we are still
22 open to negotiation on this issue and IPART has
23 commissioned a study into it with which we are
24 participating - we have a meeting on Friday - where we need
25 to go through the water resource management services
26 provided by the irrigation corporations to find what is
27 provided, what are the benefits to us and ultimately to try
28 to cost it out and then replace it all by an appropriate
29 fee for service. That is our proposal.

30
31 Without further ado, I will hand over to Randall to
32 explain regional specific cost drivers. Thank you.

33
34 MR HART: Mr Chairman, members of the tribunal, good
35 morning. My name is Randall Hart, I'm the regional director
36 of the Barwon Region and also the New South Wales
37 Commissioner for the Water Rivers Commission, which
38 impacts on some of the things we do in the Barwon Region.

39
40 I do remember the initial IPART presentations, I think
41 about a decade or so ago, in Moree that I attended. Those
42 were the days irrigators will fondly remember where, after
43 discussion with irrigators, I made the recommendation on
44 prices and I think irrigators will fondly remember that we
45 went three or four years without increasing prices in those
46 days - such a long time ago. But I do thank the members of
47 the tribunal for the opportunity to present here today, and

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1 we'll get straight into it.
2
3 Firstly, I would like to briefly outline the
4 presentation for today, where we have come from in terms of
5 the review of the programs and activities and resources for
6 the last four years and, secondly, where we are going to,
7 and that applies to 1 July 2006 and beyond, including the
8 water sharing plan issues. I will expand on some of the
9 generic presentation made by Rob just a moment or two ago.
10
11 Now an overview of the last four years. We certainly have
12 a new era in water resource management, with COAG and
13 the Water Resources Management Act 2000, et cetera, the NWI
14 and the transition from the Water Act to the Water
15 Management Act. This transition phase will be with us for
16 some time to come. Barwon Region prepared eight water
17 sharing plans during the last few years: two regulated,
18 three unregulated plans, two groundwater sharing plans and
19 the GAB, which is still to be consulted upon, approved and
20 gazetted. We also conducted the Water Rivers Regulated
21 Water Sharing Plan process and shortly that will be ready
22 for consultation stage as well.
23
24 I have to say in the whole environment during the last
25 few years, we've experienced the most savage of droughts
26 and that really has dominated water availability, making it
27 very difficult for all the parties. Drought is a common
28 story across the state. For instance, in the Namoi, there
29 were no water allocation increments from February 02 to
30 January 04. That's a long time without making an
31 increment. The same in the Gwydir, the border rivers was a
32 slightly less impact, but still bad. Laurie will tell you
33 that in the Peel, there were three years where there was a
34 zero percentage allocation at the start of seasons - pretty
35 horrific stuff that we had to operate in, all of us.
36
37 In reviewing the water resource management programs and
38 activities for the last four years, I will also touch on the
39 resourcing changes that occurred during that time period,
40 especially in the Barwon, and what we have done is group the
41 water resource management programs and activities
42 under three main headings: water administration, planning
43 and policy, technical support. All of these areas were
44 necessary to meet our obligations under COAG and I guess
45 now under the national program, as well as the New South
46 Wales Government's water reform agenda, and of course
47 provide a proper and efficient service to water users.

1
2 The first important group of programs and activities
3 is, as I said, water administration. That includes
4 assessment and processing and renewal of service water
5 licences, groundwater licences, controlled works, flood
6 plain works, controlled activities, rivers and foreshores,
7 processing transfers, complaint resolution, compliance,
8 special projects - I won't go through all of those, but
9 there are quite a few of them. All in all, a very large
10 and increasing water administration agenda, but I have to
11 say that there were minimal resourcing changes during that
12 period. We had relatively stable staff numbers in
13 licensing and compliance during the past four years, so
14 that the workload did increase, they become much more
15 (indistinct) and I guess the opportunity for legislative
16 and reform changes that we were required to meet.
17
18 The second important group of programs and activities
19 was planning and policy related. As I said, eight water
20 sharing plans were produced. High cost, long time to come
21 to the end. It included the GAB. We also commenced the
22 water sharing plan, the macro water sharing plan and we
23 also started a review of the groundwater plans which is, I
24 guess, largely completed but still a little way to go, and
25 I will explain that in a moment in the future forecast
26 stuff. But also, we largely completed the border rivers
27 water sharing plan.
28
29 The changes or, if you like, the end result during
30 that period is that we have commenced five water sharing
31 plans operation, that happened in July 04 and it's a lot in
32 one region. We then put interim rules in place for
33 groundwater in view of the non-implementation of the two
34 gazetted groundwater sharing plans for the Gwydir and
35 Namoi. We have commenced a new, different, if you like,
36 community engagement process involving the CMAs for the
37 water sharing plans we are currently looking at and
38 continuing with. The GAB, of course, will still be
39 outstanding. We may have to call on the GABAC, which is
40 the Greater Artesian Basin Advisory Committee, who did use
41 the existing river management committee.
42
43 In terms of resourcing, previous landscape starts from
44 the old GLWC were engaged in data cleansing, there were
45 three EFTs in data cleansing. There was one EFT involved
46 in extra access, and developing the new water sharing plans
47 consumed about another three EFTs in that period 2001 to

1 2005.

2
3 In terms of technical support, I guess that was
4 required in three main areas: river and wetland ecology
5 and water quality being one, hydrogeology and hydrometrics.
6 The main activities involved monitoring and reporting on
7 resource condition and response to water management
8 actions, and you can see there mention of river flows,
9 et cetera, groundwater monitoring as well. Also we had to
10 provide, and should have provided and did, technical
11 support to water committees in the water sharing plan
12 process and, of course, some technical support to water
13 administration as well.

14
15 In terms of the program and activity changes within
16 technical support, there certainly was a shift from the
17 water sharing plan development to the implementation
18 regimes and activities, and we needed to review and
19 rationalise activities, as you can see there, groundwater
20 monitoring networks sites, the number of visitations per
21 site, hydrometric monitoring on many unregulated streams,
22 and so on. Because of time, I won't go through all the
23 details there, but I do want to highlight that under the
24 development and implementation of the Gwydir wetlands
25 monitoring program, a Gwydir wetlands water quality
26 program has been developed to supplement the existing
27 program operating in the area. I think that is important
28 because it does deal specifically with potential pesticide
29 contamination issues.

30
31 The other thing I should say is we did combine the old
32 central and north west regional water quality programs with
33 pesticide programs, so we have actually increased the
34 number of water quality sites to account for the future
35 water sharing plan monitoring requirements. Once again,
36 relatively stable staff numbers, but a changing focus in
37 what some of those staff members are actually doing.

38
39 To the future. In terms of the water resource
40 management forecast for the future, commencing 2006-2007
41 and beyond, the main drivers are: implementation and
42 reporting requirements of the water sharing plans, the
43 ongoing transition from the Water Act to the Water
44 Management Act, the meeting of the national water
45 initiative objectives or obligations, and an initially, I
46 suppose, we are largely excluding the monitoring and the
47 reporting for catchment action plans and the NRC, but are

1 ready and capable of delivering when required. So that
2 there is good reason why we haven't included that. I'm
3 happy to expand upon that, if you would like, in question
4 time.

5
6 Of course, for me a major driver in our forecast is
7 water management methods. For the forecasted program and
8 activity changes for, say, surface water information - and
9 this is conditional on AWF funding, so you can understand
10 that there is external funding sources here as well - we
11 are after five additional hydrometric staff. That will be
12 needed over the four years for the additional flow
13 monitoring recording and assistance for ecological
14 requirements.

15
16 Note that Barwon Region hydrometrics unit, which is
17 very fairly substantial, I think, 19 EFTs involved, we also
18 service other regions in terms of the hydrometric sites
19 that we need to maintain and service and operate, and that
20 I think is far west 29, north coast 75 sites, in central
21 west five sites. These, of course, are important to these
22 various areas. So a total of 277 sites are managed by the
23 Barwon Region hydrometric staff. 168, of course, of those
24 sites are in the Barwon Region, that is split up in 97
25 regulated sites and 71 unregulated sites. As you can see
26 there, 105 of those sites are State Water funded.

27
28 Additional gauging information is required for equity
29 between users as well as providing a basic rights to
30 environmental shares. In terms of improved efficiency, the
31 Water Information Exchange, WIX, will allow better access
32 to flow and the use of account information as well as
33 allowing users to input their own meter readings, subject
34 of course to audit checks for compliance and quality
35 control.

36
37 The groundwater information, there is increased
38 expenditure to meet the water sharing plan requirements,
39 there is increasing reliance on realtime data collection by
40 the data loggers, and telemetry. This will have eventual
41 efficiencies when the systems, of course, are established.
42 In terms of resources, we would like to include one
43 additional hydrometric position to service both the Barwon
44 and north coast.

45
46 Continuing the water resource management forecast
47 progress and activities under surplus water and groundwater

1 analysis, the increased water quality monitoring requires
2 the services of the water analytical laboratory at Wire
3 Creek. The Barwon Regions also requires the services of
4 that laboratory to satisfy the increased demand on
5 monitoring support for CRC projects and Barwon water
6 quality projects.
7

8 Under the water modelling and impact assessments, as
9 you can see, there is significant reliance on the central
10 office in Sydney to support the water sharing plan
11 implementation and ongoing water resource assessment
12 functions required. Eventually, as I have said, Barwon
13 does propose to engage one hydrologist to provide some
14 local advice in this regard.
15

16 We are also, as you can see there, moving into linking
17 river and wetland ecological responses to hydrological
18 change, that is, the IMEF data, and this is a major Water
19 and CRC and community partnership area. I'm happy to
20 expand on that, but I have to say, and I should say, that
21 DNR in Barwon Region has committed approximately \$1m in
22 kind over the next seven years, that's about one and a half
23 EFTs per annum, to the CRC over that 7-year tenure.
24

25 Still under the forecast, continuing the program
26 activity general summary, water sharing plan
27 implementation - a big part of our future, increased
28 activity. It covers, as I said, the five current water
29 sharing plans to water plans you can see there, the GAB,
30 the macro, water rivers, Peel, et cetera. I should
31 highlight that we are engaging one of our staff members to
32 come up with a statewide flood plain harvesting policy and
33 Barwon is developing that policy as we speak, and that will
34 continue for the next year as well and that will help the
35 whole of the state. Each plan, of course, has specific
36 statutory requirements in addition to the normal
37 administration requirements monitoring and reporting
38 outlined in the general presentations Rob talked about.
39

40 I should also say, for all of this, we propose to
41 engage another four additional staff in this area. That
42 will be moving them across, so four EFTs in this area of
43 water plan, sharing plan implementation.
44

45 Just to elaborate on one or two of the plans in terms
46 of the implementation, let's consider the Gwydir regulated
47 water sharing plan. I won't go through every one of them,

1 but we do need to finalise the implementation manual, we do
2 need to operate the compliance and assessment advisory
3 committee, which was established by the minister in
4 December 2005, last year, we do need to operate the
5 environmental contingency allowance operations advisory
6 committee. So there's a lot of costs involved in setting
7 fees, technical support, hydrology, et cetera, in those
8 committees.
9

10 We do need to review the interim north-west slope plan
11 as it affects supplementary water access. This is yet to
12 happen. Of course, there is annual reporting for CMA and
13 the subsequent five-year review by the NLC. Those are the
14 sorts of things we do. Obviously that is repeated for the
15 Namoi water sharing plan as well. But in addition, we will
16 look at reviewing the storage capacity volumes relating to
17 the general security access in the upper Namoi and review
18 the flow for special access in the upper Namoi as well. So
19 the other two parts there, north-west flow plan, is the
20 same as the Gwydir. (12.15.48)
21

22 Let's have a look at one of the unregulated plans, or
23 put the three together, Tenterfield Creek, the Horton River
24 and the Mooki. We do need once again to finalise the
25 implementation, introduce extraction metering, and that
26 will be a statewide program and it will be capital
27 enhancement funds. Develop the water use accounting
28 system. We need to carry out various reviews as required
29 in the water plans, those particular ones, and of course
30 annual reporting to CMA and subsequent review by the NRC.
31 As I said before, to minimise costs, these will report
32 their own usage if some form of random audit checks would
33 be undertaken across the region to validate that data.
34

35 Groundwater. The upper and lower and groundwater
36 plan, which will be up to commence in July 2006. There
37 will be some modifications during the next six months,
38 because we are finalising the achievable groundwater
39 entitlements program. This is a statewide program and
40 there's \$110m involved in that. What we are doing, and
41 Barwon Region is leading the way in this, some major
42 components of that \$110m will be expended in the Namoi and
43 in the Gwydir. We are defining new entitlements and
44 obviously deciding on the structural adjustment of finance
45 available for each of those areas, it's quite considerable.
46

47 In terms of the local groundwater management plan, we

1 need to develop implementation manuals to develop the
2 groundwater accounting system to modify the LAS
3 groundwater indicator for the Water Act licences and so on, in
4 terms of reporting and all the rest of it as well. So a lot of work
5 to be done if we are to implement the groundwater plan in
6 July 2006, which has been prepared but will need to be
7 modified.

8
9 Similarly for the lower Gwydir groundwater plan, the
10 same thing as the Namoi, so I will jump that one to save a
11 minute. Water resource management forecast in terms of
12 water planning, which is mainly funded by government, so I
13 won't go into a lot of detail here as well. I do want to
14 highlight that the remaining regional works for the more
15 complex sharing plan areas, and I am talking about the
16 border rivers surface and groundwater plans, have been
17 subject to the intergovernmental agreement which we are
18 negotiating through the Border Rivers Commission.

19
20 It will incorporate a tag trading model and it is
21 interesting when we talk about tag trading, that does not
22 move the entitlement to the other state; the entitlement
23 remains tagged at the state of origin, that's the idea. It
24 allows the entitlement to be used in the other state. This
25 could apply to water pricing across the border as well.
26 It's something that we need to pursue. Of course, Barwon
27 Region does chair the local algal coordinating committee as
28 well. I won't go into all the details there. Water
29 consensus administration, straightforward, so I will jump
30 that one as well, if I may, Mr Chairman. Similarly,
31 I think the transactions - a lot of the transaction
32 processes are subject to a separate fee structure, so
33 I will jump that one in the interests of time.

34
35 Once again, the additional activities which are really
36 New South Wales treasury enhancement in the Barwon
37 Region.
38 Let me just mention the \$3m for wetland recovery projects
39 in the Gwydir, \$2.3m in the Gingham, \$5m in the Gingham
40 channel and \$700,000 for controls. Certainly there's good
41 money coming into the Gwydir. Also that last dot point
42 there on the AWF dollars, we have sort a total of \$6m for
43 hydrometric activities, 4m for upgrades, 2m for telemetry.
44 I will finish now, Mr Chairman. As you can see, DNR
45 separated from State Water Corporation, and I won't go
46 through it all, but water resource management protection
47 entitlements, protection environmental requirements, costs

1 are general fixed, some variation from valley to valley,
2 but over the long period, costs are expected to even out.
3 Water resource management is not a function of the volume
4 of water delivered and is also not a function of the
5 licence category.

6
7 I have run out of time, as you would expect when you
8 are covering this very exhaustive necessary program of
9 water resource management activities. I hope this gives
10 you a good understanding of where we are up to in the
11 Barwon Region, and I would like to thank you for the
12 opportunity - but also proud to say we have excellent,
13 hard-working staff in the Barwon Region, capably led by
14 Mr Christmas. It makes my job very easy. Thank you,
15 Mr Chairman.

16
17 THE CHAIRMAN: Thank you.

18
19 MR SEERY: Probably it is best to ask Randall the first
20 question, as the New South Wales Commissioner to the DBBRC.
21 I understand that the operations of the Water Rivers
22 Commission are currently being reviewed by the governments.
23 Could you please explain the reasons for this occurring and
24 whether you have taken this into account in preparing the
25 costings.

26
27 MR HART: The second part of it we have taken into
28 account. In terms of the first part, largely driven,
29 I think, by water users in terms of having a single
30 operating authority for the border rivers and getting
31 rivers that black line down the middle of the river, the
32 state border, so that we can have a uniform integrated
33 approach to water management. So that's what is driving
34 the process.

35
36 There are a number of activities that we have been
37 engaged upon under the Border Rivers Commission and also,
38 I
39 guess, under the memorandum of understanding between the
40 two states. We have a standing committee as well, of which
41 I am the New South Wales member, and Queensland has a
42 member as well. I guess we are looking at do we want to
43 have a single operating authority for efficiency reasons
44 for the water users. The answer is yes, in my opinion.
45 It's a matter of how we do that.

46 It obviously impacts a lot on State Water and Sun
47 Water, their equivalents in Queensland. We are at a stage

1 of the process now where we are in delicate negotiations
2 because we are operating under different state legislation,
3 both Queensland and New South Wales. That complicates it,
4 it makes it very difficult, but we are looking at a single
5 operating authority, and I think that's probably where we
6 will go. Whether that's a joint venture between State
7 Water and Sun Water and then a different resource
8 management function for the remaining parts of the Border
9 Rivers Commission is yet to be seen.

10
11 I should also mention, whilst it's just the border
12 rivers catchment that I have just talked about, we have to
13 consider the intersecting streams west of Mungindi as well
14 in that process. So a lot of work being done and that has
15 been taken account of in our pricing submission.

16
17 MR SEERY: I'm fairly unclear about the interplay between
18 the Department of Natural Resources and the catchment
19 management authorities, and I know that a top down analysis
20 should exclude CMA funding for water resource
management.

21 Does this mean that the water resource management charge
22 that you are proposing to impose on extractive users does
23 not include funds provided to CMAs and WRMs and, if so,
24 does this mean that the government is funding CMA activity
25 as an explicit CSO?

26
27 MR HART: The water resource management costs we have
28 included in our submission don't include funding for costs
29 related to CMAs, funding for CMAs. So we don't propose
30 that our WRM charges would include costs of CMAs. The
31 funding passes through the department and the terms of
32 reference for pricing of water, of course, includes the
33 water administration, ministerial cooperation, which is
34 administered by the department, which doesn't include the
35 CMAs.

36
37 With respect to the work on WRM by the CMAs related to
38 bulk water extraction, it is relatively minor at this stage
39 and certainly in the ensuing years. As to whether it be a
40 CSO is another issue, but at this stage that hasn't
41 actually arisen. It's basically just funding CMAs to do
42 their task, which includes water resource management.

43
44 MR O'NEILL: Can I add a little bit to that. I have with
45 me a discussion paper we are developing, with the CMA chair
46 as council, and it outlines the CMA's functions just
47 briefly. The first one is assisting the minister on a

1 management committee in development and implementation of
2 management plans; managing adaptive environmental water and
3 also monitoring water quality and other environmental
4 health objectives.

5
6 It is DNR's view that we work with CMAs. There are a
7 number of aspects we work with them on in terms of
8 reviewing the water sharing plans, macro plans, structural
9 adjustment for the groundwater sharing plans and
management
10 of the inductive environmental water. So our functions are
11 a partnership and therefore we do try and separate them in
12 the submission.

13
14 MR SEERY: In your presentation, on the one hand you have
15 noted that there have been little allocations over the last
16 three years, but on the other hand DNR is seeking to
17 introduce a fixed per megalitre charge. This is predicated
18 on the assumption that WRM costs are largely fixed. This
19 approach would seem to impose a significant cost on users,
20 with the potential that they may receive no water in a
21 year. Do you consider that this approach to pricing is
22 fair and, if so, how do you justify this approach?

23
24 THE CHAIRMAN: May I just add to that question: while the
25 costs may be fixed, are the benefits fixed?

26
27 MR O'NEILL: I guess I will try and answer that from,
28 first of all, a generic point of view and then focusing on
29 the WRM activities. It is our assertion that WRM, which is
30 what we are talking about here, is monitoring and managing
31 entitlements and flows. Therefore, these things aren't a
32 function of usage or allocations or anything else.

33
34 If we focus down a bit more carefully into our
35 submission and look at our WRM activities, of which there
36 are 12, I could give you a couple of examples. First of
37 all, as Randall pointed out in his detailed presentation,
38 surface water and groundwater monitoring and information,
39 this information is required of course. It is irrelevant
40 of a function how much there actually is; it's about
41 knowledge of what is there, the quality of that water as
42 well. We need this information for compliance with our
43 capped and water sharing plans.

44
45 Another of our activities that we have in the activity
46 groups is the water modelling activity. Again, this is
47 required irrespective of user, it is about configuring

1 water basis models to simulate behaviour over a long period
2 of time. We need this to define the size of the
3 consumptive pool, so it is not a function of usage but an
4 activity that we need to undergo irrespective of the
5 climatic variability.

6
7 MR RUNDLE: To add a couple of points, as indicated, our
8 WRM costs do not vary with water usage. They tend to be
9 fixed. So in terms of cost reflectivity pricing to be more
10 appropriate to fixed charge, we know that State Water's
11 charges are moving towards a more variable ratio, so in
12 terms of a total water charge for bulk water there is still
13 a variable component incorporated.

14
15 We also note that in terms of efficient pricing, a usage
16 component would not act as a very good means for
17 demand management. Demand for bulk water tends to be
18 price inelastic.

19
20 THE CHAIRMAN: Perhaps I should elaborate my question.
21 You are asking users to pay water resource management,
22 presumably because you think they gain some benefit from
23 it. What I am asking is, does a high security user gain
24 more benefit from the water resource management than say
25 general security users?

26
27 MR O'NEILL: The short answer is no.

28
29 MR COX: I wanted to follow up something Randall Hart said
30 about who should be expected to pay for what. Randall said
31 in developing the program of works that you are proposing
32 for northern rivers that you took into account user
33 requirements. Can you tell us more about how exactly you
34 found out what user requirements were and how the program
35 you are proposing takes account of that.

36
37 MR HART: I suppose I can't say definitely but I have to
38 say that most of my time and Peter's time is spent in
39 talking with users, groundwater users and surface water
40 users, and I think from the many meetings we have we can
41 ascertain their sorts of requirement, we know the sorts of
42 things that they require long term. I can't always agree
43 with what they want but from my point of view we try to
44 service their requirements. That is all I meant by
45 sticking that dot point in, just to make sure that we can
46 service what they require in terms of timeliness of
47 allocation announcements, I guess also in terms of

1 timeliness of supplementary water announcements and all the
2 myriad questions they ask. I just want to service their
3 requirements and that is what we try to do.

4
5 THE CHAIRMAN: Thank you for that, and thank you,
6 gentlemen, for your presentation today.

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2
3 MR MURRAY: Thank you, Mr Chairman. I am the Executive
4 Officer of the Gwydir Valley Irrigators Association. I
5 would like to introduce Ian Cush, the chairman of that
6 association.

7
8 The Gwydir Valley Irrigation Association is a
9 voluntary organisation. It represents over 90 per cent of
10 the entitlement in the Gwydir Valley and we represent both
11 regulated groundwater and unregulated users. The map on
12 the screen shows the geographical area that we cover.

13
14 Today I would like to go through a number of issues
15 that are raised both in the State Water submission and the
16 DNR submission. Listed are some of the major points.
17 There is also a whole lot of other points we have raised in
18 our submissions and just because we don't pick up on them
19 does not mean we don't consider them to be important.

20
21 This is really the big picture. I apologise for the
22 fuzziness of the overhead, but in some ways I think it is
23 rather apt because some of the figures put forward and the
24 arguments put forward by State Water are fairly fuzzy.

25
26 If you look at the numbers there, and what IPART
27 determined as a fair and reasonable return for State Water
28 in its last determination, State Water would have received
29 \$2.5m. Today if that submission was taken in full and
30 average water use was achieved, they would be looking at
31 receiving \$6.5m, which is a 250 per cent increase.

32 Obviously we would find that very hard to justify.
33
34 We have been given a number of reasons why this may
35 come about put to us by State Water and we will address
36 those. What really concerns us as an organisation is that
37 State Water has been corporatised for over a year and it
38 hasn't adopted much of a commercial corporate culture.
39 What we want out of State Water is an organisation that
40 bounces out of bed in the morning and says, "How can I
41 deliver you more water". We have not seen that attitude as
42 yet.

43
44 We realise that State Water is constrained by the
45 water sharing plans. All we want is our legal entitlement
46 to what is available. It has a lot of latitude in
47 developing that and in our submission we gave some detail

1 of supplementary water, where we believe we missed out.
2 Supplementary water was not only lost to irrigators but
3 also income was lost to State Water. If we had State Water
4 trying to maximise on its income, we would be less critical
5 in our requests. They would earn more and not require as
6 high a price as they are asking. Delivering water to
7 irrigators is not like selling ice to Eskimos. There is
8 demand out there. We will buy it if it is delivered. The
9 opportunities are there.

10
11 We heard this morning a question from the tribunal
12 that State Water failed to deliver bills for 15 months. We
13 have heard some excuses from Abel about that. No
14 commercially driven organisation could possibly go 15
15 months without collecting regular revenue. There must have
16 been ways and means. While we are not particularly upset
17 about not receiving a bill, it says a lot about the culture
18 of that organisation. Let's see it start to perform.

19
20 While it failed to send out bills, it did manage to do
21 such things as have new staff offices, computers, and a
22 whole range of other things. Again, their primary focus
23 must be about delivering water. I have no objection with
24 them coming into new offices and spending money there, but
25 let's focus on the basis of the business, and when those
26 bases are satisfied we might have more confidence in them.

27
28 When we go through the submissions, we see much made
29 of the impact of the water sharing plan. Let's face it,
30 those are fairly Draconian things in most plans. There is
31 a shift away in the Gwydir from water from regulated users
32 to the environment and that is a separate issue that I will
33 deal with. But while State Water claims it will be able to
34 sell less water, the Gwydir water sharing plan actually in
35 any individual year allows the total amount of water to be
36 sold to be increased, not decreased, and that is largely
37 due to the fact that in the past irrigators were limited to
38 using 100 per cent of their entitlement in any year. Under
39 today's plan they can use 50 per cent more in any one year, as
40 long as the three year average does not exceed 300 per
41 cent, so the opportunity is there to sell more water.

42
43 The real issue as far as the Gwydir is concerned is
44 the environmental contingency allowance account, which is
45 an account set up in Copeton Dam which allows an account of
46 45,000 megalitres, but up to 90,000 megalitres can be
47 stored. That water was previously available to irrigators.

1 It has been taken away. It is water that State Water must
2 deliver on demand. They must store it and this is accrued
3 at the same rate as general security water. Surely that
4 must be paid for, either as a direct charge to government
5 or as a community service obligation. It is bad enough
6 that irrigators lost access to that water, but the fact
7 they have to make up the difference in meeting State
8 Water's operating costs is absolutely untenable and is an
9 issue that IPART must address.

10

11 State Water also makes much of the fact that
12 irrigators now expect State Water to operate 365 days a
13 yes, 24 hours a day. I have got news. We have always
14 expected that from State Water. Sometimes we have got it,
15 sometimes we haven't, but here in northern New South Wales
16 supplementary water is an absolutely crucial part of the
17 whole resource mix. It comes when it comes. Unfortunately
18 it does not run according to time tables. It is normally a
19 weekend or public holiday. We expect it to be delivered,
20 and when it is delivered State Water will earn money from
21 it. All in all, the water sharing plans, with the
22 exception of the impact of the ECA, which needs to be
23 addressed by IPART, has had very real affect on the
24 operational costs of State Water.

25

26 In terms of opex and capex, we are concerned that the
27 consultant's report is not available and we would like you
28 to make every opportunity for irrigators and other water
29 users to question the consultants at some stage on that
30 report, to delve into the details. We also believe that
31 not much has probably changed since the Jacobs report was
32 done last year and the tribunal should keep in mind that
33 report's conclusion that it could not see any justification
34 for efficient operating costs to increase over \$21m. If we
35 look to see what State Water is asking in today's
36 submission, they are asking for some \$48m for operating
37 costs. A little bit of that has to go to the operation of
38 the water supply but still the other extra \$12m or \$16m is
39 very hard to see where that value comes from.

40

41 In particular we are concerned about increases in
42 staff levels. State Water basically is looking for a 20
43 per cent increase, adding some \$5.4m to their operating
44 cost. What other organisation but a government monopoly
45 could ask for 96 more staff than what it had in 2000, yet
46 try to change its planning base from a one standard
47 deviation less than the average: We are not going to deliver

1 any more product, significantly less product, but we want
2 more people to do it. I would not like to be the chief
3 executive of any other business going along to the board
4 and saying, "Guys, I want 20 per cent more staff and we
5 will do 40 per cent less with them." It just does not
6 stack up.

7

8 In particular with costs, we are most concerned about
9 hydrometric services, for two reasons: One, it is one of
10 these cosy little agreements between DNR and State Water
11 where State Water says, we are getting that service from
12 DNR, we have to provide the cost, DNR says State Water has
13 to pay, so we are not worried about it, but somewhere along
14 the line users pay and the increasing cost is from \$2.2m in
15 03/04 to \$5.5m for 06/07.

16

17 Hydrometric services are not rocket science, they can
18 be contestable. They should be. There should be a lot of
19 scrutiny of the service level agreement because as
20 irrigators and other users we have had no input. There was
21 talk of a major review of what hydrometric services are
22 actually required, are the gauges in the right places, do
23 we need them all. That does not appear to have gone far at
24 all. This is something that needs to be looked at.

25

26 Another cost I want to hone in on is the water quality
27 monitoring program, \$173,000 in 03/04, \$1.5m in 06/07.
28 There has been a shift of responsibility from DNR and a
29 shift in the cost share from 50 per cent to 100 per cent.
30 Why should users actually foot the payment for water
31 quality monitoring in the dam in the first place? Users
32 have absolutely no control over quality of water that goes
33 into that dam. It is absolutely outside what is happening
34 in the catchment area. They have no control about stopping
35 the water from being released from the dam. There is
36 nothing in water quality monitoring for users if users are
37 defined as the regulated users of the valley.
38 Unfortunately, they are the only users that are actually
39 paying at the moment.

40

41 We are also in general terms of asset maintenance
42 concerned about the rolled gold engineering approach
43 adopted. We believe there could still be more done in the
44 cost benefit analysis as to whether the expenses that have
45 been done are actually at a real commercial level and not
46 just designed to build a monument that will last all our
47 lifetimes and a few other lifetimes on top.

1
2 The other area of concern in costing is the sheer cost
3 blow-out in costs. From the 2004 State Water submission
4 the suggestion was that corporatisation would cost an extra
5 \$2m. I believe that has blown out to the order of \$8m to
6 \$12m under the current submission. Again, a lot of that
7 has been taken up in staffing, which we have already
8 addressed, an extra \$5.4m there, but there are things like
9 HR, legal services, finance and IT. All services should be
10 contestable and, given that one of the main drivers of
11 corporatisation was to gain efficiencies, surely in the
12 past there were HR costs, legal costs. Surely under
13 corporatisation they should be able to reduce those costs,
14 not expand them.
15
16 One more cost that is pertinent is that I believe
17 State Water is at the moment putting together the statewide
18 community consultative committee. What other commercial
19 organisation would charge its users to have non users sit
20 around a table and impact on the operations of that
21 company. Okay, this community consultative committee is
22 part of government legislation, it has to exist. It may
23 have to exist but it should be paid for by the community
24 through some form of CSO. It is untenable this should be
25 added to the cost of irrigators.
26
27 RAB versus annuity: As far as the Gwydir the jury is
28 still out as to whether a RAB or annuity approach is the
29 way to go. To that extent the New South Wales Irrigators
30 Council is taking some independent advice and will be
31 certainly through the Irrigators Council putting a position
32 forward to IPART when that advice is finalised. However, I
33 am not sure that that RAB as proposed by State Water is the
34 way to go. We have seen State Water basically imply that
35 the RAB would only take up the same amount of revenue as
36 what the annuity approach would, yet we have also looked
37 down through the figures where the initial RAB may cost us
38 \$21m but blow out to \$56m by the year 2010. I would have
39 thought if you were trying to replicate an annuity with a
40 RAB, the initial RAB payments would be a lot lower than
41 your original annuity, then you would build and raise it to
42 an average that would be the same, but not the RAB approach
43 being put forward by State Water.
44
45 In terms of the 7 per cent return, we see an
46 organisation that is trying to put forward what would have
47 to be the most risk minimised approach I have ever seen.

1 It is a high level of return that is not acceptable. As
2 far as we are concerned, any return over prudent
3 expenditure is not justifiable.
4
5 Consumption forecasts: A big one for the Gwydir. If
6 we look at the last 20 years of usage in the Gwydir, our
7 average has been 299,000 megalitres. Over the last three
8 years, as a number of speakers have said, the worst drought
9 on record, our average use has been 199,000 megalitres.
10 One standard in the deviation below the current planning
11 base brings us back down to 185,000 megalitres. The
12 adoption of one standard deviation below average is
13 certainly untenable. It is an absolute sign of lazy risk
14 management by a monopoly. State Water must look at other
15 commercial approaches ranging from insurance, futures or
16 maybe just the old time-favoured way of going to the bank
17 and getting an overdraft. There are other ways it will
18 impact on us far less.
19
20 We support the move towards 40 per cent fixed and 60
21 per cent variable charges. State Water does not have to
22 suffer when the weather turns against it. Flying into
23 Moree you would have observed the grain silos. Grain Corp
24 does not charge depending upon the weather and crop
25 output.
26
27 High security premiums: State Water here is looking
28 really to double dip. They are suggesting in the Gwydir
29 situation that the current ratio of 1.75 be doubled.
30 Basically when you think about it, we are talking about the
31 fixed charges, storage space in the dam. If I was made a
32 Gwydir high security user and had 1,000 megalitres, I need
33 2,000 megalitres storage space in the dam because they have
34 to store it for two years. If I am a general security user
35 with 1,000 megalitres, I have the right to store up to
36 1,500 megalitres in the dam. Work that maths out and you
37 come up with a ratio of closer to 1:3. I have not set on a
38 final figure but I would have thought you could justify
39 something in the order of 1.3 to 1.7. Certainly not the
40 3.5 proposed.
41
42 On cost shares, we have some very specific concerns
43 that were raised in our submission. I have raised the
44 issue of the ECA. We believe that should be charged, along
45 with regulated replenishment flows. I was amazed earlier
46 today when Abel said that was opportunistic water. That is
47 the first water kept in the essential supply account in the

1 dam. Under that logic, the regulated supplies, we are
2 double opportunistic because we get last bite of the
3 cherry, so that needs to be reviewed.
4
5 Very quickly on the DNR situation, I strongly believe
6 that IPART must do an audit and reconciliation of where our
7 funding has gone in the past. If we look at their
8 submission, while it appears:
9
10 In real terms, costs over the period
11 2001-02 to 2004-05 have remained relatively
12 stable, within the range of \$40m to \$45m a
13 year. Historical WRM costs are \$5m to \$10m
14 less than the cost base assumed by IPART in
15 its 2005-06 determination, which was based
16 on 2001 forecast costs inflated by CPI.
17
18 So there is that money I would like to see reconciled.
19 From the State Water submission I quote:
20
21 While it appears that the previous business
22 unit State Water had generally expended its
23 agreed costs, the following should be
24 noted:
25
26 DLWC was requested for total expenditure
27 budgets of \$27m in both 2001/02 and 2002/03
28 and the former business unit received \$20m.
29
30 Finally, given the level of time, I really do have concerns
31 about the whole DNR submission in that, as you are aware,
32 a mini submission was put in and we were told that, when
33 you read the amendments, we have gone from asking for
34 six extra staff per region to three extra. If I was doing
35 a submission I would be saying, what resources do I need,
36 what will it cost, but they appear to have done it the
37 other way round.
38
39 The final point, the cost shares: I was amazed in
40 Randall's presentation when he talked about C07 costs and
41 said they are largely costs to government. I read 100 per
42 cent user, 100 per cent user, 100 per cent user, 85 per
43 cent user. If the whole water sharing plan and the process
44 of implementation was about providing, certainly for
45 everyone's shares, not just users, surely the cost should
46 be met either entirely by government as part of the water
47 program - they have excluded planning for land, for native

1 vegetation, but for some reason they want to charge water.
2 And if we can't get 100 per cent costs on those surely they
3 have to be shared a bit more equally. I ask IPART to go
4 through those, particular C07, and look at this a lot more
5 closely. Thank you.
6

7 MR SEERY: You raised concerns in your submission
8 regarding the increased expenditure forecasts by State
9 Water and DNR. Did irrigators via the customer service
10 committees have any input into that? Do you believe that
11 these customer service committees play a useful role in
12 reviewing expenditures proposed by State Water?
13

14 MR MURRAY: They do come forward with their budget and
15 we are allowed to consider these for State Water.
16 Particularly when it comes to the capital expenditure, it
17 is extremely hard for someone who is a layman in terms of
18 engineering to say, is it a good deal to be spending \$4m or
19 should that cost only \$2.5m. I can tell when they are
20 trying to pull the wool over my eyes and say a generator
21 will cost \$60,000 but not too good on major capital
22 expenditure.
23

24 In terms of whether the customer service committees
25 have enough say in it, State Water is moving towards
26 providing individual valley business plans where we may
27 have some more say. We will take that question on notice
28 and maybe answer it more fully at the next round in
29 hopefully five years time, because at the moment we will
30 just see how they work.
31

32 MR REID: Thanks very much. Just taking that point a
33 little further, Michael covered State Water. What input have
34 you had into the development of DNR's budget and plan?
35

36 MR MURRAY: Absolutely none. I raise an issue that there
37 is some value to having a customer service committee for
38 DNR to go through what are the proposed expenditures, how
39 justified they are. In particular I touch on hydrometric
40 services. Do we need all these gauges, are they in the
41 right place to maximise deliveries and the like. That is
42 in my overheads that I will leave.
43

44 MR REID: You indicate in your submission that a lot of
45 the activities previously undertaken by DNR are now either
46 moved to State Water or to the CMAs, raising the issue of
47 what activities have been left to be undertaken by DNR and

1 the appropriateness of the associated costs.
2
3 MR MURRAY: I am certainly concerned that it would appear
4 to us that DNR's responsibilities have actually diminished.
5 Randall went through a whole lot of current jobs and jobs
6 that they have achieved, and I guess what needs to be
7 recognised is there are some new jobs for them to do but
8 jobs have dropped off the system as well and jobs have been
9 sent over to CMAs and natural resources commissions,
10 therefore I find it hard to see how they can be looking for
11 any increase in charges at all because their workload
12 should have diminished.

13
14 MR CUSH: The system they have in place for processing
15 transactions is so slow that it has taken 15 months or 16
16 months, and I am not sure that it is through yet, on
17 processing the sale of water. You would have thought with
18 modern systems it would have been faster, not slower.

19
20 MR REID: You have touched on DNR's move to 100 per cent
21 fixed charges. Some of the other changes that they propose
22 are to move away from valley-by-valley charges to the
23 north-south split for regulated rivers and east-west for
24 the unregulated rivers. Do you want to comment on that?

25
26 MR MURRAY: We think the valley-base charging should be
27 maintained. There are significant differences in costs
28 from valley to valley. The move to fixed or variable I
29 would think at an approval level for DNR would be 50/50
30 costs. I don't believe they should go 100 per cent fixed.
31 It is a good point. What are they managing when there is
32 no water to manage in years of low flow? Secondly, it
33 keeps them in realistic touch with what their clients are
34 actually going through in a business sense at the same
35 time.

36
37 THE CHAIRMAN: I think we will wind it up there. Thank
38 you again for the clarity of your presentation. It
39 certainly crystallised a number of points.

40
41 LUNCHEON ADJOURNMENT
42
43
44
45
46
47

1
2 NAMOI WATER
3
4 THE CHAIRMAN: Ladies and gentlemen, it's my pleasure to
5 ask the representative of Namoi Valley to come forward.
6
7 MR CLEMENTS: Thank you for coming to Moree to give us
8 the opportunity to put forward some viewpoints and to discuss
9 this determination further.
10
11 Namoi Water is a relatively new organisation; it's
12 been discussed for a number of years. It's an umbrella
13 group of water users in the Namoi catchment area, so we
14 represent regulated users and the upper and lower
15 groundwater users. You have another submission here this
16 afternoon from the Peel Valley water users, Laurie
17 Pengelly, and we'll be pleased to discuss some of those
18 issues as well. But Laurie will add a long-standing
19 perspective on it, and I'm sure he will do that very well.
20
21 Rather than stick with a very fixed presentation, I
22 really want to deal with the topics, some of the things
23 that have been raised today, so I will just follow those
24 around and I would invite discussion afterward. I want to
25 pull closer to 10 than to 15. I think that the value of
26 these exercises, especially when you're on your third
27 hearing, is perhaps to pursue the things that are becoming
28 themes and try and draw them out a little, and there are
29 certainly a few.
30
31 So I will just chase a few of those around, and some
32 of the easiest ones to deal with, standard deviation, and
33 I will address that and keep on moving along point by
34 point. The State Water submission, in terms of the
35 standard deviation, I think that it's possibly one of the
36 smaller issues for us, but it's a significant issue in
37 terms of your process of looking at fair costs, and I think
38 unfortunately it's a shame that treasury have inserted a
39 very rigid clause into the operating licence of State Water
40 which means they have to go more towards the usage charge
41 than the fixed charge.

42
43 I think State Water should have been flexible in
44 that area and negotiated that with their customers valley
45 by valley. They have come up with a risk management policy
46 which I think is not tenable. In the real world, if you
47 wanted to carry out risk management and you simply

1 overcharged the customers, they would go somewhere else,
2 and really that is what this is. So without belittling
3 their attempt at risk management, it is permanent
4 overcharging and they need to find a better way of doing
5 it.
6
7 I would like to discuss impactor pays, and that has
8 been a vexed subject for irrigators over a number of years,
9 and again I will touch on briefly and I'd invite questions.
10 The simple fact is that the landscape out here, if you
11 removed irrigation from the storages, from the regulation
12 of the river, the landscape that would change is the
13 economic and social landscape.
14
15 These towns are very much built on the back of
16 irrigation, and inversely these very significant cost
17 increases will have a significant impact on regional
18 development and on the social and economic landscape of
19 these areas. We have already seen the Namoi Valley this
20 year underplanting in terms of the water available based on
21 price. So we're at a price sensitive level already in
22 terms of the real marketplace and we have some imposts
23 being added into these costs submissions and these pricing
24 submissions that are artificial, they don't bear any
25 resemblance to the marketplace and I will discuss that
26 further, and they will impact on employment, they will
27 impact on investment.
28
29 I think that the impactor pays policy has been
30 distorted based on the fact that there's a great target
31 there to recover money, and that's the irrigation industry.
32 We are a captive industry in terms of this pricing policy.
33 We have monopoly providers. We are very inelastic in
34 terms of our usage of water, and there's a reason for that
35 that is under-calculated and that is that water is the
36 driver to repay land development, machinery investment and
37 permanent staff. It is a driver that becomes very
38 inflexible. For us, it's an inflexible product; it's a
39 product that we have to have because it actually impinges
40 repayments of significant investments in other areas.
41
42 I think that if we get to discuss some of those costs,
43 it is unfair and very important for us that you consider in
44 detail the fairness of these costs. I know that that's
45 your operating premise, but I just put it to you in a very
46 personal sense today this is the reason for these hearings.
47 We need fair costs, and I don't think we are looking at

1 fair costs.
2
3 Impactor pays is just a very good example of the
4 capacity to extract rent out of a group of people simply
5 because they can't get the product elsewhere and they
6 cannot avoid the cost. These storages would still be here
7 if the irrigation industry wasn't here. They would be here
8 for flood mitigation. So one part of the landscape that
9 wouldn't change if we removed irrigation is the large
10 structures sitting on the river. That part of the
11 landscape would still be there. The landscape that would
12 change is the economic and social landscape.
13
14 But don't be deluded by the arguments of greens and
15 others who think that magically the structures would
16 disappear. They would not. They are here principally for
17 flood mitigation, and irrigation is a great boon to these
18 areas built on top of that. But the structures are here
19 principally for flood mitigation.
20
21 In terms of impactor pays, if we follow that thought
22 through, if these structures were still here if you removed
23 the irrigation, why is that we pay the full component?
24 There should be a CSO in terms of flood mitigation. It's a
25 significant cost.
26
27 Recreational users, again they are a group of users,
28 but I would say that flood mit comes well in front of that.
29 Recreational users are there and if you consider the fact
30 that the structures would be here regardless of irrigation,
31 the environmental aspects again need to be looked at.
32 There would be environmental management aspects with the
33 structures sitting here, regardless of whether there was an
34 irrigation industry or not, and these structures would be
35 used for flood mitigation, for the supply of town water.
36
37 The general flow regime issues would still be things
38 that needed to be managed because we have changed the
39 environment, and that's what we do, we are modifiers of our
40 environment. The modification of the environment out here
41 in terms of those structures is a permanent one and it is
42 one that is actually for the benefit of the entire
43 community. Flood mit is for everybody. The irrigation
44 industry is the largest driver of the economy out here and
45 that is a benefit to the entire community.
46
47 We need you to look at the very jaded, I feel,

1 viewpoint of agencies that have put forward us as the total
2 cause and effect and therefore the person that should be
3 paying. It is a capacity to pay argument, in the end,
4 dressed up as environmental reasons and dressed up as many
5 other things. We are not the sole reason for those
6 structures, and the benefit is to the entire community.
7

8 We have never avoided our responsibility in terms of
9 paying. In terms of fair costs, we're up for that and we
10 are happy to debate it and participate in it. I think that
11 some of the other areas that we touched upon in our
12 submission, and I would say that capital and operating
13 expenditure, we would wish to discuss later on. So we are
14 not going to touch on it today. There are some grey issues
15 in there that we want to bring up, but we are not going to
16 touch them today.
17

18 One thing I would like to bring forward today, and I'm
19 mindful of your opening statements this morning, so I am
20 not going to push you too hard here, but I think that one
21 of the things I have seen that has changed in the IPART
22 process over the last five, six or seven years is that
23 increasingly, governments have worked out that they can
24 push policy in through pricing submissions, and I think we
25 are seeing that.
26

27 The upper band pricing in this submission is a blatant
28 attempt by government to move from one policy area to
29 another for the purposes of extracting rent from us, and
30 they are doing it via pricing submissions. We will get out
31 to the public on this and we will be told, "We can't
32 comment on that, it's before IPART." It is a policy
33 decision.
34

35 I am informed that IPART does not make policy
36 decisions. It does not formulate policy in
37 New South Wales, it does not comment on policy, it does not
38 participate in policy-forming processes, it is not part of
39 any consultative process on policy - yet upper band pricing
40 is a policy issue, it is a huge policy issue. We believe
41 it's worth, in first year, around a million dollars a year
42 for the Namoi Valley.
43

44 I would like State Water to ring-fence the portion of
45 upper band pricing that is a rate of return for treasury,
46 and we actually need to see that price ring-fenced. That
47 is a policy issue and it's a huge economic shift and it's

1 being dressed up as RAB and annuity and a few other things.
2 The simple fact is that the policy shift is driving a
3 commercial rate of return for treasury and it is not being
4 discussed publicly, it is not being discussed in
5 parliamentary debate, there has been no green paper, white
6 paper, there has been no regulatory review in terms of the
7 Upper House Committee, and all of those processes are being
8 bypassed by the insertion of policy equations in the
9 pricing submission.
10

11 Externality is another example of that. It will be
12 worth around \$4 a megalitre, we believe, for the Namoi
13 Valley. That's CSIRO figures. They're a bit coy about
14 them now, they don't want to come out with them any more,
15 but they fessed up early, before they realised how
16 controversial it was. Externalities have simply slipped in
17 via NWI and a pricing submission to IPART. If you rule on
18 externalities, you will have formed externality policy in
19 New South Wales by default. We need public debate, we need
20 parliamentary debate, and we need regulatory review of the
21 impacts of these things.
22

23 So I would list externalities, I would list upper band
24 pricing as policy debates, and in all honesty, post-the
25 event, impactor pays is a policy debate that should be held
26 elsewhere. At the risk of offending,
27 I would caution IPART against being used as a policy
28 formulation process, by governments who are attempting to
29 avoid policy debate, and these are costly policies, they
30 are worth millions of dollars for these valleys.
31

32 The increases in the Namoi that can be attributed to
33 externalities, if it is \$4, and our information is that
34 that would be the figure for us, and to rates of return to
35 treasury, will run out at 2 to 3 million per year without
36 any public discussion. I would simply say that I would
37 appreciate if IPART maintained a credibility, and it has
38 immense credibility in our industry because it has always
39 looked at fair costs and has avoided being caught in
40 political maelstroms. The risk to you is that if you are
41 going to be used to form policy by default is that you will
42 lose credibility and unfortunately you will get caught in
43 political debate, and we don't want that, and we don't want
44 it out of firsthand experience.
45

46 We were stuck in a water reform process that is
47 heavily politicised, information was not forthcoming, and

1 we know what political debates are like and we know that
2 they are negative and divisive process. So we would simply
3 say we have appreciated IPART over a number of years and we
4 would hope that it keeps that credibility by avoiding being
5 used in a political process. I think that I will pull up
6 at that point and take a few questions.

7
8 MR REID: One of the matters that is touched on in your
9 submission, and obviously Laurie's as well, is the question
10 of high and low security, and obviously the Chaffey Dam.
11 The impression given is that it's an inefficient dam from
12 the point of view that it is too large for the town and too
13 small for irrigators. That's the impression you get
14 through these submissions. I'm just wondering whether you
15 have any comments on the proposals by State Water to change
16 the charging arrangements for the high security water.

17
18 MR CLEMENTS: At a broader level, I think it's an
19 agreeable move. If you can show that reserving water in a
20 storage is impacting on your capacity to deliver general
21 security, then there should be some problem. But Chaffey
22 gets beyond that; Chaffey is extreme.

23
24 I appreciate the attempts to move the ratio on Chaffey
25 because the simple fact is that the down component of
26 Chaffey effectively means the reliability for irrigators is
27 negligible. But Chaffey becomes a different situation
28 because you can't attribute that cost back to Tamworth
29 Regional Council. There are directors of Tamworth Regional
30 Council here today.

31
32 Chaffey is an inefficient structure. It was built at
33 a time when cost recovery was not considered, rates of
34 return to treasury would have been laughed at in terms of
35 their infrastructure, and cost recovery was not a
36 consideration. It was built by a government for political
37 purposes, for regional development purposes, and people
38 have entered into investment based on those assumptions.
39 Chaffey can never go into cost recovery, it is such an
40 inefficient structure.

41
42 If you could add up the DNR costs and the State Water
43 costs, it's the end of the irrigation industry, the costs
44 become so extreme. There is an argument in the 94 COAG,
45 quite simply, that legacy decisions by government - not
46 just infrastructure, but legacy policy decisions, the words
47 in the 94 COAG document - legacy policy decisions need to

1 be considered as well. We would say that Chaffey is just
2 outside the margin and we actually need to look at the
3 legacy policy implications for the State Government in
4 terms of their permanent share of trying to work out
5 Chaffey. I would say to you if you're looking at fair
6 costs, Chaffey doesn't get into the realm of fair costs.
7 It's impossible to get into the realm of fair costs. It is
8 an inefficient structure.

9
10 MR REID: I would like to repeat a question asked
11 previously in relation to what opportunity did you have to
12 have input into the costing and pricing proposals put
13 forward by both State Water and DNR.

14
15 MR CLEMENTS: Specifically for the Namoi CSC, I would say
16 this time around very little. That would be my honest
17 answer. We did see the equations, we did have a quick
18 session. We had no chance to modify and to be honest, the
19 staff members who made the presentation looked like they
20 were exhausted, been on the road trying to finish it off
21 and they really weren't taking too much correspondence on
22 it, to be honest. So this time around, the honest answer
23 unfortunately is virtually nil.

24
25 MR REID: Do you have a view on DNR's proposal to move
26 away from valley-based charging for natural resource costs
27 to a north-south or east-west split?

28
29 MR CLEMENTS: I think anything from DNR is interesting.
30 You look at it and it's sort of great to look at, but the
31 real issue with DNR falls well back from that. DNR are
32 duplicating the CMA's role. I don't know where they are
33 heading, but I don't believe they are a natural resource
34 manager under any piece of legislation or empowerment that
35 I see. The natural resource manager is quite clearly the
36 CMA.

37
38 So I think the discussion on east-west and whether we
39 go fixed or variable is a side issue. The issue with DNR
40 is that they can't describe their services. They are
41 pushing services onto a CMA that actually doesn't want the
42 services. Their services need to be described in contract
43 and tendered out, and DNR needs to fall back to a
44 regulatory role, or the government needs to make a decision
45 that they are indeed a natural resource manager and remove
46 the CMAs.

1 At the moment, there is a huge duplication in terms of
2 the resource management planning processes. The CMAs are
3 charged with it and DNR believes they are doing it. DNR is
4 not even a preferred provider of information to the CMA.
5 The CMA can get their information and their services where
6 they will in terms of natural resource management. DNR is
7 a regulator that is using its regulatory role to push
8 services on to a variety of people, and there is a real
9 issue.

10
11 The administrative functions of DNR have been raised
12 this morning. Their admin needs to be described in
13 contract and tendered out; their scientific services need
14 to be described in contract and tendered out; their
15 regulatory role then needs to be clarified and brought back
16 to laws. At the moment, DNR has expressed the opinion this
17 morning that it felt it was a partner of the CMAs, though I
18 can't find it anywhere in terms of regulation or act of
19 parliament.

20
21 They might be a partner of the CMA in their own mind.
22 All they are doing is describing their preferred jobs and
23 roles and sending a bill to us. That needs to be looked
24 at, and the simple fact is that should be before the
25 regulatory review committee in the Upper House. It is a
26 huge impact, that separation, that has not been looked at,
27 has not been run out to public consultation and it is a
28 duplication. There is a huge duplication between DNR and
29 the CMAs, and you are not able to and believe me you cannot
30 get the information to work out what the duplication is
31 because DNR will not be able to describe to you what they
32 are doing.

33
34 MR REID: To put the proposals that are before the
35 tribunal into context and given that in the past some of
36 the impact analysis attempted has been criticised, I am
37 just wondering if you could give us a feel for what
38 proportion the cost of water is to the total on-farm costs
39 and the impact of the proposed changes in price before the
40 tribunal on your operations.

41
42 MR CLEMENTS: I actually, with respect, find that question
43 a bit disturbing. We're here to talk about fair costs, and
44 that really to me is about capacity to pay. We are not
45 going to front up to any process on the basis of our
46 capacity to pay.

47

1 Impactor pays is already really perched on our
2 capacity to pay, and I don't want to enter further into
3 that debate. I mean, our capacity to pay should be
4 absolutely pushed right out of this process. We need to
5 look at fair costs. I'm saying the fair costs are a legacy
6 implication on inefficient storages. DNR really should be
7 proffering their services. It runs down to shares. When
8 we get the review, we'll talk about the shares. The share
9 ratios are well out of whack and rates return for treasury,
10 when we have an agreement that says we are not going to do
11 that, they're fair costs.

12
13 If you knock that out, we are living in a world we can
14 leave, and we aren't. So capacity to pay isn't something I
15 want to talk about. I want to get down to the real
16 nitty-gritty of the fairness of these costs, and these
17 costs are not fair.

18
19 MR REID: The context I asked that was, in the tribunal's
20 act, it is required to look at impacts.

21
22 MR CLEMENTS: I think that if you want to look at impacts,
23 let's have a look at a valley impact and bring the whole
24 community in, and I mean that. I think that if you look at
25 the work that the regulatory review committee is meant to
26 do in the Upper House, you don't go out if you've got
27 something significant there, you look at the entire thing,
28 and there is no work being done on the entire impact.

29
30 I think that the question is a little limited and, to
31 be honest, I think the ABARE study is limited. It's not
32 going to give you the information you need to look at
33 impacts, and we would be pleased to sit down and discuss
34 that with you, and the CMA. CMA are looking at some of
35 this work as well, to do some substantive work on impacts
36 that will really give you a broad picture of what it means
37 for the whole economy.

38
39 MR SEERY: John, could you inform me as to how the
40 introduction of the water sharing plans have gone in the
41 Namoi Valley/Peel Valley area and whether it has had any
42 resultant reduction in the water for irrigators in the
43 region? If there have been reductions, are you aware if
44 there are any structural patterns in place?

45
46 MR CLEMENTS: In terms of regulated water, they did it
47 cold. The effects were huge. There were unseen

1 reductions, and one rule called the 90/10 rule slipped in
2 by the Minister after it was signed off by the community.
3 That is worth between 17,000 and 25,000 megalitres per
4 annum. That is an undeclared impact. If you go to the
5 declared impacts, you are talking 50,000, 60,000, 70,000
6 megalitres of water gone. That is in the regulated system.
7

8 If you have go to the groundwater system, and we are
9 working through the packages now, I was at a meeting for
10 zone 1 last night, a 95 per cent reduction in water, and
11 the finish of 35 businesses. They will get unfortunately a
12 paltry sum in terms of a compensation package. That is the
13 only package I am aware of, and completely inadequate when
14 you look at the size of the impact. It is just what the
15 governments thought they could get away with. For those
16 people last night, we are looking at some options, trying
17 to move the town water supply elsewhere. If we can't pull
18 that off, those businesses are finished. What they get out
19 of the compensation package is no compensation for what
20 they will lose.
21

22 THE CHAIRMAN: Thank you very much, thank you for
23 your presentation.
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1 PEEL VALLEY WATER USERS ASSOCIATION
2

3 THE CHAIRMAN: Next I call the representatives from the
4 Peel Valley Water Users Association.
5

6 MR PENGELLY: Thank you. I am Laurie Pengelly, I
7 represent the Peel Valley Water Users Association and I
8 thank the tribunal for allowing us to put our points of
9 view to you once again.
10

11 I have listened to today's discussion with interest. The
12 Peel Valley Water Irrigators industry of course is greatly
13 concerned about pricing and the impacts on us. If the
14 submissions on bulk water pricing by State Water and DNR
15 remain unconstrained, it is the finish of the irrigation
16 industry in the Peel Valley, we are out of business.
17 You have heard that before, but you have seen the numbers
18 and anybody who knows anything about irrigated
19 agriculture can't survive \$100 a megalitre charges. You
20 need to answer a couple of questions too. Why should the
21 general security users in the Peel Valley pay 18 times more
22 than their counterparts in the Murrumbidgee? Why should
23 the townspeople of Tamworth pay 4 times more for their bulk
24 water than the residents of Wagga Wagga? It is totally
25 unfair and unreasonable.
26

27 The irrigation industry in New South Wales was
28 developed - you have heard this all before - not on the
29 premise of full cost recovery, not on the premise that
30 there was valley-based charging, that there would be a 7
31 per cent return on assets. They were developed to improve
32 the socio economics of inland New South Wales and they have
33 done a very good job at that. The industry, particularly
34 in the southern states, has been subsidised by the
35 Government since World War II to achieve that result and
36 the classic, of course, is Griffith, which is extremely
37 vibrant. You only have to look at Moree or Narrabri, they
38 are all vibrant, they rely on irrigated agriculture as
39 their backbone. Irrigated agriculture shortens the
40 drought. The dry-land farmers have to zip up their pockets
41 to survive. Irrigated agriculture lets it go on.
42

43 On the subject of Chaffey Dam, in terms of full price
44 recovery, who in their right mind would build that size dam
45 in the late 1970s, a relatively new dam, and expect to get
46 full cost recovery? We can't even pay for the entitlement
47 between general users and high security users. I have been

1 in this process since this started way back in 1996. I am
2 getting old and decrepit, but I notice a couple of you
3 don't look too much different to those days, so I am
4 wondering who is suffering all the wear and tear.
5
6 In those days, the tribunal was set the task of
7 achieving a fair and reasonable price for the efficient
8 delivery of bulk water services and it was to reach full
9 cost recovery by 2001. Some valleys actually thought they
10 had got to full cost recovery at 2001. All parties in that
11 process understood that the price for bulk water was going
12 to have a significant impact on the socio economics of the
13 valleys. IPART has taken that into account in its
14 determinations from that point. But these days things have
15 changed. The system has got so complicated, most of us
16 can't understand it, and both DNR and State Water employ
17 expert consultants to help them write their submissions,
18 which of course adds an additional cost to the entire
19 process but it gives you some idea how complex it is.
20 These consultants have looked through all of the various
21 documents, the national water initiative, the COAG
22 agreement, for ways to extract moneys out of the irrigation
23 industry of New South Wales and they have been very
24 successful in doing that.
25
26 We will look at a slide that I have got. I took the
27 liberty of leaving a copy of my presentation on the desk
28 just in case you can't see this.
29
30 These figures were extracted from both DNR's
31 submission to IPART in 2001 and their submissions this
32 year. The projected costs by DIPNR for 2003/04 are \$104m,
33 with the user share of \$69m. The combined cost of the two
34 departments is \$145m, with the user's share being \$114m.
35 The bulk water cost has risen over the three years by 39
36 per cent. The user share has risen by 66 per cent, so the
37 experts working for DIPNR, or DNR and State Water, have
38 done extremely well. The CPI rise over that period was
39 only about 8 per cent. Why have these costs risen so
40 dramatically? These are questions I think that weren't
41 answered in any way by the two presentations this morning.
42
43 These costs are completely out of hand. No irrigation
44 industry, or no industry, can have costs rising at that
45 rate over three years and expect to survive when you can't
46 pass on the price cost to customers, unless of course it is
47 in future, like everything, made in China. The impact on

1 the users share is shown in the next slide. What I did is
2 I extrapolated State Water's table 10.5 where they listed
3 what the price would be to 2008/09 and added on the costs
4 of DNR. These are only regulated costs. DNR was about
5 \$18m, about 21 per cent. They are in the right order. It
6 is highly likely that the smaller valleys, Peel, Hunter,
7 the North and South Coast and Namoi, the figures are
8 probably understated. Nevertheless, across to the end of
9 the table you can see right down the rivers. The Gwydir
10 will be \$23 a megalitre, the Peel at \$110, \$22 for the Lachlan
11 Macquarie, Murrumbidgee still \$5.8, et cetera. Of course
12 there are ridiculous numbers for the North and South Coast.
13 This is the impact of the pricing put forward by State
14 Water and DNR.
15
16 It is probably time that we looked at uniform
17 statewide bulk water pricing. I know that is not a
18 favourite topic with the irrigation industry because it is
19 divisive. The benefactors are those with high prices - the
20 Peel - so I am obviously pushing for that. The people who
21 won't be impressed are those in the Murrumbidgee, but they
22 are blessed, they have two large dams, 2.4 megalitres of
23 entitlement. To raise \$1m down there is to increase the
24 price by 40 cents. To raise the price in the Peel puts up
25 each megalitre by \$20.
26
27 What I did to make it easy for the tribunal was to do
28 a calculation based on a uniform statewide bulk water
29 price. The proposed total cost of State Water and DNR for
30 the regulated system is \$11m, the user share is \$5m, the
31 entitlement is 7m megalitres and the long-term average use
32 is about 5.4m. That equates to an entitlement charge of \$4
33 and a usage charge of \$10.35, and we have not even put high
34 security in there yet.
35
36 If you compare that with the prices on the left-hand
37 side above, you can see that those are quite reasonable
38 prices to be paid across the board. The Murrumbidgee will
39 jump like hell because they are at \$5.9, nevertheless they
40 can't put the argument forward that they will go broke
41 because these prices are prices already being paid by the
42 Peel. We produce very similar products, with the exception
43 of rice, to what happens in the south of the state.
44
45 Uniform statewide pricing I believe should be on the
46 agenda for IPART, it should have been put on the agenda by
47 State Water, and it should have been looked at more closely

1 by DNR. State Water was asked to prepare a discussion
2 paper on this over a year ago and it has not done so. It
3 was asked by the Namoi Peel Customer Services Committee at
4 its meeting at Burrinjuck about this time last year.

5
6 I will get away from the overall issues and look at
7 the Peel. This is the Peel's general security reliability
8 of supply and you can see from that table that we have had
9 an 80 per cent - they were halcyon days - 60, and three
10 zeros in a row. It is difficult to run an irrigation farm
11 when you start a zone allocation at zero. I personally
12 have twice the entitlement that I need to water my farm. I
13 have done that so that I improve my own reliability of
14 supply, but unfortunately you can't multiply a zero by
15 anything, it stays zero.

16
17 This year we started with a zero and we were very
18 lucky, we got a 10 per cent allocation in early August,
19 which in my case gave me an effective 35 per cent
20 allocation, so I spent a fair bit of money in town in
21 upgrading my system and planted lucerne after basically
22 three years of unreliable supply. Nevertheless, what sort
23 of irrigation industry can you run on those sorts of
24 figures? Chaffey Dam is too small to cater for
25 requirements of Tamworth and support an irrigation
26 industry, let alone pay full cost recovery.

27
28 This chart gives you some idea of the impact of high
29 security water use on Tamworth city and on the reliability
30 of supply of the irrigation industry. Across the bottom
31 axis is the zone allocation for general security users and
32 the left hand is the volume or capacity in Chaffey Dam at
33 the start of the season, it is in blue, and you can see
34 from the left-hand axis that we get zero start of zone
35 allocation when the dam is half full. There is not another
36 dam in the state that has those sorts of capacities, and,
37 comparing it to the previous table, we had zeros at 33 per
38 cent and 46 per cent of capacity.

39
40 No other dam in the state would have got a zero
41 allocation under those numbers. That's at Tamworth city's
42 current use. If they were to grow, and Tamworth city is
43 growing, it is a vibrant town, if they manage to get up
44 their full entitlement, the allocation to the water users
45 will be that little area in the left-hand corner, no
46 allocation until the dam is at 80 per cent full. When it
47 is spilling, our allocation will be 85 per cent. Things

1 don't look all that great.

2
3 I tried to determine the impact of the reliability of
4 supply. These are my figures off my farm. They will be
5 relatively representative because most of us suffer the
6 same problem. Way back in 01/02 we had our 88 per cent
7 start at zone allocation. I water 82 hectares. I used 75
8 megs a hectare. I produced 25,000 bales of hay and had
9 23,000 cow days of cattle production. For the 05 water
10 year, you will notice the rainfall shot up that year from
11 500mm to 600mm, so a big break there, the irrigation area
12 dropped significantly, the water usage varied, because
13 obviously I cut paddocks out as time went on and water got
14 scarce, I produced 14,000 bales of hay and only 6,000 odd
15 cow days. In other words, hay production dropped by 40 per
16 cent and cattle production dropped by a massive 70 per
17 cent. The impact on my cash flow is massive.

18
19 This applies right across the valley and it is even
20 worse for the dairy farmers who can't just shut the cows
21 off, they have to buy feed. I fatten my cows and out the
22 gate they go. Dairy farmers can't do that, they have to
23 feed them or not produce any milk.

24
25 That is an attempt to try to quantify the impact of
26 water supply on my farm and it would be characteristic
27 across the valley to a greater or lesser extent.

28
29 We were asked to look at cost sharing ratios and I
30 have given a couple of examples. This is public liability
31 insurance. Public
32 liability - why do we need that? It is for the people who
33 visit the dams, who sightsee. Why is it 100 per cent user
34 share? The entire cost sharing ratios should be
35 re-examined by IPART with people who know what it is
36 actually for.

37
38 Water quality collection data was mentioned before.
39 Water quality collection is basically for water quality
40 analysis of the dam. We have no impact on that. We don't
41 have anything to do with the dam water, we are downstream
42 of the dam and we don't care what quality the water is.
43 Two-thirds of us extract water downstream of the sewerage
44 works. We are pleased to get it, not interested in the
45 quality of it. And why should we pay 100 per cent? The
46 beneficiaries are the people who use Chaffey Dam for
47 recreational use. In other words, it should be 100 per

1 cent government.

2
3 I have got one more slide. Basically the Peel Valley
4 water users recognise they were going to be behind the
5 eight ball. We contacted New South Wales Agriculture for
6 assistance, with the intention of finding another industry
7 to stand alongside or be better than dairying and lucerne
8 hay production in the Peel. In 1998 we examined numerous
9 enterprises, which you can see up there, none of which in
10 the long term have replaced any of the lucerne or dairy
11 farmer production in the Peel. Quite a lot of those are
12 industries of their own but they haven't replaced the
13 industries that were in place in the Peel because the
14 returns per megalitre just aren't there. Thank you very
15 much.

16
17 THE CHAIRMAN: Thank you very much, especially for the
18 farm data, that is a very graphic way of bringing it home
19 to us.

20
21 MR SEERY: Laurie, thank you for your presentation. It
22 answers a couple of my questions, so I can skip over those.
23 A key issue of concern in your submission is the supply of
24 general water in the Peel Valley. Given the relative low
25 security of supply in the valley, do you have a preference
26 for a higher usage component or a two-part tariff?

27
28 MR PENGELLY: Obviously, yes. Our situation is if you are
29 making money using the water, you have got the capacity to
30 pay for it. If you have a high entitlement charge, you
31 don't have the capacity to pay for it and you pay for it
32 anyway. It is quite interesting this year, somebody
33 mentioned we didn't get any bills. I was pleased about
34 that and I questioned my wife, who accused me of putting
35 the accounts in with my State Water stuff, but it turns out
36 it was not there anyway. It's interesting that they did
37 look at the last financial year and in my case my expenses
38 were understated by about \$7,000, so I made \$7,000 more
39 profit last year because State Water didn't send their bill
40 out. But the problem is, this year it will be double, so I
41 am hoping that they point out to you people when they do
42 their analysis that is so, because our figures were
43 inflated last year due to State Water basically not sending
44 out its bills.

45
46 MR SEERY: I was talking to one of the locals this morning
47 and he was telling me that he has a 20 meg licence that he

1 has never used any water from. I understand that they are
2 called "sleeper licences". Down in the Peel Valley are
3 there a lot of sleeper licences; and what would be the
4 impact if those licences were no longer available?

5
6 MR PENGELLY: I am not sure of the figures now. The
7 licences activate and deactivate. Mid-way in the 90s, 25
8 per cent of the licences were not activated. The other
9 licence holders got that benefit. We get the benefit of
10 them paying an entitlement charge, of course, but I think
11 the Peel has costs so far behind it makes no difference
12 whether the sleepers are in or out of the equation. It is
13 not a practical proposition to just take them out. I don't
14 think you could do it anyway. It has been an argument
15 through most of the water sharing issues, well, we will
16 just get rid of the sleepers and we can have the rest, but
17 you can put an argument up for both cases, and both of them
18 are quite reasonable cases. There are equity issues and
19 user issues.

20
21 MR SEERY: You talked earlier about the high security
22 issues. What are your views on the high security premium
23 in the Peel Valley?

24
25 MR PENGELLY: There should be a high security premium
26 but it should not be the level that is predicted or anticipated
27 in this report. Our view is that the Tamworth Council
28 should pay a reasonable price for their water. We believe
29 they are currently paying a reasonable price. They are
30 probably paying the highest price for water of any other
31 high security user in the state, so their water charges are
32 high enough. I have not been paid by Tamworth Council to
33 say this either. Their charges are high.

34
35 There is no justifiable reason why somebody in the
36 Peel, in Tamworth, should pay heaps more for their water
37 than people in Wagga, as I said before. It should be a
38 reflection of reliability of supply, but effectively they
39 should not pay 13 times or 13.6 times ours. We should pay
40 13.6 times less than them, because we are basically
41 unregulated water users. We should be paying effectively
42 unregulated water prices, not Tamworth Regional Council
43 paying \$100 a megalitre or something, that is beyond them.

44
45 THE CHAIRMAN: Thank you very much for that.

1 BORDER RIVERS FOOD AND FIBRE

2
3 MR McCOLLOM: Bruce McCollom, Executive Officer of
4 Border Rivers Food and Fibre. We are a cross-state catchment
5 with about 1200 water users, \$350m, \$400m worth of
6 production in a good year, although we haven't seen one of
7 those for a few though, and employment, direct and indirect, of
8 about 3,000 people.

9
10 We will undertake a slightly different tack with our
11 presentation. We will not beat up on State Water or DNR,
12 because they have probably had enough of that today. The
13 views of our irrigators about water pricing have been known
14 for a long time and conveyed to IPART over a long period.
15 We would just like to go through our grounds for opposition
16 to the price increases, and they are that, as various other
17 people have pointed out, our whole viability is threatened
18 under the current climate; we believe that governments have
19 completely abandoned their community service obligations;
20 the pricing principles are flawed; the risk has been
21 diverted on to water users; the real cost of water has been
22 ignored; and we believe that the NWI has been selectively
23 implemented by the states. So we will just run through
24 each of those quickly.

25
26 In terms of viability of irrigated production being
27 threatened, the water availability now per enterprise has
28 decreased in inverse proportion to the level of
29 development. We have now reached in all of our valleys a
30 full state of development, the Border Rivers a little bit
31 later than elsewhere, but the availability of water has
32 declined progressively over time. We have had water
33 sharing plans that have reduced access further. Our major
34 crop in the northern valleys, cotton, which is a little bit
35 more than \$330 a bail now, is below the cost of
36 production. Operating costs have risen at or above CPI,
37 with fuel a very big impact in recent times, probably a 100
38 per cent increase in the cost of fuel. The high dollar has
39 impacted on export earnings and on top of that we have got
40 the worst drought in living memory with the least
41 cumulative inflows into the Darling Barwon River system
42 over the last four and a half years that we have had for
43 the last 110 years, so there is a whole heap of factors
44 that are conspiring to challenge the viability of irrigated
45 agriculture in this part of the world and, undoubtedly, in
46 other parts of world as well.

47
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1 If we go on to community service obligations, there is
2 no doubt that water use for productive purposes has
3 community wide benefits, national benefits. And in the
4 past, public infrastructure was seen as being for public
5 benefit, but it no longer is. Public infrastructure is
6 seen as being the possession of government regardless of
7 the fact that the people have actually paid for it through
8 taxes and other charges.

9
10 We believe that regional development is dead and
11 buried, and that was one of the big drivers for irrigation
12 infrastructure in rural areas. The redistribution of
13 government revenues is very selective these days. I don't
14 have the figures but I would like to compare the NSW Health
15 budget for people with the NSW Health budget for the
16 landscape. I am sure that there would be an absolutely
17 massive difference.

18
19 We believe that the 85 per cent of water resource
20 management costs is far too high a proportion for
21 irrigators to be asked to pay. We claim that we have to
22 return to a much fairer interpretation of community service
23 obligations.

24
25 In terms of the pricing principles, a rate of return
26 is really interest on taxpayers' own contributions. The
27 dams, the weirs, the irrigation infrastructure, would not
28 be built if the taxpayer hadn't contributed money in the
29 first place, so to say that government could sell that
30 infrastructure, invest the proceeds and earn 7 per cent,
31 really the 7 per cent should not go to the Government but
32 back to us, the taxpayers.

33
34 We say that RAB is a lazy way of avoiding any rigor and
35 accountability. The annuity approach had some of that in it.
36 In fact, we have total asset management planning documents
37 that Dan Berry provided to us that are many, many
38 inches thick, but that was a rigorous way of planning what
39 future maintenance and refurbishment would cost. That has
40 now been abandoned in favour of a much simpler and much
41 less supportable methodology.

42
43 Tax on profits and dividends from so-called profits
44 are contrary to the principle of full cost recovery. That
45 is over and above full cost recovery. In fact, you could
46 say that because of government policy, separation of State
47 Water from the department has actually worked against us in

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1 a big way. Also, water supply is highly variable. Tax and
2 dividends also constrain the ability to accumulate revenue
3 in good times so that you have got a bit of a nest egg for
4 the bad times. If a profit by State Water automatically
5 attracts tax, which goes into State Treasury by the way,
6 and also a dividend to government, that is precluding the
7 ability of the organisation to accrue funds for future
8 needs when things might not be as good.
9
10 Loan financing by Treasury to cover deficiencies
11 really just gives the Government revenue under all
12 circumstances. They can't lose on that particular
13 methodology, they get money in good years and bad years.
14 The risk has been diverted onto water users. There is no
15 doubt that the Government is seeking to insulate itself as
16 completely as possible from all risk.
17
18 We have heard about State Water's one standard
19 deviation below the mean. We believe that that is a
20 completely unsupported risk avoidance measure. We would
21 like the Government and State Water to recognise that
22 transferring all the risk on to water users really is in
23 itself a risky move in that if we get a declining number of
24 water users and a declining ability of water users to pay
25 for water - that has been mentioned by a few other people -
26 it will be counterproductive in the long term.
27
28 Alternatively, if governments actually decide that
29 irrigated production is not an essential part of our
30 national well-being, we wish they would tell us about it.
31
32 So the real cost of using water has been ignored. I
33 will not go through this in detail because it is in our
34 written submission, but we have worked out that in fact you
35 can do an analysis that shows that the actual cost of
36 putting water on a crop is about \$250 a megalitre. That is
37 if you use some of the principles that the government uses
38 with rate of return and depreciation and things of that
39 nature.
40
41 Given that a typical crop requires 6 megs a hectare,
42 which is a probably a bit on the conservative side anyway,
43 you're looking at the cost of water at \$1500 a hectare, and
44 then all other costs are on top of that.
45
46 We believe that the government could show some
47 sympathy with waters users in our communities, because we

1 are part of our community, but instead is quite happy to
2 inflict a fair bit of pain on us. We see that the current
3 proposals combined, of State Water and DNR, would lead to
4 price increases very minimum of 100 per cent, I think so,
5 but in our valleys up here at least 100 per cent, and we
6 are worried about what straw is finally going to break the
7 camel's back.
8
9 Selective implementation of the national water
10 initiative - it's always been our understanding that COAG,
11 when they talked about full cost recovery, meant the full
12 recovery of the efficient costs of storing and distributing
13 water. In all of our reading, we have never been able to
14 discover that COAG was talking about the public cost of
15 water management. So we think that basically the
16 government and the Queensland Government is equally
17 guilty of this, is very selectively implementing the National
18 Water Initiative.
19
20 The NWI talks about increasing productivity and
21 efficiency of Australia's water use, the need to service
22 rural and urban communities, and to ensure the health of our
23 systems. It says that full cost recovery is to involve
24 lower bound pricing for all rural water systems, continued
25 movement towards upper bound pricing, where practicable,
26 and where full cost recovery is unlikely to be achieved in
27 the long term and a CSO is deemed to be necessary,
28 transparency with regard to that CSO.
29
30 We say that upper bound pricing in one step is not
31 required by the national water initiatives and in fact quit
32 a few people we have spoken to at Commonwealth level
33 support that view. CSOs are not ruled out, and we believe
34 that governments have a big obligation to provide realistic
35 CSOs on behalf of the whole community. We also believe
36 that the government's approach favours environmental
37 considerations, with apparent strong bias against those
38 social and economic things that we know are so important.
39 There's no evidence of a commitment to increase
40 productivity water use, which comes upfront in the national
41 water initiatives.
42
43 Just to conclude, we don't think that the government
44 understands or sympathises with current circumstances of
45 the irrigation industry. We are doing it tough. We want
46 to stay in business for ourselves and our communities. Its
47 pricing proposals are disastrous for or communities, both

1 in their financial implications and I think in the fact
2 that they are confidence-sapping in the messages that they
3 convey. There is not a general view amongst the rural
4 community that government is sympathetic towards us with
5 regard to water, and we would like IPART to help us convey
6 to government that in fact short-term economic gains for
7 them might lead to a lot of grief in the future.
8

9 THE CHAIRMAN: Thank you.

10
11 MR SEERY: A couple of questions. Firstly, thank you very
12 much for your submission, particularly the analysis of the
13 costs, which you have summarised in your presentation at
14 \$250 per megalitre to use water. I noticed on that
15 particular page you referred to the Pindari Dam levy. For
16 the benefit of those people on the tribunal who weren't
17 around in 2001, perhaps you would like to briefly explain
18 what the Pindari levy is about and what the money is used
19 for.
20

21 MR McCOLLOM: In 1990, the then government of the day and
22 irrigators on the border rivers agreed to enlarge Pindari
23 Dam from 37,000 to 312,000 megalitres and share the cost.
24 So the irrigators took on \$37.5 million, which is being paid
25 back over a period of years, and the current repayment is
26 \$14 per megalitre per annum. That dam enlargement was to
27 address a very, very large over-allocation of water in the
28 Border Rivers. It was supposed to bring reliability back to
29 70 per cent. In fact, it has brought it back to about 56
30 per cent. But it was the first and only joint venture
31 between government and irrigators for the enlargement of a
32 previously public dam.
33

34 MR SEERY: Do you know how the costs of that enlargement
35 were included in the asset value for State Water?
36

37 MR McCOLLOM: Yes. The dam is owned by State Water, so
38 therefore the full value of it as an asset is a State Water
39 figure.
40

41 MR SEERY: I'm sure they might make some comment about
42 that later as well. The next question relates to the water
43 sharing plans and similar questions to what I asked earlier
44 relating to reductions in the amount of assessable water in
45 your valley. Has that occurred and have there been any
46 compensation packages?
47

1 MR McCOLLOM: It is occurring. It's very hard to
2 quantify. We have a two-state arrangement with an
3 intergovernmental agreement that sets the whole valley cap
4 and that cap is then shared fifty-fifty between the two
5 states. We have just reached the conclusion that we are
6 moving from one set of access rules to a new set of access
7 rules under the water sharing plan and the Queensland
8 equivalent and we don't know how much water we are going to
9 lose as a result of that, but we estimate it's probably in
10 the order of 20 per cent over time. No, no compensation or
11 structural adjustment.
12

13 MR REID: Thanks, Bruce. I would just like to ask a
14 question in relation to the Border Rivers Commission. Down
15 the south of the state, we hear a lot about the MDBC and
16 the associated costs, and one lack of transparency
17 associated with the costs of the MBBC as far as irrigated
18 users are concerned and also the escalation of the costs
19 for the MBBC in recent years. I'm just wondering if you could
20 tell us a little bit about the Border Rivers Commission and
21 how that operates in its comparison with the MDBC.
22

23 MR McCOLLOM: It's a much smaller operation. In fact,
24 it's a virtual organisation because it has none of its own
25 employees and the costs are contributed equally by the
26 New South Wales and Queensland governments and they are
27 built into the water pricing equations of each of the two
28 states. So it's not a major factor, but nonetheless it is
29 significant.
30

31 THE CHAIRMAN: Bruce, I think we might call it a day
32 there. I would like to thank you again for your
33 presentation, particularly for the additional information
34 on farm costs and so on, which we haven't got elsewhere.
35
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1 AUSCOTT

2
3 MR GAYNOR: Thanks, chairman, and thanks for the
4 opportunity to speak to the Auscott submission today. Just
5 to introduce myself, I'm Harvey Gaynor, I'm the manager of
6 Auscott's operations here in the Gwydir Valley. I'm also
7 on the Gwydir Valley Irrigators Association committee here
8 and chair of the customer service committee in this valley.
9 Today, I guess I'm speaking on behalf of Auscott, our CEO,
10 Dave Anthony, and my colleagues in other valleys, including
11 Bernie George from the Namoi Valley who is here with us
12 today.

13
14 Our submission has been presented to you and contains
15 some detail. I just want to highlight some of the key
16 points and, like Laurie, try and bring the customers'
17 experience and views to your attention, to try and bring
18 things a little closer to home. But I would say that we
19 also support the submissions, and have been involved in
20 preparing the submissions, from the Gwydir Valley
21 Irrigators Association, Namoi Water and Macquarie, so
22 that's the three valleys that we operate in.

23
24 Just to outline our business to you a little, we are
25 an integrated farming, processing marketing company. We
26 operate in those three valleys and we employ about 200
27 permanent staff and about the same number of part-time
28 staff over the year. Using those staff and the resources
29 we have access to, we produce about \$100m plus worth of
30 export income for the company each year. That's through
31 cotton and grains and other products.

32
33 I think when we consider the State Water Act and the
34 State Water Corporations Act and their responsibility to
35 have regard to decentralisation and regional development,
36 it is those people there and that export income that we
37 need to bear in mind because that's what is really under
38 attack from the sort of pricing claims that have been made
39 by the two departments at the moment.

40
41 Again, to bring it closer to home, just to tell you a little
42 bit about myself and it's actually a similar story to
43 Dave Anthony, our CEO. We are people who have grown up
44 in Sydney and been given the opportunity, through the
45 regional development, the dams and the irrigation industry
46 here has afforded, to move out of Sydney and become
47 involved in agriculture and producing export income for the

1 country.

2
3 As I will show you in the next few slides, the cost
4 pressures that we are facing, many of which come from
5 government policy changes over recent years, really place
6 the future opportunities for people like ourselves or like
7 my farming colleague, John Seery here, who has moved his
8 operations out of Sydney many years ago and built up a very
9 successful business in this area, it's putting them at
10 threat. So those people and that export income, you need
11 to bear in mind.

12
13 The key messages that I will cover are what the
14 business environment is like for us as a customers,
15 particularly cotton growers at the moment, what we think
16 are the unrealistic costs sharing principles that are
17 outlined in the submissions from State Water and DNR, and
18 the business performance of those two departments.

19
20 We will just look at the business environment first,
21 and just to illustrate how things are travelling for
22 irrigated cotton growers at the moment, I have drawn data
23 from the Boyce Chartered Accounts study, it's run for many
24 years in the Australian cotton industry and is now run
25 through the cotton R&D Corporation, and point out that what
26 you're looking at here is the top 20 per cent of farmers in
27 a lot of cases and therefore that's at the leading edge of
28 the Australian cotton industry, and we are looking at some
29 of the world's most efficient irrigators. You will see
30 it's not a bunch of people being unnecessarily subsidised
31 for poor farming practices by our government.

32
33 The first graph just shows the trend of income and
34 expense items over those years and you can see income, the
35 blue bars, has been relatively static over that time.
36 These haven't been dollars in real dollar terms, they
37 haven't been adjusted at all. Operating expenses have been
38 declining steadily, and that's what we are talking about
39 today, one of our operating expenses. So our profit is
40 declining.

41
42 How we try and address that, you can see from this
43 graph that we have continued to increase yield and
44 productivity. We haven't been using any more water per
45 hectare over all that time. So water use efficiency is
46 improving, but we have had to increase yield to try and
47 keep pace with the classic sort of cost price squeeze.

1
2 We are faced with decreasing price. As you can see
3 there, the returns per bale have decreased over the years
4 and primarily as a result of international competition,
5 especially from the vast majority of the cotton producers
6 in the world who are heavily subsidised by their
7 governments. Again, that just finally shows that the trend
8 in operating profits, and you can see not only the average
9 cotton grower but the top 20 per cent of the leading
10 farmers, are suffering a decline in profit.
11
12 So this group is just one of many to whom at the
13 moment we are having to say that price increases can't be
14 sustained. I mean, if any other contractor or supplier of
15 services came to us and said, "I want to put my charges up
16 by 146 per cent for the foreseeable future," we would have
17 to be saying, "Sorry, but we are going elsewhere or we are
18 going out of business." Unfortunately, with water we don't
19 have opportunities to go elsewhere, which is why IPART is
20 here today.
21
22 Just to talk about some of the cost-sharing issues.
23 I think we start at the point where we see previous
24 determinations, papers from IPART, showing near full cost
25 recovery in the valleys that we operate in. So we ask why
26 can these huge increases asked for here be justified,
27 especially when irrigators have already paid a cost in
28 terms of reduced water supply reliability, both leading up
29 to this round of water sharing plans and through the
30 implementation of these water sharing plans. Much has been
31 said about our increased security of access, but the
32 reliability of supply is clearly decreased for irrigators
33 in all the valleys that we operate in. So we have a cost
34 there, we have less resource to try and do the same with.
35
36 We are not getting any better product or any more
37 product, we are getting less product from the supplier, but
38 we are asked to pay more for it. We feel like it's really
39 being used as a political tool to try and introduce that
40 scarcity in pricing to reduce the activity of the
41 irrigation industry, rather than promote it. When we look
42 around us, we see there's plenty of industries operating -
43 for example, on the roads - who aren't paying the full cost
44 of building and maintaining and operating the roads, but
45 the community is happy to provide that public
46 infrastructure because they understand the public good, and
47 we see the dams and irrigation infrastructure in the same

1 way.
2
3 This has been said plenty of times by other speakers
4 today, but there seems to be little attention paid to other
5 users, the recreational users, the environmental users of
6 water, which I guess is the community as a whole, people
7 who make use of flood mitigation - all those sort of
8 activities seem to come at no charge, certainly no
9 increased charge, to those users.
10
11 State Water in particular, when we look through their
12 costs and their projections of costs and moving from
13 income, is driven heavily by the dam safety program, a
14 large capital program. I guess while some of the costs
15 there are highlighted as being 100 per cent government
16 costs, it's got a clear flow-on to staffing levels, the
17 overhead levels and that then flows on to user charges such
18 as OH&S costs, which the user ends up paying for OH&S
19 costs for staff that are involved in the dam safety upgrades,
20 which is supposedly not a user cost, but we will end up
21 paying, and it's just such a huge driver of the whole view
22 of the future for State Water.
23
24 We see that as being unreasonable, especially when
25 they are sort of taking a zero risk attitude, talking about
26 protection for one-in-a-million-year type flood events.
27 I think there's no consideration of whether the users want
28 to bear that risk or not.
29
30 The one standard deviation model, again there's been plenty
31 said about that today. I don't think I need to go into that
32 any more, except to highlight that it may be an approach
33 that works in a less variable climate or area other than
34 this. But with our sort of variations, it clearly
35 produces, as Mike Murray showed, potentially a \$1.6m
36 surplus over costs every year in the Gwydir Valley or in an
37 average year.
38
39 Similarly, plenty has been said about upper bound
40 pricing, the fact that it's not realistic for our business
41 at the moment and not required by COAG or the NWI either.
42
43 Finally, just business performance. We, like Laurie,
44 like John, like others, have to operate our businesses
45 under normal sort of commercial practices and we see here,
46 in State Water submissions, that they are bound to do the
47 same and be as efficient as any comparable business, yet we

1 see very little evidence of them applying all the business
2 principles.
3
4 There's certainly plenty of tools available in
5 business to improve your profitability and you can increase
6 your volume, work on your margin, your price or your costs,
7 reduce your overheads. There only seems to be one of those
8 levers that is being pulled at the moment within State
9 Water and DNR and that is to increase price. There is very
10 little evidence in the submission or on the ground of
11 serious attempts to manage costs and efficiency or increase
12 the customer base, the volume.
13
14 I think the local staff are trying, but we just don't
15 see the sales culture, there's no people with a real
16 sales-driven attitude. At the moment, the customers are
17 the ones bouncing out of bed in the morning. We might have
18 had a vision that State Water would bounce out of bed in
19 the morning thinking, "Who can I sell some water to today,"
20 but it's quite the other way round. The customers have to
21 get on the phone early in the morning and say, "There's
22 some water, it has rained overnight, can we have some of
23 it, please."
24
25 If we tried to run our business that way, I don't think
26 we would have much throughput or wouldn't have many
27 people buying our products because at the end of the day
28 you have to be out there selling your wears if you're going
29 to produce some income. So the culture really is not
30 there.
31
32 I think the basic business principles don't apply, and
33 again it has been said many times today that debt
34 collection is one of the first things that anyone learns
35 when they open their own corner shop, is to collect your
36 debts. Not only has State Water not collected debts for
37 last year for up to 15 months, but they have now done that,
38 we have had a bill for the last year, we have paid the bill
39 and been told the system is fixed. But we are six months
40 into this quarter year yet, two quarters down the track,
41 haven't seen a bill for anything this month. Again, where
42 is the basic business practices in that corporation.
43
44 Others have talked plenty today about some of the
45 inefficiencies we see in areas like the duplication of
46 offices, computer networks, hydrographic services, OH&S
47 costs, all that sort of thing. DNR, as has been

1 highlighted earlier on, past budgeting has been quite
2 inaccurate and right at the moment there seems to be a
3 passing on costs to users. Just as an example, looking
4 through, someone mentioned earlier on about some of these
5 C6 and C7 costs, but some of the things such as C6,
6 monitoring and reporting, "100 per cent users to pay for
7 cost of meeting environmental obligations as specified in
8 the water user plans," and that's for monitoring and
9 reporting.
10

11 I can find very little reference to any obligations on
12 the part of users in the plans. All I can find, under
13 monitoring and reporting, is a statement that, "Monitoring
14 of the performance indicator shall be undertaken by the
15 minister." So I think that's just a clear example of an
16 attempt to pass on what should be community government
17 costs to water users.
18

19 Just in summary on the business performance, I would
20 say that if these activities were contestable, I have no
21 doubt that for many of these activities, Auscott or the
22 local Irrigators Association or any other free enterprise
23 could carry them out at a more efficient and more
24 profitable level. In saying that, I will finish my
25 presentation there and invite any questions.
26

27 THE CHAIRMAN: Thank you very much.
28

29 MR REID: Just a couple of questions. You operate in
30 three different valleys.
31

32 MR GAYNOR: Yes.
33

34 MR REID: I am just wondering if you could give us an
35 indication of any variation in the operation of State Water
36 and DNR that impact upon you between those three different
37 river systems.
38

39 MR GAYNOR: I have only worked in two of those valleys,
40 but I guess we do see working with different regional
41 offices, as we see with any other government departments,
42 different staff and different cultures can lead to markedly
43 different levels of service. I have certainly seen that
44 through the customer service committee here, where you have
45 some good staff in place doing a good job in service
46 delivery, but value for money can vary from valley to
47 valley quite significantly.

1
2 MR REID: We have had different arguments put as to the
3 composition of prices, whether it should be one
4 valley-by-valley charge or a state average. Also on the
5 composition, as far as a fixed variable component of price
6 is concerned. Do you have any comments on those two
7 aspects?
8

9 MR GAYNOR: I will deal with them in the order you put
10 them. I think we are quite used in our business having
11 varying conditions in varying valleys. There's different
12 prices for land, the labour markets can be different,
13 contract rates can be different for all sorts of different
14 reasons. If there's good reasons in terms of system
15 efficiencies, the natural design, if you like, of the water
16 system in different valleys, then I think it can stand some
17 variation in costs for water between valleys, and then you
18 have to make a business decision as to whether it's worth
19 investing more or less in different areas.
20

21 But I find it hard to believe that those natural
22 variations, if you like, can lead to some of the vast
23 differences, like the 13.5 times difference in charges
24 highlighted in earlier presentations. We certainly have a
25 problem with that level, I'm sure.
26

27 MR REID: Fixed variable?
28

29 MR GAYNOR: We certainly support a move towards more
30 variable costs because we understand that there's a fixed
31 component to the costs and activities of the departments,
32 but in reality the product being delivered is delivered in
33 variable quantities.
34

35 THE CHAIRMAN: Thank you very much for that
36 presentation.
37
38
39
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47

1 STATEMENTS AND QUESTIONS FROM PUBLIC

2
3 THE CHAIRMAN: I will now open it up to questions and
4 answers. I am opening it up to anybody from the floor, if
5 they feel that something hasn't been said that should have
6 been said, if they have got a question they feel hasn't
7 been raised or indeed they feel that they would like to
8 make the same point again, to reinforce it, this is your
9 opportunity.
10

11 MS CURCUTO: Good afternoon, Mariett Curcuroto, and
12 today I'm representing Mr Seery, who has previously put
13 forward a submission on behalf of the WJ and A Seery
14 Partnership; no relationship at all, I am informed.
15

16 Certainly we would like to very strongly to endorse some
17 of the submissions put forward today, particularly those of
18 Gwydir Valley Irrigation and Auscott. A lot of what
19 Mr Seery wants to put forward are views that I think have
20 come through already from a lot of people on the floor but,
21 to summarise, these are the major issues that Mr Seery sees
22 as being critical and asks IPART to consider very strongly
23 when coming to its determination.
24

25 First of all, that environmental users should pay for
26 their use of the regulated system. We have heard on a
27 number of occasions that the national water initiative is
28 pushing the irrigation industry towards paying 100 per cent
29 of pricing, but what we haven't heard is that the national
30 water initiative also stresses that perverse outcomes
31 shouldn't result from any type of water pricing. It is a
32 perverse outcome, we submit, for the environmental users of
33 the system not to pay for their proportion of that use.
34

35 At the moment in the Gwydir Valley alone, 90,000
36 megalitres worth of air space is used in the dam and, of
37 course, that water is delivered through the system in the
38 same way as irrigation water is delivered through the
39 system. It comes back again to those community service
40 obligations that government must basically be responsible
41 for. If we are to have environmental levies as part of the
42 water management sharing plan, and we do, it is a reality
43 with which we must live, if that is going to be used in the
44 system it should pay its proportion of costs.
45

46 We make the same submission with stock and domestic
47 users and also point out that in fact stock and domestic

1 supply receives its water at a higher level of security
2 than irrigation water. I would like also to remind members
3 of the presentation of State Water this morning when it
4 referred to the introduction of an automatic regulator for
5 the Mallowa Creek system. I would like to make this point
6 very clearly, that an automated regulator benefits no
7 irrigator. There is nobody downstream of that particular
8 regulator that is an irrigation supplier at all. Everybody
9 who relies upon the Mallowa Creek regulator is a stock and
10 domestic user. For irrigators to pay for the costs of
11 contributing to that type of infrastructure cost, without
12 any contribution by stock and domestic users, seems
13 completely unfair.
14
15 Additionally we would like to point out that, given
16 IPART's previous determination, at the moment the Gwydir
17 Valley is really at 95 per cent of cost recovery. We
18 submit that if State Water managed their resource correctly
19 they would actually achieve 100 per cent of their cost
20 target.
21
22 We point out a number of problems that have arisen in
23 respect of the management of the resource. One that
24 happened very recently on 6 January 2006 was where the
25 resource assessment for December was actually incorrectly
26 calculated and the increment to irrigators was also
27 incorrectly calculated. What happened as a result was that
28 irrigators only received about 1 per cent of what should
29 have been a 4 per cent increase in their allocation. That
30 led to, quite strangely, a large amount of water trading
31 which cost some irrigators quite a deal of money in trying
32 to pick up entitlements they should have otherwise had, in
33 fact did have later, when State Water corrected their
34 calculations. Once again, if you are dealing with the
35 commercial delivery of a service, one would expect a
36 commercial standard of delivery. It should have been
37 corrected to start with. The fact that it wasn't caused
38 problems for the industry.
39
40 Also we would like to point out that in our view there is a
41 lot of wastage of funds by the department and State Water
42 and historically we would perhaps indicate that that has been
43 seen through the employment and retrenchment phase the
44 Department of Land and Water Conservation, DIPNR, DNR
45 and State Water have undertaken in recent years, the costs
46 of renaming the entity and also what we would see as
47 unnecessary office moves. I think those things have been

1 touched on before so I leave it at that.
2
3 Additionally, payments for policy development by the
4 irrigation industry is not acceptable to it. If you will
5 excuse me for being colloquial, it is like asking somebody
6 to pay to create the whip that beats them. What has
7 happened in recent years has been a complete overturning of
8 policy in respect of how dams are managed. When the river
9 dam system was created, it was very clearly recreated to
10 encourage development and irrigation growth in our region.
11 Be it right or be it wrong, there has been a gradual taking
12 back of that resource and allocation of that resource to
13 the environment. It is almost tantamount to an acquisition
14 of that resource for a public purpose.
15
16 Additionally we point out again that State Water is a
17 monopoly service provider and it must meet a commercial
18 business standard in its operation expenditure.
19
20 The irrigation industry is forced to compete on a
21 world market against other subsidised competitors and
22 against cheap labour costs, which means that any additional
23 costs simply have to be absorbed into the bottom line costs
24 of irrigators and can't be handed on to end consumers.
25
26 The problems raised by the Jacobs report delivered in
27 2005 continue to exist and we welcome the chance to see the
28 new report and look forward to being able to comment on it.
29 We note that the socio-economic impacts of this type of
30 water increase haven't really been considered. It has been
31 said over and over again today, and we endorse it very
32 strongly, that any type of bottom line increase affects the
33 viability of not only the irrigation industry but the flow
34 on effects to our communities and are just absolutely
35 impossible to quantify. In fact, if you have a look at our
36 submission, you will see that there have been a number of
37 existing irrigation developments that have been stripped of
38 their entitlement, essentially because we have had to
39 increase the reliability of our water supply, which hadn't
40 then led to any resulting increase.
41
42 THE CHAIRMAN: I will have to stop you there in fairness
43 to other people.
44
45 MS CURCUTO: I think that is about it.
46
47 MR CLEMENTS: In terms of the dam safety upgrades which we

1 have had a ruling on in previous times, are they going to
2 be included in the RAB, the expenditure, and will we as an
3 industry then pay a rate of return to Treasury on their
4 inclusion?

5
6 THE CHAIRMAN: Generally dam upgrades are paid for by
7 State Government in terms of dam safety, if that is what
8 you are referring to?

9
10 MR CLEMENTS: I am wondering whether that expenditure
11 will then be included in the RAB and whether we will then
12 pay a rate of return to Treasury on that as capital?

13
14 THE CHAIRMAN: There is a total RAB which is then
15 divided between State Government and users. As State Water
16 outlined in their presentation, where the State Government
17 accepts things like dam safety, that goes to the State
18 Government's RAB, not to the user's RAB, so you don't pay
19 for it.

20
21 MR CLEMENTS: Thank you.

22
23 THE CHAIRMAN: My colleague wants to make clear, we
24 haven't made a decision yet on whether there will be a RAB
25 or an annuity approach. That is something that is before
26 us, but if we follow the RAB approach then upgrades of dams
27 in respect of dam safety would be something to be paid for
28 by government, not by users.

29
30 MR LOGAN: Bruce Logan, I work for Tamworth Regional
31 Council. Obviously the council is concerned about the Peel
32 Valley and the proposed charges that may apply in the Peel
33 Valley under the current determination. Without getting
34 into too much detail about the submissions today, I suppose
35 a basic thing I would like to convey is that council feels
36 that the Peel Valley, and Chaffey Dam in particular, should
37 be considered as something a little bit different to the
38 other valleys in the state. The dam is, we share the view
39 of others, too small to warrant trying to have full cost
40 recovery from the users thereof.

41
42 In the case of Tamworth City Council, we have a
43 entitlement of 16,400 megalitres. At the current pricing
44 based on average use we will pay \$237,000 this year for
45 that water. Under the proposal of State Water, our prices
46 will rise to \$1.1m in 08/09. That is a relatively large
47 impost, I think you would agree, on the ratepayers of

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1 Tamworth. And in terms of general security the council has
2 a real concern about the viability of the valley irrigators
3 in general if the level of increase that is being submitted
4 is actually adopted.

5
6 I don't believe there is much more I would like to say
7 other than to convey those words to you.

8
9 THE CHAIRMAN: Thank you.

10
11 MR JOHNS: Owen Johns, Upper Namoi, a groundwater user. I
12 would like to point out that I think the whole thing is
13 discriminatory in as much as you are selling run-off water,
14 when prior to it being run-off water and being trapped in
15 the dams, all the dry land farmers, forest, national parks,
16 all that sort of thing, have already been cleansed, and in
17 the case of those dry-land farms are producing the same
18 food and fibre that the irrigators are being charged to
19 produce further down the system. I just feel that that is
20 fairly discriminatory in the way it is put together.

21
22 MR MURRAY: I just want to follow up on John's question
23 about dam upgrades and just clarify your answer. I was
24 heartened to hear that you said that dam safety upgrades
25 will remain a 100 per cent government cost. My
26 understanding is that State Water is proposing that they
27 should be a 50/50 cost if there is a flood mitigation role
28 for those dams and 100 per cent if there is no flood
29 mitigation role, so I am hoping that your position is as it
30 is and will remain as it will be and we can strike that one
31 off the list.

32
33 The second issue is to do with environment compliance
34 costs and in particular I talk about multiple level
35 offtakes on dams, a relatively big ticket item, but they
36 are items that should have been included when those dams
37 were built. It is not really that long ago, 1976, when
38 Copeton was completed. Surely at that stage the issue of
39 cold water pollution was known and understood and it
40 should have been addressed then, so I believe that with
41 environmental compliance costs, they should be a 100 per
42 cent government cost and not borne either 50/50 or any
43 other weighting towards irrigators.

44
45 MR GEORGE: Bernie George, current Chair of Cotton
46 Australia and also a manager of Auscott's operations in the
47 Namoi Valley.

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1
2 I would like to draw together some of what I have been
3 hearing this afternoon and this morning and what has been
4 written in the submissions. It is to do with commercial
5 reality and commercial business behaviour. I think you
6 have got the message that most water users are in fact just
7 looking for fair and equitable pricing. Unfortunately, the
8 submissions that we see from the corporation don't give us
9 any sense of fair and equitable pricing.
10
11 I will give you a couple of examples of why I feel
12 that way and why I am concerned for the future of natural
13 resource management in the north of the state, if these
14 submissions are in fact indicative of the business plans of
15 these corporations.
16
17 The first one might be, how would an agricultural
18 supplier in Moree go if he didn't send out any bills for 15
19 months? He would be out of business. The second one might
20 be, how would a supplier of cotton to the world market go
21 if he didn't get around to marketing his 2000 year crop
22 until 2006? Exactly the same with Namoi groundwater, while
23 they wait six years to do a water sharing plan.
24
25 My point is that we all have to live with commercial
26 reality and if we had the confidence that these
27 corporations have, maybe we would have the confidence that
28 the prices are reasonable and fair. Thank you.
29
30 THE CHAIRMAN: Next comment or question? I don't hear
31 any more, so we will have a short break to give the two
32 authorities time to reflect before they respond. There
33 certainly has been a lot of vigorous comment throughout the
34 course of the day, so we will break before those
35 presentations.
36
37 SHORT ADJOURNMENT
38
39 THE CHAIRMAN: Before I ask State Water to come up to the
40 table to respond to the comments and questions during the
41 day, I should perhaps clarify the answer I gave to a very
42 specific question about dam safety and investment in dam
43 safety.
44
45 The approach so far has been that the Government has
46 paid for any dam safety investment which gets up to the
47 standard, or is necessary to maintain the standard, as it

1 was in 1997. I am advised, however, or reminded perhaps is
2 a better way to put it, that the proposition before the
3 tribunal is that where there is investment which is to, if
4 you like, raise the standard of dam safety, the proposal
5 from State Water, if I have got it correct, is that the
6 Government will pay 50 per cent and users will pay 50 per
7 cent. That is a proposition from State Water. It is still
8 for the tribunal to determine its attitude regarding that
9 proposition.
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1 STATE WATER CORPORATION

2
3 MR IMMARAJ: We will add a little more comment to that
4 question later.

5
6 We have summarised the issues arising out of the
7 submissions first up into five or six groups; one, dealing
8 with State Water's culture and objectives; second, service
9 committees; the third issue is the average usage and how
10 that is explained; the fourth is cost shares; and the fifth
11 one is costs themselves.

12
13 I will start the responses dealing with the corporate
14 culture, then hand it over to some of my colleagues. We
15 have got Geoff Ellerton, our Senior Asset Engineer, joining
16 us. With regard to the corporate culture, the comment was
17 made that we were corporatised as of 1 July 2004, we
18 became a corporate entity. We have a long way to go. We
19 are not fooling ourselves in thinking that we have got
20 there, and we have given ourselves a two-year time frame to
21 get to the point where after the initial investment in
22 systems and processes we would be in a position to start
23 gaining the advantage of efficiencies.

24
25 We have done that consciously by looking at other
26 state-owned corporations, both in New South Wales as well
27 as in Queensland, with Sun Water and with Goulburn Murray
28 Water in Victoria and South Australia Water, all of whom we
29 meet on a regular basis to compare our performance. So
30 each of those entities has taken at least two years to get
31 to the point where they are comfortable with what they
32 would consider is sufficient cost input.

33
34 State Water Corporation's objectives, if they can be
35 summarised into two sentences, fall into, one, we do want
36 to maximise the water delivery that is allocated to our
37 customers, so we have an objective that says we must
38 maximise the delivery of that water allocation. We don't
39 allocate it, we can't get out of bed in the morning and
40 say, "How can I deliver more water to my customers", but we
41 can deliver whatever water is ordered by the customers on
42 that given day and we can endeavour to maximise the
43 availability of supplementary access. Mr Khan will comment
44 on the two events that we were asked about.

45
46 The second objective is that we must deliver the
47 minimum requirement for the environment as specified in the

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1 water sharing plans. They are not in sequence of priority,
2 both of them are equally important, because our operating
3 licence relies on us meeting the requirements of both those
4 clauses. We must meet the minimum requirements. That is a
5 difficult set of objectives to meet on a given day because
6 there is a travel time ranging from one day to our nearest
7 customer to anything up to six weeks from the dam itself,
8 with all the issues relating to rain rejection and events
9 from tributaries that contribute to supplementary flows
10 into the systems. It is not a cut and dried system like an
11 electricity utility. We have an ongoing regulatory
12 management of flow in the system.

13
14 The other issue relating to corporate culture was how
15 State Water resources committees are cost effective, why we
16 have not looked at outsourcing all sections of our business
17 and the arrangements, or agreements, with DNR for provision
18 of hydrometric services. As far as resourcing is
19 concerned, as I outlined it is a conscious decision again
20 that the corporation has made with regard to providing
21 in-house services such as payroll, human resources, things
22 that the corporation needs in the early stages of its
23 development to make sure it clearly understands and knows
24 what is specified.

25
26 If in two years time we did want to outsource payroll
27 services or human resource services, it is in a position to
28 do so, but we must do so as an informed buyer. There is no
29 point in the corporation going in day one and outsourcing
30 not knowing what exactly we need.

31
32 We have looked at models provided by other
33 corporations as to how they outsource statewide businesses.
34 The results have been remarkably varied. You can look at
35 an entity like Country Energy or Sun Water in Queensland,
36 and one of the things that we are looking for is the
37 outcome from the opex capex review which will look at this
38 particular issue of benchmarking. .

39
40 As far as the agreement between DNR and State Water, I
41 can assure you it is not a cosy arrangement at all. There
42 is a review, a hard edge review, of the provision of
43 hydrometric services. The outcome of that review is
44 awaited. I know some customers have been consulted as part
45 of that review. The intention is that, if the
46 recommendation is to outsource, if it goes ahead we will
47 market test it and outsource that service. We are as keen

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1 as you are to make sure that we are getting cost effective
2 services in that area.
3
4 The last item under the corporate culture was the
5 issue of billing. Why there has been such a significant
6 delay and why State Water allowed that delay to go ahead?
7 I gave a couple of reasons earlier this morning. We did go
8 ahead with billing six of our major customers, who account
9 for roughly 28 per cent of our revenue base. Because we
10 knew that the system was going to take a while, we went
11 ahead and billed six customers who account for a fairly
12 large percentage of our revenue, and the top 20 per cent of
13 our customers account for 80 per cent of our revenue and we
14 have gone ahead and done that, knowing that we will be
15 taking sometime to get the system up and running.
16
17 The systems are not easy to develop, especially when
18 they have to interface across several departments to try to
19 get to the source data, which is the access licence
20 information. So all the controls for system development
21 and timetables are not in our control, but we have done the
22 best that we can.
23
24 I will hand to over to Jubrahil to talk about the
25 customer service committees and their role, and he will
26 talk about the process, then Geoff Ellerton will talk in
27 particular about asset investment decisions.
28
29 MR KHAN: As far as the customer service committee
30 processes are involved, I believe we have a very open and
31 honest process and I think the customer service committee
32 members have all benefited from participating in this
33 process and I'm sure they are better informed than some of
34 the others who are not on the committee, simply because of
35 the way we conduct our meetings and provide information to
36 the members.
37
38 As far as our operations and asset management areas
39 are concerned, we provide them with our works programs,
40 seek their endorsement, and also look at strategies for
41 improving our performance. I will ask Geoff to highlight
42 some of the asset works, but one area where we have worked
43 very closely is in identifying ways of maximising delivery
44 and also minimising losses.
45
46 Both in the Namoi and in the Gwydir, we have worked
47 very closely with the customer service committee to ensure

1 we implemented strategies such as planting trees, getting
2 cooperation from the customers. At the same time, we were
3 running river systems for much shorter periods and that
4 resulted in some very visible net gains of up to 3 or 4 per
5 cent of savings in the dam. That's the kind of thing we
6 worked together very well in and we are all conscious and
7 working towards that, because just as much as our
8 customers, we know that if we can save water in the dam,
9 that is available for the next year, and that saving is to
10 any reduction we have in delivery losses.
11
12 Similarly, in the area of implementation of the water
13 sharing plans, the supplementary excess is subject to this
14 water sharing plan and in the last two years, we have had
15 new rules come in. While the sharing plans were effective
16 at 1 July 2004, the excess licences have not been issued to
17 the water users for 12 months. So we were actually using
18 previous licence data to allocate and share the
19 supplementary on the basis of old licences. We were
20 working as closely as we could. But at the end of the day,
21 the accounting was then based on the new licence
22 performance, and we worked very closely on that activity
23 until the supplementary licences were sorted out.
24
25 Another area where the new rules came in was one that
26 Michael referred to in the Marshall points. Initially
27 fifty-fifty sharing was only in the Gwydir River.
28 100 per cent of that water was available for supplementary
29 access and all that water was made available. But now with
30 a rule that says 50 per cent of that water must be
31 preserved for the environment and only 50 is available,
32 there is a need to better measure that because to get 50
33 per cent of something, you have to know what it is.
34
35 In the first place, in the first event where we had to
36 rely on the gates much lower down the system, the available
37 water for water users was less. That resulted in a request
38 for us to put a gate and station. This was done through
39 the customer service committee process, and we have, as a
40 result of that, been involved just below the junction of
41 the Marshall points. We are trying to do similar things in
42 the other area. So that is how we are working with the
43 customer service committee.
44
45 The other community involvement we have is using the
46 community reference panel in our upgrade work, so that the
47 community involvement is there and they understand what

1 options and what designs or what are the total costs
2 involved in upgrades, so they have an input into the
3 selection of the final option.
4
5 I will ask Geoff to talk about how we go through the
6 asset management options and how we consult with the
7 customer service committees.
8
9 MR ELLERTON: Regarding the customer service committees
10 and asset investments decisions in regard to maintenance
11 and upgrade, over the past eight years we have had a cost
12 of itemised works program similar to this, which I
13 presented to the customer service committees each year, and
14 every quarter we had an expenditure progress report and
15 discussed the outcomes of that with the committee.
16
17 In the last six months, though, the new customer
18 service committees have started to request more detail, for
19 example, on the various options for a particular project,
20 breakdown of estimated cost, and cost benefit analysis for
21 some of those options. That's been good, it has led to
22 greater transparency. An example would be when Jubrahil
23 presented the Keepit gate arm painting, we decided to do
24 that with local staff, whereas with Copeton Dam when we
25 repainted the spillway gates several years ago, we
26 outsourced that by competitive tender. Because of the
27 particular nature of the site at Keepit, we chose to do
28 that in-house and we thought there were cost savings there.
29
30 Those sorts of options we are eager to discuss and
31 recommend a particular option to the committee, to ensure
32 users that they are getting value for money for the
33 maintenance, also for the long-term viability of the dam or
34 the weir, and in terms of maintaining its level of service.
35
36 So that's my job, that's my expertise. If the
37 customer service committee requires additional or
38 independent advice on my figures, then we can get that, at
39 a greater cost, from the consultants, who will probably
40 just glean that information from me anyway. But that is
41 another avenue for the customer service committee to
42 ascertain whether the estimates and options that we
43 presented are reasonable. To me, they are not engineers,
44 I'm an engineer, so they rely on my advice.
45
46 However, the responsibility to select any option still
47 lies with State Water because we are accountable and we

1 bear the liability. Also, as Abel said earlier, a lot of
2 the major work we have been outsourcing by competitive
3 tender and we do that when we don't have the in-house
4 resources or the particular expertise in that particular
5 project or type of work. So they can be confident, through
6 the competitive tender process, that they are getting value
7 for money on the big ticket jobs.
8
9 MR BERRY: I just wanted to add some points to two key
10 areas: one was the one standard deviation and the other
11 one was the high security premium. On the one standard
12 deviation issue, I think there has been very good
13 discussion here today, which is a good indicator that
14 everyone is getting their head around the issue of State
15 Water having a high proportion of its revenue based on
16 usage and the risks that is going to add to State Water in
17 terms of a business.
18
19 The other thing I think is timely, as the drought
20 bears out, our recent experience is that we have had some
21 years where we have had sales that are much closer to the
22 average minus one standard deviation than the standard
23 deviation, particularly the numbers - thank you, Michael -
24 for the Gwydir average plus three years is much closer to
25 the figure that we are proposing than the long-term
26 average.
27
28 The other thing I want to emphasise is that we are not
29 suggesting that it be locked in as a long-term
30 proposition. Michael suggested that. We are envisaging
31 that each IPART process, each submission process, we would
32 be reviewing, and the tribunal would be reviewing, any
33 unders and overs from that process.
34
35 On the high security premium issue, there has been a
36 fair bit of discussion about that one as well today. It's
37 a little more complicated in some aspects. I do want to
38 emphasise that, in terms of the State Water submission
39 here, our position is that we are suggesting a revenue
40 neutral position to State Water. So we are not suggesting
41 that the high security premium add to our sales for a
42 particular valley, and I'm not sure all of the presenters
43 understood that when they were responding to our
44 submission.
45
46 We are very clearly proposing a revenue neutral
47 position for State Water. We put this in our submission at

1 the request of IPART of the previous determination,
2 2000-2001, that we would put a submission on what the
3 premium should be for high security on this basis of
4 revenue neutral. So part of the discussion that was good
5 today was about on what basis we should be putting that
6 high security premium, and there was some discussion about
7 the beneficiary, how much benefit do you get from the
8 rights that come from the water sharing plans and State
9 Water's operations.

10
11 So the ratios that we have in there, the straight
12 water sharing ratios in our submission, they would give an
13 equal charge to customers who get access to the same amount
14 of water. So a general security user who wants access to
15 100 megalitres and someone who holds a high security wants
16 to get access to 100 megalitres, using the water sharing
17 plan ratios, those two water users would end up with the
18 same total bill in the long run.

19
20 What we are also proposing, though, is some extra
21 premium on top of that and our proposal is to multiply that
22 by 2 in most valleys because of the high security. There
23 certainly are other ways to try and look at equities, that
24 100 megalitres to a high security is different to 100
25 megalitres delivered to general security in terms of the
26 benefits of those rights. We are proposing multiplying by
27 two.

28
29 You also have to take into account that this is on the
30 usage component, so the revenue doesn't necessarily go up
31 by two because the entitlement revenue is only 40 per cent
32 of our revenue in the long run, not the high proportions
33 that we have now. So there may be other ways of doing the
34 extra premium. But certainly the first premium that we put
35 in the submission, the water sharing plan ratio, is very
36 much on the beneficiary of those rights and the water that
37 is delivered to those customers.

38
39 MR IMMARAJ: I will get Jubrahil to discuss three points,
40 one in relation to the water quality costs, what they are
41 for and why should water user customers have to pay for a
42 water quality monitoring program. The second one relates
43 to the Mallowa Creek regulator, why should water user
44 customers have to pay for the cost of that regulator, and
45 the resource assessment issue relating to the two events on
46 supplementary flows.

47

1 MR KHAN: The first one, water quality, this is identified
2 as one of those additional costs or the new costs that
3 State Water is varying. In the past, water quality
4 monitoring was a program run by DNR. But as the owners of
5 the dam, there is a certain responsibility for us to
6 monitor in-storage water quality. We are still not doing
7 any down the river renewing, but the in-storage water
8 quality is part of this responsibility as the owner of the
9 dam.

10
11 So that has come as an additional cost. That includes
12 monitoring the temperature, dissolved oxygen, any algae,
13 and warning, or putting notices to warn, people of any
14 dangers of that. So that is an additional cost that is in
15 the new water pricing submission.

16
17 As far as Mallowa Creek is concerned, I think one will
18 have to understand the history of why the Mallowa Creek
19 regulator was constructed at the time when the Mehi was
20 opened up for licensing. The regulator there is to protect
21 regulated flow, in that Mallowa Creek was a flood runner
22 that ran at very low levels in the Mehi and in today's
23 flows, if there were orders that required us to run the
24 creek there at 200 megalitres, it will start overflowing
25 into Mallowa Creek and that would be water that was
26 released specifically from the dam for orders to be met
27 further down the river. To protect that from overflowing
28 into the creek, we need to have that regulator.

29
30 Yes, certainly the only time we operate that is when
31 we want water to go down to the regulator. So when the
32 stock in domestic run is, that's when we operate it, but
33 the reason why the gates are there is so that they remain
34 closed at every other time when that water has to go down
35 the river for orders. For that reason, it is an
36 operational structure to preserve the water that has to go
37 or has been released from the dam for a specific order.

38
39 As far as the resources estimate, certainly I will
40 take a responsibility that there was an error in our
41 calculation. The process is that we provide usage orders
42 and account balance information to DNR, who are then
43 responsible for making an assessment. Then that is
44 converted into available water determination, gazetted and
45 announced. Certainly it was something that has happened
46 for the first time in five years. The error was picked up
47 and as soon as it was picked up, it was rectified.

1
2 Once again, I have been in touch with Michael and with
3 the Water Users Association and we are organising a meeting
4 where Peter, Randall, myself, Michael, we are all meeting
5 to make sure that that process is further strengthened so
6 that we do not get that type of error in this process and
7 we put in a few more checks and balances. So that's how we
8 are addressing it, and certainly the idea is to talk and
9 make sure that it doesn't happen ever again.
10
11 For the supplementary water, I touched on the Marshall
12 points issue. Certainly there was another event where the
13 intention was that the next event would go down the Mehi
14 River, but because of the timing and the nature of the
15 event, that was then reallocated to another portion of the
16 valley. Certainly those who were expecting didn't get it,
17 but the valley as such did not lose it, some other section
18 of the valley got it. So there was no net loss to the
19 valley. Those who were expecting it thought in turn we
20 have missed it out because of the details we had at the
21 time and the ability to regulate that at such short notice,
22 being just within the weir pool.
23
24 MR IMMARAJ: I will just go on to some of the specific
25 questions that came up in the question and answer. One
26 issue relates to the costs of the community consultation
27 committee, and again the question raised as to why should
28 water user customers have to pay for a statewide community
29 consultation committee consisting of some members from the
30 state environmental movement.
31
32 As part of our operating licence requirement, we are
33 required to set up a community consultation committee and
34 the terms of reference for that have been developed. We
35 think that it does have some benefits for running State
36 Water as a corporation meeting all its obligations. Once
37 again, whether those costs are picked up by water user
38 customers or whether it should be paid as a community
39 service obligation will depend on the determination, but it
40 is a requirement of the business through our operating
41 licence.
42
43 Just in clarification, the operating licence was
44 issued by the portfolio minister, who is Minister Scully at
45 the moment, and the issue was debated as to whether a
46 community consultation committee needs to meet once every
47 six months or once a year, and a lot of that detail has

1 been left to us.
2
3 We consulted with some of our customer service committees
4 at the time of forming the terms of reference. There was a
5 mixed opinion. Some customer committee members
6 felt it is not a bad thing to have one customer
7 consultation committee at the state level rather than have
8 to change the composition of the customer service
9 committees to include an environmental representative or
10 other agency representatives, and it's no different to the
11 community councils that other state utilities run.
12
13 There was another question relating to the Pindari
14 levy. The Pindari levy is mainly the repayment of a loan
15 taken at the time of enlarging Pindari Dam, as Bruce
16 rightly pointed out, and that increased the capacity from
17 37,000-odd megalitres to 312,000 megalitres. That upgrade
18 resulted in increased reliability and additional access
19 licences which went to the beneficiaries and the
20 beneficiaries are repaying that loan.
21
22 It's a long-term loan, I believe, and the current loan
23 terms will remain until the loan is completely repaid. We
24 simply passed that loan back to treasury, who funded that
25 upgrade, and the initial regulatory asset base as at 1 July
26 2004 did not include the cost of that upgrade. Therefore,
27 it doesn't include the loan repayments.
28
29 There was another question from Laurie Pengelly with
30 regard to why State Water hasn't responded to the
31 discussion paper on the valley-based pricing. We did raise
32 that with the annual meeting of the customer service
33 committee chairs, I believe that was last year, and at that
34 meeting it was fairly unanimous that the chairs did not
35 that across the state, they preferred to go down the path
36 of valley-based pricing, which is far more cost reflective
37 and far easier to get a handle on. So we didn't proceed
38 with the discussion paper. We couldn't fund it without the
39 customer support.
40
41 Coming to the questions themselves. Auscott, Harvey
42 Gaynor, raised a question with regard to why are customers
43 paying for dam safety costs, and I think it also came up in
44 one of the questions from the floor. I'll lump all these
45 in with the regulatory asset base discussion, the question
46 that was posed by John Clements with regard to how is State
47 Water proposing this regulatory asset base approach be

1 dealt with.
2
3 The costs shares are an important consideration in how
4 the regulatory asset base is further capitalised from now
5 on. The opening regulatory asset base was based on the
6 splits in the annuity. As you know, in 2001 the annuity
7 was roughly \$18m split \$6m dollars to customers and \$12m to
8 government. So we used roughly that same split in coming
9 up with the initial regulatory asset base split. So the
10 \$300m is split roughly \$105m to customers and \$195m to
11 government.
12
13 Using the same cost-sharing philosophy of if the
14 government continues to pay for dam safety upgrades to meet
15 regulatory standards, then any capitalisation occurring as
16 a consequence will only be capitalised on to the
17 government's portion of the regulatory asset base and the
18 return on assets will be then paid by government to State
19 Water, as if the government is a customer.
20
21 So that is for the legacy dam safety program that
22 covers pretty much - out of the 19 dams, I think it covers
23 14 or 15 dams across the state. They were all identified
24 as at the line at the sand in July 1997. Any dams that are
25 identified post-1997, in other words in 2000 we realised
26 there was a dam safety compliance issue with Split Rock,
27 that is a post-1997 non-legacy structure and what we
28 proposed in our submission is that those dams should be
29 looked at on a dam-by-dam, case-by-case basis as to what is
30 the reason for the upgrade requirement and what is the
31 function of that dam.
32
33 Does it have any flood mitigation benefit? If it does
34 have a flood mitigation benefit, then we think the
35 government should continue to pay 50 per cent. If it is
36 still just largely irrigation benefit, we are proposing
37 that 100 per cent of that dam safety upgrade should be
38 borne by customers - but with one clear difference in the
39 way we approach them. Those options for upgrading that
40 dam will then be put back through the customer service
41 committees to decide on what is the best option for
42 upgrading the dam. So that's the only difference.
43
44 Following on from the question that was raised in the
45 earlier workshops, that was a direction that State Water
46 took to try and get to that commercial operation. It
47 wasn't an instruction from government to do that.

1
2 The question raised by Auscott again, Harvey's
3 question, was why isn't State Water adopting some of the
4 other business principles of increasing efficiency,
5 decreasing costs, rather than just going with the easy
6 option of increasing the price? We are embarking on all
7 three things.
8
9 Efficiency requires a capital investment, and we have
10 tried to clarify in our submission that some of the systems
11 that we are putting in place, whether it's our function
12 management system or an improved river operation system,
13 they do require some investment and we have recognised
14 that. In the third year of our forecast expenditure
15 onwards, we have foreshadowed an efficiency dividend to our
16 customers by reducing our operating expenditure. But in
17 the first two years, we do expect that our costs will go up
18 to achieve that point.
19
20 We are looking at reducing our costs in terms of
21 responding to the drought. In some valleys we have
22 negotiated with the customer service committees to shut
23 down some locations of our offices, to reduce the number of
24 customer service offices providing services, and once we
25 have a better handle on our operating licence requirements,
26 we'll be in position to go back to the customers and offer
27 different levels of service that they might be prepared to
28 look at and say, "If it costs \$5 a megalitre for this type
29 of service versus \$15 a megalitre for this level of
30 service, what are we prepared to go with?"
31
32 The issue was also raised by, I think, Michael with regard
33 to we have always expected State Water to operate
34 365 days 24 hours a day. We think that some of that has
35 definitely been the case, that the service has been exactly the
36 same. If you went back two or three years ago, we were still
37 responding to customer inquiries no matter what time it was.
38 Our staff would take their laptops home and operate on the
39 weekend, and any questions or amended orders
40 would be dealt with by the staff working from home.
41
42 However, we have started building up significant
43 liabilities in things like leave, and they will come back
44 to bite us in a big way. So in our human resources
45 program, we have structured ourselves to make sure that we
46 don't end up with this huge liability two or three years
47 down the track.

1
2 When you look at the age demographics of the
3 organisation, we have a dominant workforce in the 45 to 55
4 age bracket as well. So we have got all these things that
5 are piling up, and we believe that we have made the right
6 decision in employing those additional staff in the area of
7 operations, to provide back-up and weekend support and
8 public holiday support, and the terms under our consent
9 award are very clear in terms of what staff are expected to
10 do, how much time they spend on this.
11
12 More recently, we have started losing some of our best
13 customer officers and operations people to competing
14 businesses in the regions. So in one way we are competing
15 with the private sector in that regard, and we need to
16 recognise that in our business plan.
17
18 I think we have addressed the Tamworth Council's issue
19 with regard to Chaffey Dam costs. We recognise that it is
20 cost neutral, therefore at the end of the day, whether the
21 general security users pay or general security users pay,
22 what we will achieve is simply full cost recovery.
23
24 The dam safety compliance costs issue was I think also
25 raised by Auscott with regard to why such an unrealistic
26 frequency for dam safety compliance. There are standards
27 set for probable maximum floods. While the numbers seem
28 fairly low, 1 in 1 million or 1 in 500,000 return period
29 for an event, they are not unexpected for structures like
30 large dams. That is what standards mean, when you have a
31 structure that is there experiencing these sort of events
32 day in and day out, and they have a life span of 100 years
33 or more, therefore these type of standards and these type
34 of frequencies are to be expected for large dams. The type
35 of catchment, and the flows close to the coast, the more
36 likely you are to expect those peaks. Having said that, in
37 the current round of legacy upgrades, those costs are not
38 passed on to customers.
39
40 I think we have covered most of the issues, Mr
41 Chairman.
42
43 THE CHAIRMAN: Thank you very much, Abel. I do
44 appreciate, as I am sure other people do, the meticulous
45 way you have gone through identifying the issues and
46 responding, and I would like to thank you again, and your
47 team, for that response.

1 DEPARTMENT OF NATURAL RESOURCES
2
3 MR HART: Firstly, I would like to thank IPART for coming
4 today, it has been a very important part of the process and
5 I think we have all learnt a lot from the process. In
6 terms of the stakeholders, once again I would like to thank
7 them for their detailed analysis and comments, and also I
8 think DNR and myself particularly learnt a lot from
9 listening to these interactions.
10
11 In terms of an overall comment today we have not got a
12 lot to say, but I guess I would like to emphasise there was
13 only an increase of 6 per cent per year from the historical
14 costs through to the forecast costs, so it is not a big
15 increase as far as the DNR/WRM charges are concerned. It
16 is not such a great increase imposed from DNR and we are
17 plateauing out in forecast costs, so there will not be a
18 great increase once we get to the forecast costs for the
19 next four years after that. In fact, for the regulated
20 activities in the Gwydir, we have not increased costs at
21 all but in fact slightly reduced them.
22
23 In terms of some of the individual comments on some of
24 the individual issues, I firstly must confess that Michael
25 Murray was 100 per cent correct in his comment with regard
26 to C07 activities. He is 100 per cent right, it was a typo
27 on my slide 18. I apologise for that. The typo had said
28 that it was mostly funded by government, all those
29 activities. CO7 is mostly funded by users, so I apologise
30 for that. The weighted average cost analysis is about 81
31 per cent of those activities are funded by users.
32
33 Michael was also correct in pointing out the error in
34 the resource assessment that I noticed as I walked back in
35 that Mr Kahn has talked about. The resource assessment
36 data in December was wrong, but we corrected it very
37 quickly, after a quick analysis and quick consultation with
38 the irrigators, and I think that shows a good part of the
39 process, that we are talking. We do make mistakes, I will
40 not deny that, but we correct them quickly and, as Mr Kahn
41 said, we will be meeting this afternoon to make sure that
42 will never happen again.
43
44 Mr Cush's question about the slowness of licence
45 transactions, a permanent transfer in his case, he pointed
46 out it took quite some months to occur. This does really
47 show the importance of everyone understanding the system.

1 I have checked with my staff. They inform me that DNR can
2 process, and did process relatively quickly, that
3 application but the solicitors weren't quite in the know as
4 to how to progress from there and when it goes to the land
5 and property information centre, we need to get that
6 information to them, and apparently it took six months for
7 that to be processed by the solicitors through to land and
8 property information. I apologise that Ian has been
9 disadvantaged on that, but I think it does show that there
10 needs to be a better system. We can work on that, but DNR
11 did process it within a couple of weeks I am informed.
12
13 The next issue that was raised talked about CMAs,
14 catchment management authorities, and whether they had
15 been carrying out any water resource management works.
16 Obviously a lot of the former DLWC's costs have been
17 transferred through to State Water in that separation
18 process, but in terms of the CMAs they have carried out
19 minimal water resource management activities in their first
20 year and a half of operation and so I have to say that DNR
21 has not been offloading costs through the CMA process.
22 That is not to say that the CMAs won't be involved in that
23 area in the future. There will be a consultation part of
24 the process that they will be engaged in, and are engaged
25 in now, but we are not offloading costs to the CMAs.
26
27 I also would just like to elaborate on Bruce
28 McCollom's comment with regard to the Border Rivers
29 Commission. He gave a very good overview of the Border
30 Rivers Commission's costs and how it operates. I have to
31 say that, and I should have said when I was asked the
32 question before by Mr Seery, that the New South Wales state
33 call-up is \$850,000 per year. Queensland also matches
34 that. The expenditure for all BRC activities is about
35 \$1.7m per annum, and that is across the border, both sides
36 of the border, and of the \$850,000 call-up, only about
37 \$300,000 has been or would have been funded by water users
38 as water resource management costs.
39
40 I think from an overall point of view that will do me.
41 I will hand it over to Rick but, before I do that, I would
42 just like to say that I look forward to an ongoing good
43 partnership and communication with the stakeholders. We
44 have said that in the past. I want that to continue. I
45 want it to be open and transparent in our dealings with
46 stakeholders. I am sure we can continue to do that. And I
47 want to make sure that, if we have any cost deficiencies,

1 they are pointed out to me. Hopefully the analysis by my
2 staff will do that, but I welcome the opportunity of
3 discussing that further if there are further inefficiencies
4 that come up during the year.
5
6 I hand over to Rick, who will finalise our response
7 today.
8
9 MR RUNDLE: Firstly I wanted to cover the cost sharing
10 arrangements briefly. Previously we had a beneficiaries
11 pay approach, and in 2001 an impactor pays approach, with
12 the addition of a legacy versus forward current costing
13 approach. In the current submission we have again changed
14 the approach. We proposed a different approach. In the
15 case of WRM it is a difficult area to apply cost shares to.
16 State Water is more difficult than other utilities because
17 of the nature of the activities we deal with, so we have
18 proposed what we feel is a fairly objective transparent
19 approach to setting the cost shares and it is based
20 primarily around the water sharing plans.
21
22 The water sharing plans set minimum standards for
23 environmental outcomes and those minimum standards had
24 the agreement of the water management committees
25 previously. Basically with the impactor pays approach, the
26 difficulty was the subjectivity to apply to different activities or
27 products and the fact that I suppose impactor pays in
28 itself is one approach but there is no sort of rationale to
29 say it has to be the only approach to utilise.
30
31 We feel through the application of this approach by
32 the water sharing plans we have achieved something which
33 can provide cost shares which can be seen quite
34 transparently and can be calculated transparently. If you
35 look at all the WRM activities we have, C06 and C07, which
36 is based on the minimum standards through public good
37 outcomes and private benefits, it indicates that those cost
38 shares gives a result which is in many cases either a nil
39 cost share or a 100 per cent cost share. It is a much more
40 straightforward and objective approach to setting the cost
41 shares.
42
43 Bearing in mind too that the water sharing plans
44 themselves are the main vehicle which drive WRM in DNR,
45 the rationale for water sharing plans in themselves is
46 primarily there because of water extraction, past, present
47 and future, and for the sustainment of the resource in the

1 future. They are the key elements in setting our cost
2 shares.

3
4 There was a question about tariffs on the fixed charge
5 which came up earlier today. Basically in terms of
6 benefits we see WRM as being a charge which should be
7 essentially fixed. Essentially the benefits are ongoing,
8 they are not related to water consumption. The benefits
9 are largely private good outcomes. The benefits relate to
10 secure entitlements and particularly the ability to trade,
11 which is a benefit of the water sharing plan process, and
12 it is a benefit in the decision making framework we have
13 for our cost shares. The benefits are also tied in with
14 that, to provide stable water use.

15
16 We don't believe it is valid to relate the benefits to
17 water consumption per se. We see the tariff structure as
18 related to an ongoing, if you like, a fixed benefit to
19 water users.

20
21 MR O'NEILL: I will just add one more thing to the items
22 that have been covered and then I will close. There has
23 been a lot of talk at this hearing and at previous hearings
24 about the identification of efficiency improvements. First
25 of all, to do this I guess you need static activities over
26 a long time base so you can try and draw some sort of trend
27 between the service provided and the cost of that service.

28
29 Water resource management activities typically by
30 nature are not static, so it is quite difficult for us to
31 do that. But, having said that, there is one activity that
32 we feel we can focus on to demonstrate DNR's efficiency
33 improvements and that is our collection of hydrometrics
34 data. Unfortunately I can't show you, but I brought a
35 graph along today which basically shows over the last 25
36 years how the amount of information we provide via our
37 hydrometrics system has approximately doubled and the
38 number of staff providing that information has
39 approximately halved, so the short story there is we are
40 providing twice as much information with half as many
41 staff. What I will do is provide that graph to IPART so it
42 can post it on its web site so all stakeholders can see it.

43
44 Just to conclude, as Randall said, DNR is committed to
45 this process. We are committed to work with all the
46 studies you have commissioned over the next few months to
47 complete the determination, we look forward to being

1 involved in that, so I thank you for inviting us along
2 today and well see you at the next meeting, thank you.

3
4 THE CHAIRMAN: I would like to thank DNR for its
5 contribution today and for answering questions.

6
7 It is up to me now to make some concluding remarks to
8 those who are left here. I guess what you would all like
9 to hear is what will be in our determination. You can't
10 have that yet. It would not actually be proper. We are
11 still in the stage of checking evidence and, as you know,
12 we have not got very important consultants' studies on
13 things like opex and capex and so on.

14
15 There is quite a process where we discuss amongst
16 ourselves and get papers from the secretariat, so what I
17 can do for you, however, while I can't give you the
18 answers, I can identify the issues that we will need to
19 consider in reaching a pricing decision. In doing that, I
20 want to respond at least obliquely to a comment that was
21 made earlier today that IPART should not be part of the
22 Government's policy process and pursue policy ends and so
23 on. From our point of view it is important that we are an
24 independent body. At the same time, where there are
25 statutory requirements that might express policies
26 expressed by parliament, we have to have regard to those
27 statutory requirements and be guided by them.

28
29 Fundamentally, as one stakeholder put it, most
30 irrigators want fair and equitable pricing, and that is
31 fundamentally what we are here to try to deliver, fair and
32 equitable pricing. We are not to be a policy tool in that
33 context. Having said that, there will always be room for
34 difference about what constitutes fairness, and we have to
35 all recognise that. We will try to explain when we write
36 the report why we make the judgments that we make, and in
37 that sense we try to be accountable for our judgments, as
38 does any other tribunal.

39
40 In terms of fair and equitable pricing, I need to
41 emphasise that full cost recovery is not a new policy.
42 That is a policy that has been around for a long time. It
43 was the objective of previous IPART determination back in
44 2001, for example. In looking at full cost recovery, a
45 critical thing is that the costs incurred must be efficient
46 and prudent.

1 We have had quite a lot of discussion today about
2 possible examples of inefficiency. We have heard less
3 about what is prudent, but taking a broad interpretation of
4 prudent, does it need to be done, or does it need to be
5 done at that standard, if it does not need to be done now,
6 can it be delayed? Those are issues that we will be
7 pursuing vigorously, principally through our consultant,
8 but we have been helped by the submissions we have received
9 and by the discussion today. Certainly by raising
10 questions, that helps us identify areas that we need to
11 follow up, so we have certainly been helped by that today.
12

13 I guess the other major issue which I think I have
14 picked up today in terms of the focus of today's discussion
15 is cost sharing. Who should pay? Let me just say in
16 relation to the impactor pays principle that that principle
17 is not new. Indeed, I know that governments endorsed it
18 back in 1974, so it is not a new principle. There will
19 always be debates about how it should be interpreted.
20

21 One thing is fairly clear, I think, that people are
22 strongly of the view that where a dam is put in for flood
23 mitigation, or where a significant part of the dam is put
24 in for that, the argument strongly put is that that is not
25 an environmental impact per se and irrigators shouldn't
26 pay. I didn't hear it so strongly today, but we have heard
27 it elsewhere, in Griffith and Dubbo, the argument that
28 there are significant instances of where irrigation has
29 benefited the environment in terms of, for example,
30 channels being used to transport water for the environment,
31 et cetera.
32

33 I think in terms of cost sharing it is important to
34 remind you that the tribunal drew a line in the sand on all
35 investment or capital works prior to 1997. That was done
36 sometime ago and no one is seeking to overturn that on the
37 government side, as I understand it. Where there are
38 legacy costs of inefficient storages, to use one of the
39 phrases that was used today, to a very significant extent
40 you are not being asked to pay for that because those
41 legacy costs were incurred, or the investments were made,
42 prior to 1997, and the Government is copping them.
43

44 Now, I can imagine there might be situations where an
45 investment is made before 1997 which now needs to be
46 upgraded or something. You might be asked to pay for that
47 where you wouldn't have done it that way in the first

1 place, but by and large the line in the sand that IPART has
2 drawn, you are not being asked to pay for investments,
3 whether good or bad, including the good ones, that were
4 made prior to 1997.
5

6 Again on cost sharing, the point has been made again
7 today, it has been made elsewhere, too, forcibly, that
8 irrigators should not pay for users such as stock and towns
9 and so on. I can understand that point, and we will
10 certainly consider it, but I think an issue will be how far
11 we should seek to chase every rabbit down every burrow and
12 just how practical it is to collect a very small fee say
13 from someone who is watering their stock or something,
14 there is a point of practicality, and in that context I
15 think in any price determination at the end of the day
16 there are swings and roundabouts. If we feel that
17 irrigators are getting perhaps duded in one area, it can
18 affect our attitude in another area, and whether it is
19 profitable for us to pursue something is an issue in
20 itself.
21

22 I won't comment on consultative committees because the
23 others did, but I can understand the issue about how far
24 irrigators should pay for things like consultative
25 committees which benefit a range of people, I assume,
26 because they are part of the committees, a range of
27 interests I should say, beyond irrigators.
28

29 An issue that has not had much coverage today, but has
30 in previous consultations, is the issue of whether we
31 should follow a building block approach as proposed by
32 State Water, or an annuity approach. It did get touched on
33 but I can tell you that it got considerably more attention
34 both in Dubbo and in Griffith.
35

36 I want to say on that that this is an area where if we
37 were starting with a clean slate there would be quite a
38 preference for a building block approach. The issue for us
39 is a transitional issue. Having been on an annuity
40 approach, is it fair, and on what basis is it fair if we
41 transferred to a building block approach. So fairness will
42 be very important in that area.
43

44 I guess some people have pointed out that, again, if
45 we transferred to a RAB approach, what is the appropriate
46 RAB? Some people favour a RAB approach but it raises
47 questions about the \$300m, and that is something we will

1 certainly be thinking about.
2
3 Rates of return: one of the secretariat members
4 suggested that 7 per cent was at the high end of the normal
5 band that is used for rates of return. It is probably
6 right. I would not want to take a definitive view on that
7 at this stage. I think the secretariat, I think it was
8 Colin Reid, properly made the point that if it gets as high
9 as 7 it is because the business is essentially seen as
10 being a relatively risky business compared with other
11 utilities and that one has to have regard to whether the
12 business is trying to off-load some of the risk elsewhere.
13
14 What I think we do need to understand, all of us, is
15 that whether the rate of return should be 7 per cent or
16 something less, there should be a rate of return on capital
17 if we are to get economic efficiency. Capital is not a
18 free good. It is not a free good whether it is financed by
19 taxpayers or by the bond market and governments do need to
20 consider the return on capital in deciding whether to make
21 investments, whether it be in irrigation or in roads for
22 that matter. It is just different methods of charging for
23 it, but they need to set a hurdle rate of return that an
24 investment should cover, including in fairness where they
25 don't charge for it then they have to convince themselves
26 that the social benefits are very high where they are not
27 charging for it. It is not a free good.
28
29 Risks: I think there is a fundamental issue about
30 whether customers should share in a business's risks and in
31 competitive markets that typically doesn't happen. So
32 there is a fundamental threshold issue there about whether
33 customers should share in the risks. We certainly want to
34 think about alternatives to customers sharing in the risks.
35 I think we accept, or are likely to accept, that the shift
36 in the price structure to a greater reliance on a user pay
37 relative a fixed pay if it is a variable thing, makes the
38 business inherently more risky given that they do have
39 quite high fixed costs, so we do accept that. The question
40 is whether there are other ways of managing those risks
41 rather than shifting some of them to the customer. That is
42 something we will have to think about.
43
44 I will quickly run quickly through the remaining
45 issues because they have not had a lot of attention today,
46 perhaps understandably in the case of discounts, for
47 example, which loomed very large in Griffith with the

1 Murray irrigation area and the Murrumbidgee irrigation
2 areas, where they are an important issue. Fixed and
3 variable charges didn't get a lot of attention today except
4 in the context of their implications for managing risk.
5
6 High security and general security versus general
7 security premiums: I think the important point there was
8 made again by State Water in its response, that in the end
9 it is cost neutral as far as they are concerned. It is
10 really how do you recover costs, how much you recover, from
11 people who have general security entitlements versus people
12 with high security entitlements.
13
14 Last but by no means least is the impact on irrigators
15 of whatever we decide. That is something that we will be
16 giving considerable attention to. Typically there is the
17 impact effects of our determination in terms of how fast we
18 phase-in a price increase. I can see in the North and
19 South Coast - and I actually live in the South Coast -
20 where all other things being equal, and I don't think you
21 should assume all other things will be equal, but if you
22 took State Water's proposals as they presently stand then
23 the increases on the North and South Coast are very, very
24 considerable and it is hard to see you would have any way
25 of phasing them in over three years. It would have a very
26 substantial impact on the people concerned.
27
28 As I said at the outset of today, we will be producing
29 a draft report. As I said then, we produce a draft report
30 precisely because we want to give people an opportunity to
31 comment and tell us where we are wrong.
32
33 I will now wind the proceedings up. I do thank
34 especially those of you who have stayed for the end. I am
35 very conscious that all of you have other jobs to do. I am
36 very conscious of the sacrifice you have made in terms of
37 your time, I suppose most importantly in preparing
38 submissions and then presenting them today and
39 participating today. It is of considerable help to us to
40 hear your opinions as stakeholders. It does help to point
41 us to where we should be probing and where we need to
42 demand answers.
43
44 I would also like to thank again the two authorities.
45 In this regulatory process we are trying to be transparent,
46 for good reasons, I think, because they are monopolies, but
47 it is a considerable imposition on them in preparing the

1 information. It does consume significant resources and we
2 couldn't do it without the cooperation that we have had
3 from the two authorities, so once again I would like to
4 thank everybody for today, and I declare this hearing
5 closed. Thank you.

6
7 AT 5PM THE TRIBUNAL ADJOURNED
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