

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF PRICES FOR DPI WATER**

**Tribunal Members  
Dr Peter Boxall AO, Chairman  
Ms Catherine Jones, Member**

**Members of the Secretariat  
Mr Matt Edgerton, Mr John Madden,  
Ms Alexandra Sidorenko and Mr Alex Kelty**

**At the Quality Hotel Powerhouse  
248 Armidale Road, Tamworth NSW**

**Monday, 16 November 2015, at 9.30am**

.16/11/2015

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1 OPENING REMARKS

2  
3 THE CHAIRMAN: Good morning. I would like to welcome  
4 you to this public hearing. We are conducting a review to  
5 determine the maximum pricing that DPI Water can charge for  
6 water management services it provides on behalf of the  
7 Water Administration Ministerial Corporation (WAMC) from  
8 1 July 2016.

9  
10 My name is Peter Boxall and I am Chair of the  
11 Independent Pricing and Regulatory Tribunal (IPART).  
12 I am joined today by my fellow tribunal member, Catherine  
13 Jones. Assisting the tribunal, we have from IPART's  
14 secretariat, Matt Edgerton, John Madden, Alexandra  
15 Sidorenko, and Alex Kelty.

16  
17 I would like to begin by acknowledging that this  
18 hearing is being held on the traditional lands of the  
19 Kamilaroi people.

20  
21 I would like to thank those who provided a written  
22 submission in response to our issues paper which was  
23 released in June. Our paper set out the key issues that  
24 will be considered as part of the review. DPI Water's  
25 pricing proposal was submitted to IPART on 11 September  
26 2015.

27  
28 DPI's pricing proposal, our issues paper and  
29 submissions to our issues paper are available to the public  
30 on our website.

31  
32 This public hearing is an important part of our  
33 consultation process for this review. In addition to the  
34 views expressed in written submissions, we will consider  
35 the views you provide today in making our decisions on  
36 DPI Water's prices.

37  
38 We are holding three hearings for this review. Today  
39 is the first in Tamworth, followed by the Sydney hearing  
40 next Monday, 23 November, then Griffith on 30 November.  
41 The Sydney public hearing will also be webcast. The link  
42 to a video of the Sydney public hearing will be available  
43 on our website to assist those who cannot make any of the  
44 three public hearings in person.

45  
46 Following this public hearing, we will release a draft  
47 determination and report for public comment in March 2016.

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1 People will then have about four weeks to make further  
2 written submissions for consideration by IPART before we  
3 make our final decision on DPI Water's prices.

4  
5 A final report and determination will be released  
6 in June 2016 which will set the maximum pricing to apply  
7 from 1 July 2016.

8  
9 In general terms, our price review will be seeking to  
10 determine:

11 What are DPI Water's efficient costs of providing its  
12 water management services;

13 What is the user share of these costs; and

14 How should the user share of costs be recovered  
15 through prices.

16  
17 Before we commence the proceedings today, I would like  
18 to say a few words about the process. We will commence  
19 today with a presentation by DPI Water of its pricing  
20 proposal. The hearing will then be divided into three  
21 sessions.

22  
23 The first session will consider DPI Water's operating  
24 costs, capital costs and its approach to allocating costs  
25 between users and government - that is, the user share of  
26 costs. We will also discuss the length of the next price  
27 determination.

28  
29 The second session, which will occur after the tea  
30 break, will address DPI Water's proposed water management  
31 prices and price structures, including price levels by  
32 water source and the proposed minimum annual charge.

33  
34 The third session will consider other prices and  
35 issues associated with the DPI Water price review,  
36 including water take forecasts, floodplain harvesting,  
37 water take measurement (or metering) service prices,  
38 consent transaction prices and service levels and outputs.

39  
40 In the third session, there will also be an  
41 opportunity to hear your views on any other issues you wish  
42 to raise that are relevant to this review of DPI Water's  
43 prices.

44  
45 Within each session we will discuss several topics, a  
46 member of the IPART secretariat will give a brief  
47 presentation introducing each topic. I will then invite

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1 participants at the table to provide comment on those  
2 topics. Following discussion by those around the table,  
3 I will then invite comments from those in the general  
4 audience.  
5  
6 Today's hearing will be recorded by our transcribers.  
7 Therefore, to assist the transcribers, I ask that, on each  
8 occasion you speak, you please identify yourself and, where  
9 applicable, your organisation before speaking.  
10  
11 A copy of the transcript will be made available on our  
12 website.  
13  
14 We will commence today with a presentation by  
15 DPI Water of its pricing proposal and I ask Gavin Hanlon,  
16 Deputy Director General for Water to make the presentation.  
17 Thank you, Gavin.  
18  
19 MR HANLON: By way of introduction, I am Gavin Hanlon, the  
20 Deputy Director General for Water inside the Department of  
21 Primary Industries.  
22  
23 By way of background, the Office of Water became part  
24 of DPI earlier this year. Part of that is a recognition  
25 that water is very much part of the economic portfolio.  
26  
27 Within DPI we have just launched our broader strategic  
28 plan and we have set some goals around having water as a  
29 part of demonstrating and trying to contribute towards  
30 agricultural productivity.  
31  
32 With that as a way of background, what I was planning  
33 on doing was providing a bit of an overview of what our  
34 submission is. It is important to acknowledge that  
35 Menindee has just tripped over into its lowest inflows in  
36 history. The Murray storage has just had its fifth lowest  
37 inflows in history, with the previous four being in the  
38 last 10 years, and I am coming to talk about water pricing.  
39 It is not exactly a good time to have these discussions but  
40 I think it is important to acknowledge that things are  
41 tough, things are dry.  
42  
43 We put together our water plan or our water submission  
44 based on the National Water Initiative principles, if you  
45 like, some guidelines issued by IPART themselves, and some  
46 feedback we received around the last submission we made  
47 four or so years ago as well.

1  
2 There are three categories of pricing we put together,  
3 so there is: consent transaction costs - I will talk a  
4 little bit about that and what we are proposing there -  
5 meter services and reading costs; and then water management  
6 charges.  
7  
8 As part of that, we have had to make some assumptions  
9 around what we forecast demand to be - and they are very  
10 much assumptions; we can't predict how much water will be  
11 available from one year to the next particularly over a  
12 four-year period - look at our costs and then try to apply  
13 what is a sensible pricing regime over the top of that.  
14  
15 In putting that together, we have been through an  
16 exercise internally of building the budget from the bottom  
17 up. We have tried to look at how to actually minimise any  
18 cost impacts to customers.  
19  
20 That does mean that in DPI Water over the next four  
21 years, there will be some changes inside the business. We  
22 cannot continue to operate the way we have in the past, so we  
23 are putting together some change management plans around  
24 how we manage our staff numbers and how we do things  
25 more efficiently particularly in the meter-reading space as  
26 well.  
27  
28 One of the important principles is having pricing that  
29 relates to the areas where the water comes from. Out of  
30 the 22 different water sources, not all of them are fully  
31 recovered by customers, so government makes a contribution  
32 to them.  
33  
34 I will not read them out, but you will see in the list  
35 on the slide that there are a number of water sources that  
36 are not fully recovered. Importantly, we are not proposing  
37 to try to get to 100 per cent straight away on any of  
38 these. In fact, I think it is an NWI principle that we get  
39 to full cost recovery at some point, but to try and do that  
40 in one hit would implement quite a large price shock to our  
41 customers and we don't intend to do that.  
42  
43 It is a four-year determination. I think we will have  
44 some time to discuss that later on. I will paraphrase some  
45 of what is on this slide, but we have tried to move towards  
46 a 70:30 fixed/variable component - so 70 per cent of the  
47 bill being fixed, 30 per cent variable. As I said, we have

1 been through quite a rigorous process of looking at all our  
2 costs and cutting some costs out and we will continue to do  
3 that over the next year or so.  
4  
5 We have actually factored in an efficiency dividend,  
6 if you like, or a target to try and reduce costs over time  
7 at 1.5 per cent, plus on top of that we are trying to find  
8 additional savings to fund increases in costs from the  
9 likes of the Murray-Darling Basin Authority and our  
10 contributions to a joint venture that looks after the  
11 infrastructure on the shared systems.  
12  
13 Where we are trying to get to 100 per cent recovery,  
14 we have said that there would be no more than a 2.5 per cent  
15 increase in any given year - so a glide path to get to  
16 those things to avoid that price shock.  
17  
18 What does that mean? Cost savings I have already  
19 mentioned. User shares are down from 75 to 72 per cent of  
20 the total costs over the future period. I think the  
21 submission itself is 340-odd pages. There is heaps of  
22 detail in there and it breaks it down into each system so  
23 we will get a chance to talk about some of that later on.  
24  
25 One of the ways we can keep charges down at the top  
26 end for irrigation and other areas is to look at the  
27 minimum charge itself. The minimum charge is actually  
28 proposed to go up to \$150. Even though we are reducing our  
29 costs and trying to minimise impacts on customers, there is  
30 a substantial increase at the bottom end of these things.  
31 I have touched on that.  
32  
33 Consent transactions. We have been through an  
34 exercise of looking at how a transaction is actually  
35 processed from start to finish. In fact, we have timed how  
36 long it takes people to do every step in the process to  
37 work out exactly what it costs. We have then looked at  
38 that and said, "Well, how can we improve on that?"  
39 Sometimes there is duplication in here and then we have  
40 been able to reduce some of these transaction costs  
41 downwards and we will continue to do that and I will talk a  
42 little bit more about some big-picture stuff in a moment.  
43  
44 Meter charges. We have recommended differentiated  
45 meter size charges with prices different for each size of  
46 meter. We have aligned it with Water NSW's charges under  
47 the ACCC stuff that applies to them in the Murray-Darling

1 Basin.  
2  
3 Meter reading and assignment charges. Assessment  
4 charges have been decreased by 7 per cent. Again, that is  
5 through some of the cost saving measures as well as some of  
6 the process mapping stuff we have done as well. That gives  
7 you a bit of an overview of our submission overall.  
8  
9 What we have tried to do is start from both ways, from  
10 building a budget from the very bottom up and looking at  
11 where we can make savings, but then looking at how we can  
12 minimise impacts to customers' bills. We are proposing in  
13 the first year that there is no change to an average bill,  
14 recognising that it is pretty hard to work out exactly what  
15 an average bill is because everyone has different volumes  
16 and different configurations at their farms.  
17  
18 Again, we have also recommended for these systems that  
19 aren't at 100 per cent a glide path of 2.5 per cent, and on  
20 our web page there is a bill estimator so that if people  
21 want to work out exactly what it means to them, they can go  
22 to our web page, punch it in and it will give you an answer  
23 as to what it means to you. That is a general overview.  
24  
25 It is probably worth mentioning as well some of the  
26 feedback processes we have been through. There were a  
27 number of stakeholder meetings and we have also presented  
28 to the Irrigators' Council a number of times. We put a  
29 survey out to 700-odd people just to get some initial  
30 feedback around our performance and what people thought  
31 about bills and a lot of it was pretty much as you would  
32 expect: you know, it is tough to be trying to pay bills  
33 when there is no water and there are inefficiencies between  
34 ourselves and WaterNSW.  
35  
36 Inefficiencies, duplication and overlap came out as  
37 some of the initial feedback as well and on that later one  
38 the Minister has announced that he has asked WaterNSW and  
39 ourselves to go through an exercise of looking at how we  
40 can actually streamline some of those processes. So  
41 instead of getting two lots of bills from two different  
42 organisations about water, can we get it to one and that  
43 one has full accountability for those sorts of things, so  
44 that government focuses on the things it should, policy,  
45 strategy, regulation, program administration, and the  
46 operations side of it be delivered by an operator such as  
47 WaterNSW.

1  
2 We have also written and compiled the submission in a  
3 way that should that actually go ahead - and that's subject  
4 to a whole range of government processes - that the  
5 building blocks of it, if you like, are easy enough to bolt  
6 in bolt out, I think were actually the words used in the  
7 submission itself, should that go ahead further down the  
8 track. I am going to leave it at that, Mr Chairman, and  
9 I am happy to take questions, if you like.

10  
11 THE CHAIRMAN: Thank you very much, Gavin. What I  
12 was planning to do now was ask IPART to introduce the first  
13 session and then there will be an opportunity for comments  
14 and questions, including questions directly to Gavin.  
15 I will ask John Madden and Alexandra to introduce session 1  
16 which deals with the length of the determination and costs.  
17 Thank you.

18  
19 SESSION 1: LENGTH OF DETERMINATION AND  
20 COSTS/EXPENDITURE

21 MR MADDEN: Thank you, Peter. I might just sit here and  
22 talk to the slides. I will just give a quick introduction  
23 and I think it is worth repeating some of this stuff  
24 because it gets a bit complicated when you look at all the  
25 different parts of the water sector.

26  
27 We are looking at the Water Administration Ministerial  
28 Corporation which is the statutory body under the Water  
29 Management Act responsible for water management in New  
30 South Wales. DPI Water delivers water planning and  
31 management services on behalf of the Corporation and then  
32 we are looking at the maximum prices that they can set for  
33 their government monopoly services only.

34  
35 Just a note, and some of this is in response to the  
36 submissions, a reminder, I guess, that DPI Water's role is  
37 to provide for the sustainable and integrated management of  
38 New South Wales water resources for the benefit of the  
39 community and the environment. Really, this involves  
40 protecting water users' property rights and the entire  
41 water entitlement system, which is obviously separate to  
42 the WaterNSW role at the moment which is the running of  
43 infrastructure on the regulated rivers; so therefore, we  
44 are dealing with the regulated, unregulated and groundwater  
45 systems in this review.

46  
47 There is a list of some of the activities there which

1 are part of the building blocks that Gavin talked about,  
2 activities such as developing water sharing plans, the  
3 allocation system, running IQQM models and the like, and  
4 announcing allocations on the regulated rivers, management  
5 of registers and trading, monitoring water quality,  
6 examining environmental health, and collecting data on  
7 water take in unreg and groundwater systems.

8  
9 There are three sets of prices that we have set for  
10 the Corporation and the vast majority of the revenue is in  
11 the first category there, which is water management prices  
12 which are based on the activities that were just mentioned  
13 above and really they are founded upon and shared by  
14 looking at people's water entitlements and then also on the  
15 extraction from the different water sources, that being  
16 regulated, unregulated and groundwater.

17  
18 We also look at more transactional prices for consent  
19 transactions which are issuing water licences, works  
20 approvals and I think there are probably another five or  
21 six types of consent transactions under the Act. We then  
22 also for unregulated and groundwater only look at water  
23 take measurement.

24  
25 Could I give an overview of IPART's approach to  
26 setting prices. We have to look at the scope of  
27 activities and services that they actually meet the  
28 definition in terms of being a government monopoly service.  
29 We then go through a process of establishing the efficient  
30 costs of DPI Water's services. Obviously, the starting  
31 point is DPI Water's proposal. We then go through a  
32 process including what we call an expenditure review,  
33 having a consultant look at that process and go through an  
34 exhaustive process of questioning really, DPI Water, and  
35 looking at their assumptions behind their costs.

36  
37 As mentioned by Gavin, we also look at the user share,  
38 so how much the need for that activity is driven by users,  
39 irrigators, industrial and towns versus wider benefits,  
40 things like flood mitigation, et cetera, which are driven  
41 by the wider community and people who don't use water  
42 directly.

43 We then have to go through a process of allocating  
44 amongst the different water sources of those different  
45 costs that we deem as efficient and also then should be  
46 paid for by the users. I think the last point there is the  
47 tribunal has to take into account under its Act the impact

1 of any pricing decision on DPI Water and users.  
2  
3 That is just a bit of background and if we look at the  
4 agenda, I will just talk about the length of determination  
5 before Alexandra will talk in this session about  
6 revenue requirement and costs and the user share of costs.  
7  
8 The length of the determination. The last  
9 determination I think was a period of three years but was  
10 then extended by two because of various reasons in terms of  
11 the bulk water reforms and other changes. That  
12 determination was actually extended two years where prices  
13 remained constant. The proposal at the moment  
14 is for a four-year determination period and there's general  
15 support in the submissions we received for a four-year  
16 period.  
17  
18 One thing that IPART is considering is the potential  
19 for a five-year period, so we have aligned DPI Water's  
20 future determination with that in 2020-21 of WaterNSW -  
21 which is the previous State Water - determination. That is to a  
22 point where Gavin mentioned about getting one bill, having  
23 one process at one time maybe would reduce some  
24 confusion amongst users who are not understandably, fully  
25 engaged in some of these processes.  
26  
27 Just a note that IPART has actually been accredited by  
28 the ACCC recently where we will be actually setting the  
29 prices for WaterNSW's rural operations on behalf of the  
30 ACCC. That is within the Murray-Darling Basin, so the  
31 coastal areas are actually not under the ACCC rules, it's  
32 only the Murray-Darling Basin part of New South Wales.  
33  
34 Under the pricing principles from the ACCC, it is  
35 relatively sure that that pricing determination will be  
36 four years in length. The decision or the feedback on four  
37 or five years is probably one of the key questions that we  
38 will be examining later. I will just pass over to  
39 Alexandra.  
40  
41 MS SIDORENKO: Thank you, John, and I might stand up so  
42 that people see me better. I will be talking about revenue  
43 requirement and costs in the DPI Water proposal and just an  
44 exposition on how we set prices, why do we need to  
45 establish this notional revenue requirement. If you look  
46 at the efficient operating expenditure that's at the bottom  
47 of this building block, our standard approach is the

1 building block approach, so we're building up efficient  
2 operating costs, then we'll be building up by allowing  
3 return on and of capital. Capital is regulatory asset  
4 based so there are two blocks - return on assets and of assets,  
5 then we provide the tax allowance and we provide working  
6 capital allowance.  
7  
8 These are all components of the building block and we  
9 establish the total efficient costs and notional revenue  
10 requirement that will then be divided, based on the  
11 impactor pays principle, between government and the users.  
12  
13 The proportion of notional revenue requirement that  
14 will be recovered from users is the user share of costs.  
15 That is a very important part of the DPI proposal and we  
16 will talk about this consequence later.  
17  
18 For valleys and sources with prices below cost  
19 recovery we may not be able to recover full notional  
20 revenue recovery. There will be a transition path for the  
21 target revenue that will be allowed to be recovered for  
22 prices. This is the skeleton of our approach to set prices  
23 to users.  
24  
25 DPI Water proposes a revenue requirement on average of  
26 \$62.5 million per year, so in all of this presentation the  
27 dollar figures are constant dollars for 2015-16 and the  
28 average as specified. This is proposed over the period of  
29 four years of the future determination period, but we may  
30 be considering five, so the average that is presented here  
31 is for four years. For this \$62.5 million total revenue  
32 requirement, \$45.4 million is user share. That represents  
33 about 72 per cent of the revenue requirement.  
34  
35 We can notice that this is a reduction from what we  
36 observed over the current determination and here by  
37 "current determination" is the three-year determination  
38 plus two additional deferral years, but to confirm these  
39 numbers we have engaged a consultant who is doing the  
40 expenditure review at the moment and we will have a result  
41 of which costs are efficient and which allow for additional  
42 improvements. Our consultant will be looking at opex,  
43 capital expenditure, the cost allocation model and also user  
44 shares by activity code.  
45  
46 This diagram shows the distribution of the notional  
47 revenue requirement that are the costs that are requested

1 by DPI Water to be recovered from users across water  
2 sources, across regulated rivers, unregulated rivers and  
3 groundwater. The blue bar presents an average over the  
4 three years when the actual seven allowed expenditure.  
5 These are only from 2011-12 to 2013-14. In this  
6 illustration we ignore the two deferral years. The green  
7 bars present the proposed notional revenue requirement for  
8 the forward period from 2016-17 to 2020-21.  
9  
10 It is obvious from the bars that the absolute values  
11 in unregulated sources, rivers and groundwater, go down,  
12 but there was an increase in notional revenue requirement  
13 user share to be recovered from regulated rivers. There  
14 was a recent explanation behind this change in distribution  
15 and we can talk about that later. We can ask DPI Water to  
16 elaborate on this later.  
17  
18 Operating expenditure proposed by DPI Water is on  
19 average \$51.1 million total over the four-year future  
20 determination period. It is a reduction compared to  
21 budgeted 2015-16. Part of this reduction is due to the  
22 proposed efficiency saving in the amount of CPI that has  
23 not been applied from 2015-16 to 2016-17, so this revenue  
24 requirement was kept constant in nominal terms, going from  
25 current 2015-16 to year 1 of the new determination in 2016-17,  
26 and there is also a 1.5 per cent annual efficiency saving in opex  
27 from 2017-18 onwards.  
28  
29 The user share of opex on average over this forward  
30 period is \$38.6 million which means about 75 per cent of  
31 opex is proposed to be user share. That is a diagram.  
32 Again, the blue bar was the operating expenditure allowed  
33 in our 2011 determination. That was for three years where  
34 they did have this allowance estimated.  
35  
36 From this graph we can see that actual operating  
37 expenditure in 2011-12 and 2012-13 was above the amount  
38 that was allowed by IPART in the 2011 determination. Then  
39 in "Actual" there was an increase in 2014-15 year on year  
40 compared to 2013-14 to 48.4, and then there was a budgeted  
41 reduction, quite a drastic reduction from 2014-15 to  
42 2015-16, and then there were these ongoing efficiencies  
43 plus additional 2.4 per cent moving from 2015-16 to 2016-17.  
44  
45 Capital expenditure. The DPI Water proposal is a  
46 total capex program of \$15.4 million for 2016-17 to  
47 2019-20. This is over four years but there is an

1 additional bit of capex for year five which is not  
2 presented on this slide. Of this capex, \$13.6 million is  
3 attributed to users and the user share of capex is quite  
4 high: it is 88 per cent here in the proposal. Most of the  
5 capital expenditure is happening in the groundwater  
6 monitoring network. It is bores and water access licence  
7 systems and both of these activity codes have a user share  
8 of 100 per cent, so that drives overall high user share of  
9 proposed capex program going forward.  
10  
11 That is a diagram. In 2011 the determination allowed  
12 \$1.6 million per year, that's in 2015-16 dollars, allowed  
13 capex user share, and there was an overspend in 2012-13 and  
14 an underspend in 2013-14, but we can see that going forward  
15 there was a significant increase in the capital expenditure  
16 program and the largest driver of that is the groundwater  
17 monitoring system, as we understand.  
18  
19 Another component of DPI Water's costs are the  
20 contributions to the Murray-Darling Basin Authority and the  
21 Dumaresq-Barwon Border Rivers Commission that the New  
22 South Wales Government has an obligation to contribute to and  
23 DPI Water passes on some of these costs to users. The MDBA  
24 costs are based on the New South Wales Government  
25 commitment for 2015-16 in the DPI Water proposal and the  
26 user share of these MDBA costs is about \$5.5 million per  
27 year. That is above what we allowed in the  
28 2011 determination and again, the consultants are looking  
29 into the efficiency of the proposed MDBA contributions and  
30 we would like to hear more from the floor today as well.  
31  
32 The BRC costs user share is proposed to be  
33 \$0.30 million going forward in 2015 dollars. We received  
34 the submission to the issues paper from MDBA and MDBA is  
35 telling us that DPI Water has been conservative in  
36 proposing these costs, that in fact the MDBA costs as per  
37 the MDBA corporate plan should be higher. That would have  
38 to be collected from the users. These proposed numbers do  
39 not have an escalation in costs which is embedded in the  
40 MDBA corporate costs and also does not recognise the  
41 forward increase in total MDBA contributions from New  
42 South Wales.  
43  
44 Other stakeholders commented that they had questions  
45 about the efficiency of the program and the user share and  
46 we will have to come to a position on that.  
47

1 That was the session on revenue and if I can move to  
2 the session on user shares and we will have questions after  
3 we have finished session 1. We determine the user share of  
4 costs based on the impactor pays principle. An impactor is  
5 an individual or group of individuals or organisations  
6 whose activities generate costs or a justifiable need to  
7 incur costs. There are different principles to allocate  
8 costs. Impactor pays is one of the principles, in some  
9 other instances beneficiary pays is used as a principle,  
10 but in our case, in most instances, the impactors are also  
11 the beneficiaries.  
12  
13 The zero per cent user share is assigned to activities  
14 where the benefits are outside the impactor group, so if  
15 that's a wider environmental benefit where the community  
16 benefits or if it's something that's policy related, then  
17 the user share is zero and the government picks up this  
18 cost component, but if it is clear that the costs have been  
19 created by water users, by irrigators, by licence holders,  
20 then at the other end of the spectrum 100 per cent of this  
21 cost is allocated to users; for example, a consent  
22 transaction charge is 100 per cent allocated to those who  
23 have the impact who have this transaction related to their  
24 licence. There are user shares in between zero and 100.  
25  
26 DPI Water has proposed to switch from the old schedule  
27 of monopoly activities in C codes into these new W codes,  
28 moving from 36 activities in C codes to 33 activities in  
29 W codes, and the user shares were reassigned during this  
30 transition. They had been verified by CIE some time ago in  
31 the previous reviews to establish these previous users  
32 schedules and CIE has also contributed to verify that this  
33 new user share of costs in new W codes proposed by  
34 DPI Water also are consistent with our approach and what  
35 was used before. That is these proposed new activities and  
36 user shares by moving from C codes to W codes. The reason  
37 to have this change in activity codes was to improve the  
38 definition, accountability, recording and reporting of  
39 water planning and management services.  
40  
41 I think we have already mentioned that 72 per cent of  
42 notional revenue requirement across all activity codes in  
43 aggregate is proposed to be recovered from users. We  
44 received submissions commenting about this new user share  
45 of new activities. There were some comments about  
46 potential cost shifting from low to higher user shares when  
47 consolidating into a new activity code with various user

1 shares for components of the original C code and also there  
2 were comments that perhaps not all users of DPI Water  
3 services are captured, that not all impactors have been  
4 accounted for. Again, our consultants will review the new  
5 codes and user shares and provide their insights on the  
6 issue and we are also hoping to hear from the floor.  
7  
8 These are the examples of new mapping between old  
9 activities in C codes and new activities in W codes where  
10 the user share resulting from this mapping has changed.  
11 There were these new categories which were separated out.  
12 These are W06-03 floodplain management, plan development  
13 and drainage management plan development, so they're having  
14 a new user share of zero proposed despite the fact that in  
15 the major category they were part of before in C codes,  
16 C07-01, the user share was 70 per cent, so the users are  
17 not covering the costs of this floodplain management plan  
18 development due to legacy issues and the significant  
19 community benefit to these activities based on the DPI  
20 Water proposal.  
21  
22 I will move to the next slide. We can get back to the  
23 details, if that's necessary later, at the questions.  
24 Actually, we are at the question session. We would like to  
25 have your views and feedback on the appropriateness of the  
26 length of the determination period. Four years was  
27 suggested by DPI Water in their submission with the  
28 preamble that it will align the new review with the  
29 WaterNSW water review, but in fact, after examining the  
30 possibility to align, IPART is of the opinion that a  
31 five-year determination may achieve the alignment, so we  
32 would like to hear from you on the length of the  
33 determination period, whether five years should be  
34 considered.  
35  
36 We would like to have your comments whether  
37 DPI Water's forecast operating costs are efficient, whether  
38 the proposed efficiency gains are sufficient. We would  
39 like to have your comments about the capital expenditure  
40 program, user share of MDBA and BRC costs, the scope of  
41 activities and proposed user shares. Thank you.  
42  
43 THE CHAIRMAN: Thank you very much, John and Alexandra.  
44 We now have an opportunity to get some questions or  
45 comments from those around the table and then I will move  
46 to the audience. Who would like to start? Zara?  
47



1 MS LOWIEN (Gwydir Valley Irrigators Association): I would  
2 like to start with the first question. It was a view of  
3 ours that four years seemed like a good period to provide  
4 some certainty to users. My concern possibly with aligning  
5 it to five years with the WaterNSW review is that you're  
6 under two different rule systems and for irrigator  
7 organisations like our own, we're generally a band of one,  
8 so the workload to undertake two pricing determinations  
9 under two sets of rules, whilst the regulator will be the  
10 same the processes are very different.

11  
12 We would be a little bit reluctant to move towards an  
13 alignment of those but to consider ways of maybe better  
14 improving our timing and resources towards that, but a big  
15 concern for us would be two separate rules, same regulator,  
16 and it could be increasingly confusing for the broader  
17 industry rather than simplifying it.

18  
19 THE CHAIRMAN: Thanks Zara. Jon-Maree?

20  
21 MS BAKER (Namoi Water): I agree with Zara's concerns.  
22 Whilst on a practical sense combining the billing is  
23 something that probably would make it better for a user,  
24 I think the real confusion is that you separated the  
25 services and, in effect, what happens when WaterNSW  
26 actually undertakes meter reading is that you have a  
27 complete confusion over the separation of the services  
28 which was achieved when splitting the organisation. By  
29 bringing the billing back under one organisation you are  
30 recreating that confusion where you sought to have some  
31 level of separation.

32  
33 I would agree with Zara that a four-year time frame  
34 suits most users and the concern she has raised is  
35 supported by Namoi Water as well.

36  
37 THE CHAIRMAN: Mark?

38  
39 MR HAMBLIN (Namoi Water): No, thank you.

40  
41 THE CHAIRMAN: Thanks Jon-Maree. Gavin, would you  
42 like to say anything?

43  
44 MR HANLON: Just on putting the billing together, it is  
45 not just the billing. I know the organisations were  
46 separated originally, but what we are trying to work  
47 towards, in a sense, is that government should focus on

1 those things like policy planning and regulation and if it  
2 is operational in nature, we should let those in a better  
3 place do those sorts of things.

4  
5 Whilst billing is the outcome of that, it is also  
6 about trying to streamline the operations and we have found  
7 there will be savings through a process like that, but we  
8 still have to go through the process of doing the planning  
9 and the business case process. So thanks for that one.

10  
11 THE CHAIRMAN: Tom, would you like to comment?

12  
13 MR WOOLASTON (Peel Valley Water Users Association): At  
14 this stage we don't find that the length of the  
15 determination is all that terribly important to us.  
16 I suppose I am pretty ignorant of the whole process.  
17 I battle with there being a department and State Water.  
18 I understand it, but to me it is a cost - the cost that is  
19 determined by the department to me should be passed on to  
20 State Water and then we would only have to deal with the  
21 one entity. It seems to be getting right out of hand and  
22 I find it is a battle to keep up with everything that is  
23 going on.

24  
25 THE CHAIRMAN: Thank you, Tom. I will call for questions  
26 or comments from the floor. Does anybody have any  
27 questions or comments?

28  
29 MR LOGAN: Bruce Logan from Tamworth City Council. I have  
30 a number of questions and I am not sure which session they  
31 are going to fit in. I would hate to get to the end of  
32 session 3 and people will say, "That's it and we are all  
33 off. We're leaving." Can I get some assurance that if  
34 I can't see where my questions are going to go, there will  
35 be time at the end to ask some questions? My concern  
36 obviously is that you might say "That should have been  
37 asked in session 1 and therefore we are not going to go  
38 over that again."

39  
40 THE CHAIRMAN: No, that won't happen, Bruce. As I said  
41 at the introduction, part of session 3 is an opportunity for  
42 people to ask questions that they otherwise didn't ask.  
43 You can be assured you will get an opportunity to ask your  
44 questions. Do you want to ask something now?

45  
46 MR LOGAN: I suppose having read the submission, I am  
47 confused about the issue of water take reading. When

1 I read that, I believe that it says that water management  
2 charges include an allowance for reading and then, at the  
3 end, it says that \$198 is the charge for reading. Can  
4 someone explain that to me? Is that right?

5  
6 THE CHAIRMAN: Nick?

7  
8 MR MILHAM (DPI Water): Firstly, I apologise for being  
9 late - problems with airlines. No, the management charge  
10 does not include an allowance for meter reading or other  
11 water take measurement charge. That is a separate charge.

12  
13 MR LOGAN: So everyone pays \$198 to have their meter read;  
14 is that correct?

15  
16 MR MILHAM: I can't respond on the specifics of the actual  
17 charge as that is not my area of expertise, but we can  
18 check into that. I can check into that for you, but I can  
19 assure you that the water take measurement charges are  
20 separate to the water management charges which are the  
21 fixed and variable rates.

22  
23 THE CHAIRMAN: Thank you. Are there any other questions?

24  
25 MR BRIGDEN: I am John Brigden. I am an irrigator at the  
26 bottom area of the Peel Valley. I am not in a position to  
27 answer too many of the questions from 1 to 7, but with  
28 number 2, I can't see how we as users - or impactors, as we  
29 have been nicely referred to - have any idea whether  
30 DPI Water's forecast operating costs are efficient. We  
31 have no insight. We just get a determination that is  
32 passed down saying, "We think that is pretty good so you  
33 guys are going to cop it."

34  
35 With efficiency gains, again it is under the same  
36 bracket - it is all in-house; we get no information as to  
37 how efficient they are becoming.

38  
39 On capital costs, I was concerned to see that a big  
40 number was allocated to metering groundwater and I wonder  
41 why DPI has to spend that much money on groundwater  
42 metering.

43  
44 Question 7 is:

45  
46 Are the proposed user shares reasonable?

47

1 Who would know. We think we get impacted on far too much  
2 as a result the cost of running these government  
3 departments which are now duplicated. We have two  
4 government authorities administering, using and pushing  
5 water - whatever - and it just seems a waste and a  
6 double-up of resources and manpower when they could surely  
7 be shared under one roof.

8  
9 As far as the metering and the meter reading is  
10 concerned, as far as I am aware it is \$198 for every meter  
11 the guy reads. In our valley he can probably read 15 to 20  
12 meters a day with no trouble at all - that's \$198 bucks  
13 every time he walks through your front gate. If he is at  
14 Walgett or Narrabri, or somewhere where he has to travel  
15 big distances between properties and big distances to get  
16 onto a farm to get to the meter wherever it is, that is  
17 probably a reasonable argument for an additional cost. If  
18 you do the numbers at \$198 and 20 meters on one day, there  
19 are a lot of people who would do the same job for a quarter  
20 of that price and they would be just as efficient.

21  
22 I have always thought that there is another way of  
23 reading meters and that is for the user to put in a log  
24 every month, or whatever is required, and then the  
25 department could do a spot-check, but that is for another  
26 day. The \$198 is just a rip-off on top of the amount of  
27 money we are paying which is killing the industry in this  
28 valley. It is probably a bigger impact on the other guys,  
29 but we are only very small farmers, very small irrigators  
30 and if the departments continue to keep pushing the costs  
31 that they are pushing on to us - whether that be a fair and  
32 reasonable share of impact, I don't know - they will send  
33 us broke. Thank you.

34  
35 THE CHAIRMAN: Thank you very much, John. On the capital  
36 issue with the groundwater and the meter reading, I will  
37 pass to DPI in a minute.

38  
39 With regard to the efficiency issues and things like  
40 that, we do go through the numbers and we hire consultants  
41 and those consultants' reports are issued. They will be  
42 issued with our draft report in March so stakeholders can  
43 take a look at them, and also the consultants' reports will  
44 be issued with our final report.

45  
46 I will now hand over to Gavin and Nick.

47

1 MR HANLON: Thanks for your comments and questions.  
2 I hear you loud and clear. In building up our budget  
3 process, we have to go through an exercise of building it  
4 up right from the very start. We go through a process of  
5 then putting it through our own internal processes; in fact  
6 ours has to go via reviews from treasury and other parts of  
7 government before we even put it to IPART. IPART then  
8 puts its own auditors or cost reviewers over the top of it,  
9 and I think they are finalising that process now. We are  
10 building into the process here continued cost reductions at  
11 our end so that they can flow through to pricing.  
12  
13 I happily admit we still have a way to go there. If  
14 you look at what I think was slide 16, it shows what we are  
15 projecting our costs to be over the longer period compared  
16 with what they have been over the shorter period and you  
17 will see a cost reduction there.  
18  
19 The other thing around monitoring of groundwater is  
20 that the groundwater water network is starting to become a  
21 bit dated. A lot of those bores have been there for 50 to  
22 60 years, some of them longer. Some of them are starting  
23 to get a bit dated and beginning to collapse on themselves.  
24  
25 The capital program we have put in there is around  
26 starting to refurbish some of those old monitoring bores  
27 that are around the network. That process as well has to  
28 go through a prudency review or a cost review by IPART. We  
29 have proposed that as we think that is what is needed, so  
30 we will see what comes out the other end. I think that  
31 covers most things there.  
32  
33 On the metering side of things, again we have been  
34 through a process of working through how can we estimate  
35 the costs of the meter read and then we looked at  
36 everything that goes with it. It is also not just the  
37 meter read; it is the process of how data is collected,  
38 what systems it goes through and things that hang off the  
39 side of that - how we interpret data and the rest of it.  
40  
41 We are going through an exercise of developing what we  
42 are calling a take measurement strategy. Your suggestion  
43 around could we move to asking customers to submit their  
44 own logs over time and we do spot random checks and audits  
45 is certainly something that has been spoken about a lot  
46 inside of my team and it is something that is being  
47 actively considered. I would not be surprised if we were

1 to come back to talk about something like that over the  
2 next 12 months or so. Thank you.  
3  
4 THE CHAIRMAN: Thank you very much, Gavin. Would  
5 anybody else from the audience like to ask questions or make a  
6 comment?  
7  
8 MR DUDDY: My name is David Duddy. I am an unregulated  
9 water user in the Lower Namoi. Part of the IPART  
10 determination is made on our ability to trade. I would  
11 point out that unreg in the Lower Namoi have no ability to  
12 trade under the water plan. We have not had an event  
13 since December 2012, which was a very minor one. We have  
14 not had a crop grown on unregulated in my end of the world  
15 since 2012 and we have got to the situation where we cannot  
16 trust DPI. They have failed to pass on the two-part  
17 tariff; that is, our ability to have a two-part tariff, which  
18 was granted to us by IPART in 2009.  
19  
20 Today, I notice that they are still using, or you are  
21 still using, "unregulated rivers" as a term when they are  
22 not unregulated rivers - they are unregulated streams. The  
23 majority of people are on creeks. It is very confusing.  
24  
25 In 2009, there was no update on this two-part tariff.  
26 In 2011, in November, I made an application for a two-part  
27 tariff and it has still not been agreed to. It has still  
28 not been visited and I am still getting charges on a one-part  
29 tariff.  
30  
31 Our overall ability to pay has diminished  
32 significantly and although you have all these figures that  
33 look very innocent - figures of 5 per cent or 2 per cent or  
34 whatever - in actual fact, since 2009, costs have doubled.  
35 So it is not just the 2 per cent; there is CPI on top of  
36 that.  
37  
38 In unregulated versus the regulated we are unfairly  
39 treated. Our access is \$3.73 on unregulated and for  
40 regulated, it is \$2.75. We have no infrastructure. We  
41 have nothing - we don't even have a meter reader - and we  
42 are unfairly discriminated against.  
43  
44 In our unreg, there is 171,000 megs of allocation.  
45 Our estimated usage, when we did our volumetrical  
46 conversion, was 74,000 megs of use. There are over 100,000  
47 megs that should be two-part tariff which we have not had

1 the ability to uptake. That is nearly \$1 million in one  
2 small water users' areas and DPI has not passed that on, so  
3 we have very little trust in DPI.

4  
5 As I have said, we have gone from \$2.68 to \$5.34 and  
6 we have not had water since 2011. Thank you.

7  
8 THE CHAIRMAN: Thank you, David. Gavin?

9  
10 MR HANLON: Thanks, David. In terms of your specific case  
11 I would be happy to have a chat with you afterwards and  
12 follow up in the office. It seems that something is not  
13 quite right there.

14  
15 MR DUDDY: It is not specific to me. It is unreg Namoi  
16 Valley. As I said, there is 100,000 megalitres in  
17 sleepers there that are paying a one-part tariff. It is not  
18 specific to me.

19  
20 MR HANLON: You mentioned that you had made a submission  
21 in 2009 and you had not heard anything back on that. I would  
22 be pretty interested in following up on that and making  
23 sure it is followed up.

24  
25 MR DUDDY: I can go to your piece of paper of 2009,  
26 supposedly, and this states "Rivers". I have not got one  
27 irrigator in the Lower Namoi unreg system who can recall  
28 seeing this piece of paper. That is significant because  
29 I can tell you if anyone knew they could save \$1.50  
30 over 100,000 megs, they would be using it.

31  
32 MR HANLON: I take that on board. I am happy to have a  
33 chat offline about your specific cases. In terms of the  
34 communication around the two-part tariff from hereon in -  
35 I can't talk about what happened in 2009 - it is certainly  
36 written into our submission that that is available and  
37 I would be happy to follow up on the specifics in your  
38 case.

39  
40 MR DUDDY: Just remember that since 2009 the price has  
41 gone from \$2.68 to \$5.34. That is a 100 per cent increase  
42 in five years. That is not just the 5 per cent shown on  
43 the screen.

44  
45 THE CHAIRMAN: Thank you, David. Would anyone else  
46 like to ask a question?

47

1 MR HALL: John Hall, from the Lower Bogan, a small  
2 irrigator there with a 210 megalitre licence. I wish to  
3 comment on this issue as well. My charge for that licence  
4 has gone from \$465, I think it was, in 2013, to over \$1,700  
5 for last year and the current year - no water available.

6  
7 THE CHAIRMAN: Thanks very much, John. Jon-Maree?

8  
9 MS BAKER: Members of the tribunal, I would like to  
10 address you on the issue that David has raised. It is  
11 actually about the process of your IPART determination  
12 previously being implemented. What we saw is that you  
13 implemented a two-part tariff. This is not reflective of  
14 where this pricing determination is going, but actually on  
15 the implementation of the previous determinations. The  
16 two-part tariff was communicated on one occasion in the  
17 letter that David has, which we will table with you today -  
18 I stress on one occasion - and it specified that  
19 unregulated rivers could apply for a two-part tariff.

20  
21 As you have heard from David, there are numerous  
22 licences on unregulated creeks. Then the secondary process  
23 to actually access the two-part tariff and have it assessed  
24 in terms of how you evidence that was not clearly spelled  
25 out, nor was it actually well-handled by DPI.

26  
27 We respect that that one form of communication was  
28 provided, but at the same time we actually don't believe  
29 that that was adequate. Given that there has been a  
30 substantive increase in unregulated charges over that time,  
31 it is actually the process of implementing the  
32 determination and somehow following through in terms of  
33 progress reporting that I think has been particularly  
34 lacking in the recent determination.

35  
36 I think that that is fair comment and we know that  
37 that will be addressed going forward. However, during  
38 virtually the whole determination period, people have paid  
39 for licences under which they have not accessed any water.

40  
41 There has to be some recognition that over this whole  
42 determination period - David is a really good example -  
43 many have not accessed any water and they have paid a full  
44 tariff for that because of a lack of process. There has to  
45 be some sort of accountability going forward and we have  
46 requested that from the department previously, but have had  
47 little success in addressing that.

1  
2 That is probably just winding up the issue that David  
3 brought up and he will table that letter with you, I think  
4 going forward there needs to be a better reporting process  
5 on the implementation of IPART's recommendations.  
6  
7 MR HAMBLIN: Mark Hamblin, Chairman of Namoi Water.  
8 I might touch on this unregulated issue which David  
9 mentioned as well. I am an unregulated user as well as  
10 groundwater. I have always struggled with the charges -  
11 well, all water usage. As David said, the figure is \$3.73  
12 for access.  
13  
14 Just looking at groundwater, it is \$486. I am not  
15 indicating that groundwater costs should be higher, but  
16 they are going to spend a lot of money on new  
17 infrastructure or new capital expense, water monitoring  
18 bores and what-not. With unreg, there doesn't seem to be  
19 anything. On my system, there are a couple of gauges -  
20 sometimes they work and sometimes they don't. My mind  
21 boggles as to where the expense comes from.  
22  
23 I would invite IPART to go out and have a look at the  
24 creek and tell me how they could justify the tens of  
25 thousands of dollars that are paid when we get no water.  
26 Then we get sent the one-part tariff bill when DPI Water  
27 should know that we have not accessed anything because the  
28 gauge tells them that no water has gone down the creek.  
29 I thought I would just add a bit to David's comments.  
30 Thank you.  
31  
32 THE CHAIRMAN: Thank you very much, Jon-Maree and Mark.  
33 One issue you are raising is you are basically saying that  
34 what was in the last determination was not implemented by  
35 DPI Water so we will take a look at that.  
36  
37 Any comments on the charge for the unregulated rivers,  
38 John?  
39  
40 MR MADDEN: Only the fact that there are various times  
41 where people don't get water. There was a study done a few  
42 years ago by IPART, which was actually more focused on the  
43 regulated rivers as well, for example, places like the  
44 Lachlan, where they get low allocations and are still  
45 paying.  
46  
47 When you look at the activities which are about

1 property rights and management services, DPI and WaterNSW -  
2 it was then State Water - came back and actually say the  
3 costs don't really change whether they are delivering water  
4 or not. That is something we will look at particularly  
5 through the cost allocation process with regard to how  
6 they got the user shares and how that was allocated amongst  
7 the water sources and then the different valleys. That is  
8 something we do look at and obviously we will have more  
9 focus on it after today, thank you.  
10  
11 MR DUDDY: There is just one thing.  
12  
13 THE CHAIRMAN: Thanks, John. Just a second, David. We  
14 need to get a microphone for you.  
15  
16 MR DUDDY: I don't really need it. All I ask is that you  
17 stop referring to "unregulated rivers". It is very  
18 confusing. Please call it "unregulated streams" or  
19 something similar.  
20  
21 THE CHAIRMAN: We will note your comment, thank you.  
22 Are there any other questions or comments?  
23  
24 MR MOORE: My name is Daniel Moore. I am a local  
25 irrigator in the Peel system. I noticed on one of the  
26 earlier slides you had the cost to recovery at about 66 per  
27 cent for the Peel system and it was up to 98 per cent on  
28 the Namoi. I should say to the Namoi people that this is  
29 no dig at you guys, but if it goes up by 2.5 per cent a  
30 year they will hit 100 per cent. It is going to hit  
31 100 per cent soon at that rate, do they stop paying those  
32 increases and therefore do the valley systems, like the  
33 Peel at 66 per cent, keep paying those increases? In other  
34 words, if your goal is 100 per cent cost recovery, do we  
35 wear it for longer than the systems that hit it first?  
36  
37 THE CHAIRMAN: The goal is full cost recovery, so if a  
38 system is at 98 per cent and goes to 100, then they don't  
39 go above 100. However, if a system is well below - let's  
40 say, 70 or 80 per cent - then the glide path keeps going  
41 until you reach 100. It is not so much that if you are in  
42 that system you are wearing it and the others are not  
43 because if you are in a system that is below cost recovery  
44 now, somebody else is picking up that tab. Rather than  
45 having a price shock overnight, this is an effort to phase  
46 it in over time.  
47

1 MR MOORE: That point being a lead-in, you have used words  
2 like "appropriate" and "reasonable" quite a few times on  
3 the questions that are on the slide. How do you think that  
4 it is reasonable to be expected that we are paying, in this  
5 system at least, an exorbitant amount - I think that would  
6 be held by mostly everyone - per meg? You talk about how  
7 can we be reasonably expected to cover those costs when we  
8 are looking at another 34 per cent on top of what we are  
9 already paying before we are at full cost recovery.

10  
11 It is a state-wide thing, and I think you have used  
12 the term "postcode pricing", but if it is WaterNSW  
13 generically put, why is it localised to the degree that the  
14 admin charges mean we have to pay so much more in the Peel  
15 system compared with the other systems?  
16

17 I know that there are rational arguments on economies  
18 of scale and stuff like that. At the same time, as you  
19 also would have seen - there must be a list there - figures  
20 like \$72 a meg will be floating around here.  
21

22 As an example of this, I used off-allocation -  
23 free-flow allocation - water the other day. This is water  
24 that ran into a river, it didn't have to go through the  
25 dam, and it still cost me 2,000 bucks and there was  
26 nothing. I know there are reasons that that happens that  
27 way, but at the same time, that is another 34 per cent  
28 increase and that is massive.  
29

30 THE CHAIRMAN: Thanks very much, Daniel. This question  
31 gets to valley-based pricing for these services about why  
32 one valley should pay more than another or pay the same as  
33 another when they have less water.  
34

35 We will be getting into this in more detail in  
36 session 2, but I wonder whether you could give a brief  
37 comment now, John.  
38

39 MR MADDEN: I might be repeating it, but it really comes  
40 to the principle: do distinct valleys and systems pay  
41 different prices? Just to clarify, when Peter mentioned  
42 before that someone else picks up the bill, it is not  
43 actually other users in different valleys, because they are  
44 at 100 per cent, it is actually the government and the  
45 taxpayer.  
46

47 THE CHAIRMAN: Thank you, John. Matt?

1  
2 MR EDGERTON: I have just one additional comment to add  
3 to John's. Your point relates to two key issues. One is at  
4 the moment prices are set on a valley basis rather than a  
5 state-wide average. Under that regime, there is a question  
6 of what is the efficient cost of servicing each valley. If  
7 you assume that regime is a given, which it is not - it is  
8 an open question and we will be discussing that in the next  
9 session - but if you assume it is a given for the moment,  
10 then you are looking at the question of what are the  
11 efficient costs of servicing each valley.  
12

13 The second issue related to that is then whether or  
14 not there should be valley-based prices or a more  
15 aggregated form and that is something we will be talking  
16 about in the next session.  
17

18 MR MOORE: I appreciate that is coming up, that's all  
19 good, so this is probably pre-emptive, but the thing that  
20 stands out is that you are forcing the hand of a bunch of  
21 people that are literally on the verge of going broke. It  
22 is at that point and I don't know whether anybody realises  
23 it. The analogy I would use on the water usage charge when  
24 there is no water available is an earlier example, say,  
25 where you pay rego for your car and then RMS says, "Yes, we  
26 are going to take all your money but you can't use your car  
27 this year."  
28

29 I'd love to employ you guys to actually get a really  
30 coalface kind of an empathy for what is actually going on.  
31 The charges are reasonable from all the numbers' points of  
32 view, but they are actually impacting in a way that if they  
33 were put on your own doorstep, you probably would buck,  
34 and I think you can tell that from the tone of just about  
35 everybody here.  
36

37 THE CHAIRMAN: Sure, Daniel, and the point that John  
38 clarified is that if you or other irrigators don't pay, the  
39 government pays, which is the taxpayer, so we just need to  
40 keep that in mind.  
41

42 MR GOWING: My name is David Gowing. I am an irrigator.  
43 Actually one of my farms is within the city boundary.  
44 I was going to hold my comments over to the next session,  
45 but now after all this discussion it does seem appropriate  
46 that it should come in here.  
47

1 I have a number of licences, but I have a regulated  
2 river licence. I have a groundwater licence on the same  
3 property. I have recently put in an application to dig  
4 another well on the property because I have an adequate  
5 groundwater licence. I believe that should I be successful  
6 in sinking that well - and I have every reason to believe  
7 that I will do so - then my regulated river licence is so  
8 expensive that I will, I'd say, sell it in the end.  
9  
10 It is just not economic for me to use that river  
11 licence. In the last couple of years I've virtually had  
12 access to hardly any water. You can't put a crop in the  
13 ground. You can't grow lucerne on the basis that you might  
14 some time get some water from it. It's just not worth  
15 having under the circumstances we have had for the last  
16 couple of years.  
17  
18 When they enlarge Chaffey Dam our prospects might be a  
19 bit greater, but then I also bear in mind that  
20 Tamworth City is expanding at a great rate. I really see  
21 the future for regulated river licences being economic in  
22 this area as being very, very minimal and my forward  
23 planning would suggest that I will dispose of that licence  
24 because there's no benefit to hold it. Thank you.  
25  
26 MRS PATMORE: Shirley Patmore from Gloucester, we're on  
27 the Barrington River. I just want to ask a question.  
28 Peter, you just said then that if we don't pay the  
29 government and the taxpayer will pay, but can I remind  
30 John Madden that his first point was that this is for the  
31 benefit of the community and the environment, so I think  
32 the community and the environment is the taxpayer. Why are  
33 farmers meeting the costs of supplying this water?  
34 Actually, nobody supplies the water. It starts off in the  
35 hills and it trickles down past all our farms, so why do we  
36 have to meet the costs of the infrastructure for the  
37 community and the environment?  
38  
39 THE CHAIRMAN: It is Shirley, is it?  
40  
41 MRS PATMORE: Yes.  
42  
43 THE CHAIRMAN: Thank you very much, Shirley. The point  
44 is that when the user share is calculated that takes into  
45 account the share of the community in general, such as for  
46 environment and flood mitigation and things like that, and  
47 your share for the irrigators and the end users and so

1 that's how we get this, let's say, 72 per cent/28 per cent.  
2 What's happening there is that the community is wearing  
3 28 per cent and the users wear 72 per cent.  
4  
5 The point that was made to Daniel's comment was that  
6 within the 72 per cent, which is assigned to the users, if  
7 it is not paid for by the users then that's an additional  
8 amount picked up by the government, so that's the  
9 distinction.  
10  
11 MRS PATMORE: I would suggest that those statistics should  
12 be turned around and for the number of farmers that use the  
13 water, I think that the ratio should be 28 per cent for the  
14 users and 72 per cent for the community.  
15  
16 THE CHAIRMAN: Thank you, Shirley. Zara?  
17  
18 MS LOWIEN: Thank you. I think, sitting back and  
19 listening to the discussion, many of our views are the  
20 same, but in getting back to the core issue of valley  
21 pricing, I see it is probably consistent across all the  
22 valleys, whether you are in the Gwydir or the Namoi or the  
23 Peel, or further abroad. The issue we've had with the  
24 paperwork in the submissions we have seen so far is the  
25 detail down to the valley to justify the price that has  
26 been asked for.  
27  
28 I think we could ask for further information, whether  
29 it is the submission from the consultant coming forward,  
30 that we've really struggled to make an assessment of the  
31 services we're receiving locally and the price that people  
32 are paying and that's where the big gap is for many people  
33 and I can definitely appreciate that where you are in a  
34 valley the gap is perceived to be bigger, or otherwise, but  
35 we really found a lack of valley specific, especially when  
36 you go to groundwater that is aggregated across the inland,  
37 in the unregulated streams it just gets all lumped together  
38 for North West and I really felt that there was a challenge  
39 in working out whether or not those prices were adequate  
40 for our users.  
41  
42 On the back end of that the question is has the  
43 historical performance been such to justify the price we  
44 paid previously? I definitely feel, if you asked that  
45 question of adequacy of service or the proposed scope of  
46 activities in the past and going forward, most users would  
47 say that they haven't been satisfied and we have a list of

1 issues, whether it's implementation or two-part pricing.  
2 For us, it was a consistent underperformance on activities  
3 that they said they would do over the performance period,  
4 whether that was water sharing plan reviews or otherwise,  
5 and so it's very challenging to them to look at a price  
6 increase when our past performance has not been something  
7 that we have been happy with.

8  
9 Having said that, I will acknowledge that the  
10 Department has made significant inroads more recently into  
11 attacking some of those past tasks and activities that were  
12 not attended to, but they have a further way to go, and  
13 also with the changes in restructure I think users should  
14 be seeking for further reductions in prices as efficiencies  
15 are improved exponentially. I would really like to dig  
16 down and have IPART dig down into the past performance  
17 concept and also take that as a step forward of whether  
18 future prices are going to be adequate from that point of  
19 view, because there's considerable dissatisfaction across  
20 the user sector.

21  
22 THE CHAIRMAN: Thanks very much, Zara. Just keeping in  
23 mind DPI Water's proposal, which is not necessarily the end  
24 of the story, at the moment DPI Water's proposal is for  
25 notional revenue to go down which means overall they're  
26 planning to charge less. When we get to prices by valley  
27 and by different area there are some cases where the prices  
28 go up, there are other cases where the prices go down,  
29 but just keep in mind that in terms of the overall  
30 efficiency of the operation they're looking for less  
31 revenue, which means that they're being more efficient.  
32 That doesn't mean to say they can't be even more efficient  
33 but we just need to keep that in mind. Jon-Maree?

34  
35 MS BAKER: On that issue, I think the issue is that they're  
36 requesting less notional revenue but providing less  
37 services. Then building on Zara's point and recognising  
38 that DPI Water is moving forward under a new structure,  
39 effectively, for us, some of the questions that you've  
40 asked us are DPI Water's forecast operating costs efficient  
41 and we're premising that on the services that we have been  
42 provided and where we see their operating costs going  
43 forward.

44  
45 One of the challenges is actually looking through this  
46 pricing determination and pulling that out at a valley  
47 level and reconciling that and I think with the change in

1 cost codes that was made extremely difficult for anyone to  
2 actually reconcile and there were errors in the submission.  
3 I do take on board that DPI Water did actually try and  
4 address those concerns that we raised at the time, but it  
5 doesn't mean that you can actually sit down in the  
6 300 pages that have been presented and reconcile those  
7 costs going forward and determine is that cost efficient,  
8 because the services that are attached to each one of those  
9 notional revenue requirements need to be spelt out quite  
10 clearly so you can understand is that a necessary cost  
11 going forward.

12  
13 A point I would like to make is also that there are a  
14 number of services that were planned for and recovered but  
15 not delivered. I would hope that in the process of the  
16 consultancy that is doing that review that those services  
17 are clearly identified, because that recovery has already  
18 been undertaken and we need those services to be delivered  
19 by DPI Water as we go forward and we're expecting that we  
20 will not have a second lot of recovery for those same  
21 services.

22  
23 The other point I would actually question Nick and  
24 Gavin on is I have quite a significant concern in relation  
25 to extractive industries in CSG and mining. You predicted  
26 a significant increase in groundwater monitoring.  
27 Obviously, in our valley we have a significant impact of  
28 the potential 27 coal mines going forward. We would like  
29 to know that it is not the whole of the groundwater users  
30 that are paying for ongoing monitoring costs that are  
31 primarily driven by a change in water use, other aquifers  
32 and other subsystems that are not necessarily, on an  
33 impactor pays principle, being driven by water users in the  
34 alluvial aquifers.

35  
36 That is a question to Gavin and Nick, how are those  
37 costs actually separated out? They actually don't pay  
38 large licence fees and I am not seeing in the pricing  
39 submission where you're showing recovery. The current  
40 groundwater bores that were drilled were done under a grant  
41 from the New South Wales Government and going forward  
42 you're predicting a significant increase in costs and there  
43 is no detail about where that is going to be recovered from  
44 on an impactors pays basis.

45  
46 THE CHAIRMAN: Thank you, Jon-Maree. I will pass it over  
47 to Gavin and Nick. Would you like to identify some of the



1 services that have been paid for and not delivered?  
2  
3 MR HANLON: I think Zara had some examples of services.  
4  
5 MS LOWIEN: No, you go first.  
6  
7 MR HANLON: Thanks to both of you. John, you raised a lot  
8 of points in there and they are all relevant, so if I was  
9 an irrigator I would be asking the same questions. If  
10 you've recovered for something you haven't delivered,  
11 clearly, you should be giving the money back.  
12  
13 The other comment around efficient delivery of  
14 services with technology, with smarter ways of doing  
15 things, I am projecting that we will be able to do more  
16 with less, so whilst we have reduced our expenditure over  
17 that period, the plans we are putting together at the  
18 moment are about also how can we increase service at the  
19 same time, particularly in information provision.  
20  
21 For me information provision has been a bit light on  
22 historically and it is not about us offering an opinion but  
23 it's about making all the data we have available for people  
24 to offer their own interpretations over it and you've seen  
25 things like the recent launch of our website and  
26 government's investment in water monitoring.  
27  
28 A lot of developments have conditions around them for  
29 monitoring on their own sites that are paid directly and  
30 you don't see them reflected inside of here. What you do  
31 see reflected inside here is a desire from us, and as the  
32 Chairman pointed out, still subject to go through their  
33 process, a plan by us to actually seek further information,  
34 particularly in those groundwater systems, but where it  
35 relates to a development, generally the monitoring  
36 requirements of those things are tied up in the development  
37 applications themselves.  
38  
39 In terms of the specifics, Nick was flicking through  
40 the paper there to find out the exact numbers for you but  
41 it doesn't look like we've spotted them. Nick will keep  
42 looking for the exact numbers.  
43  
44 THE CHAIRMAN: Zara, did you want to make a comment?  
45  
46 MS LOWIEN: Yes. Peter, I think in our submission, and  
47 I believe some of the other valleys, there were some

1 examples, but for us most water users would have a feeling  
2 that the core role of DPI Water would be to implement and  
3 monitor water sharing plans and our valley through the last  
4 determination period had our regulated river water sharing  
5 plan and now our groundwater sharing plan under review and  
6 we felt that it was over the entire water sharing plan  
7 implementation period, but even heightened towards the end,  
8 that DPI Water was unprepared for that process. They did  
9 not undertake the monitoring activities that were relevant  
10 for that water sharing plan and it meant that when users  
11 went forward to go to review phase, it was really  
12 undermined by the input and the lack of preparedness by the  
13 Department.  
14  
15 Users have been paying for implementation of that  
16 water sharing plan since it was established and so for us  
17 that was a major example of how we felt whether or not the  
18 prices we were paying were relevant to the adequacy of the  
19 services we were receiving and that is a major core  
20 component of the department's role and we really felt that  
21 they had been focused on implementing other policy reforms  
22 instead of focusing on the core job during that period.  
23  
24 I suppose that is probably the most significant  
25 example, but we did feel that there are other services that  
26 were paid for that weren't received throughout the period  
27 and definitely on that unregulated issue we felt that  
28 whilst two-part tariff and other mechanisms were available,  
29 it was not promoted in a way to allow users the choice and  
30 we felt that that was potentially driven from within the  
31 department to ensure a certain level of revenue.  
32  
33 MR MADDEN: I just wanted to clarify the monitoring. Are  
34 we talking water quality, ecological, socio-economic?  
35  
36 MS LOWIEN: The whole range, from beginning to end.  
37  
38 MS BAKER: And across all water sharing plans.  
39  
40 MS LOWIEN: It will go across all water sharing plans, but  
41 most of our water sharing plans upfront had a list of  
42 objectives and users found it extremely challenging to find  
43 evidence that any of those objectives had been thoroughly  
44 monitored. That would be socio-economic at a valley scale.  
45 We see sometimes a broad-scale state based look. Water  
46 quality was very rarely done. Some aspects of the water  
47 sharing plan were not implemented. For example, our

1 valleys are now only just going through floodplain  
2 harvesting and that was something that was tipped to begin  
3 in the early days of the water sharing plan.  
4  
5 There are a number of activities that were really  
6 quite evident, when we went through that review, which we  
7 were promised that didn't happen and it was across a broad  
8 range of areas and whilst they may have focused on water  
9 delivery and understanding what was in the river, even the  
10 decision making system, the upgrading and consistent  
11 development of IQQM was not being done as we had thought  
12 throughout that period as well.  
13  
14 THE CHAIRMAN: Thank you very much, Zara, that is very  
15 important and good to have on the record. David?  
16  
17 MR DUDDY: I think it appropriate that I table these  
18 letters with you at this stage because it is along the same  
19 lines. We were talking about it not being delivered. That  
20 is a very vague letter that was put out in 2009 that none  
21 of us have any memory of receiving.  
22  
23 I also put this in front of you which is my  
24 application for a two-part tariff in November 2011 and it  
25 still has not been processed. With all of that I have to  
26 ask the question of IPART, who is policing all this? You  
27 make the determination but who polices it?  
28  
29 THE CHAIRMAN: Thank you.  
30  
31 MR EDGERTON: At the last price determination, under the  
32 determination on unregulated water sources and groundwater  
33 sources, users could elect to apply to DPI Water to opt in  
34 from a one-part tariff to a two-part tariff provided they  
35 had an appropriate water take measurement device in place.  
36 That is what the determination said.  
37  
38 In terms of monitoring, DPI Water reports to us on  
39 their compliance with the determination annually. They're  
40 also required to report any non-compliances with the  
41 determination. We also from time to time receive a number  
42 of queries from customers about their water prices and  
43 water bills. We look into those on a case by case basis.  
44 Where there appear to be any questions or potential for  
45 non-compliance with the determination, we will write to DPI  
46 and ask them to respond.  
47

1 In general terms, there is an annual reporting  
2 requirement around the determination and we also respond to  
3 any customer queries on a case by case basis.  
4  
5 MR MADDEN: This is from memory in terms of the output  
6 measures, but some of those output measures are annual and  
7 some of them are basically designed to be end of  
8 determination, so they have to target by the end of that  
9 period that they have to meet, say, 70 per cent of users in  
10 terms of entitlement as a two-part take, for example, and  
11 don't quote me on that, that's just an example.  
12  
13 Really, this determination is the place where we need  
14 to assess whether that performance measure has been met.  
15 Our consultants are going through that process at the  
16 moment and, as I said before, this is obviously one that  
17 you have flagged that we will go back and ensure that DPI  
18 has not just reported by exception but made a report  
19 directly.  
20  
21 MS BAKER: Just on that, the issue is that DPI might meet  
22 the target on that because you have water in other sources  
23 that have large catchments where they are a corporate water  
24 user and they have significant licences, but if you look at  
25 it in terms of water users, they have maybe two in the  
26 Namoi on a two-part tariff. Is that an acceptable target?  
27  
28 If you are looking in terms of volume overall across  
29 the inland, they may meet that target because they have one  
30 corporate user who is on a two-part tariff, but in terms of  
31 actual water users and individuals, they will not meet that  
32 target. Just clarifying that, in terms of setting targets  
33 you need to be careful that they are actually taking in  
34 mind that you have a broader water user base, a number of  
35 licences, not just volumetrically in terms of a licence.  
36  
37 THE CHAIRMAN: Thank you. Are there any other questions  
38 or comments from the floor at this stage?  
39  
40 MR PATMORE: Newman Patmore. We are irrigators on the  
41 Barrington River, as Shirley mentioned earlier. I just  
42 want to know if you people who are making these  
43 determinations are aware that we have totally different  
44 conditions on each side of the dividing range. I would  
45 like to know from Gavin what the costs of DPI Water are on  
46 the Barrington River and all the unregulated free-flowing  
47 rivers that run down our slopes into the sea.

1  
2 THE CHAIRMAN: I am sorry, I missed your first name.  
3  
4 MR PATMORE: Newman Patmore.  
5  
6 MR HANLON: I can give you some generalities here. I live  
7 on this side of the divide as well and work here. In terms  
8 of the way we set up the costs for our submission, you will  
9 see in the presentation there they spoke about moving from  
10 different coding systems. It implied that we were  
11 simplifying things when, in fact, there's a level of detail  
12 below those W codes that goes into much more detail. It  
13 would be easy enough for me to split out the costs from one  
14 side of the divide to the other, if that's something that's  
15 worthwhile, Mr Chairman.  
16  
17 THE CHAIRMAN: Thanks very much, Gavin. We will talk  
18 about that, yes.  
19  
20 MR PATMORE: Our annual bill is \$1,900. I don't see any  
21 evidence of any service for that at all because the water  
22 is flowing past our place. We have a small farming  
23 operation with an irrigation allocation of 440 megs. At  
24 the moment there are 1,000 megalitres a day going past our  
25 property and that frequently happens. We are on a very  
26 good water source. When we get into low flow our local  
27 water users' association, in consultation with Mid-Coast  
28 Water, organise irrigation restrictions on the river to  
29 ensure there is sufficient flow going down the river for  
30 all the other towns on the coast. It has nothing to do  
31 with DPI Water. It is done locally which is greatly to our  
32 benefit and we pay for the privilege.  
33  
34 A few years ago we paid \$546 for a five-year water  
35 irrigation licence. Since all this business of IPART  
36 getting involved in this our costs have gone over the hill  
37 and like other people in this room we are just going broke  
38 with added costs. This is a tax, a tax on food production,  
39 and it should stop. Peter, you talk about the taxpayer  
40 paying. If we all handed in our irrigation licences where  
41 would you get your money from then?  
42  
43 THE CHAIRMAN: Thank you very much, Newman. Mark?  
44  
45 MR HAMBLIN: Thank you, Mr Chairman. Talking about  
46 DPI delivering services, I am a bit reluctant, I am going back  
47 on a part of my life I would rather forget, but going back

1 to the previous determination, which for groundwater was  
2 rather a convoluted calculation, most irrigators didn't  
3 understand the invoices, myself included, and I made quite  
4 a large spreadsheet to try to work out whether I was being  
5 charged correctly.  
6  
7 I took issue with State Water. They said they only  
8 send out the bills, "Talk to the Office of Water, talk to  
9 them." They said, "We don't send out the bills, talk to  
10 State Water", this just went on.  
11  
12 I ended up contacting IPART. The staff there were  
13 very helpful. They looked at my bills and said, "Yes,  
14 you've got a case. You haven't been charged correctly."  
15 They wrote a letter to the commissioner. I was going to  
16 say that I wasn't sure if it was the minister or the  
17 commissioner. The commissioner's response was that I'd  
18 been charged correctly. It ended up going across to the  
19 minister's desk. He had advised the minister that I had  
20 been charged correctly. I actually took it to the  
21 ombudsman. The ombudsman, basically, showed I hadn't  
22 been charged correctly.  
23  
24 I had paperwork two feet high on my desk. It was  
25 three years of my life that I would rather forget, but  
26 I had an issue that I thought due process had not been  
27 followed and IPART admitted that they should never have  
28 made such a complicated determination and hopefully you  
29 have learnt from that.  
30  
31 The next determination came out and the NSW Office of  
32 Water found a new way to charge us for a meter reading.  
33 That was incorrect again, being charged for too many  
34 meters. On one property meters that didn't even exist,  
35 "You've got to talk to State Water again", and they said,  
36 "Well, we just get it from the Office of Water." It just  
37 goes to and fro. Yes, that's stuff that irrigators don't  
38 need to deal with. It is just an example of how  
39 complicated it all is, but also not actually being  
40 accountable; no-one seems to be accountable for water  
41 charges.  
42  
43 THE CHAIRMAN: Thanks very much, Mark. Yes?  
44  
45 MR MONTICONE: Good morning. I am an irrigator in the  
46 Peel Valley. My name is Ildu Monticone, and, Mr Chairman,  
47 I would like to take you back to a comment you made in

1 response to an earlier question. You said DPI is looking  
2 for less notional revenue. I guess you made that point  
3 because you wanted to make us all get a nice warm and fuzzy  
4 feeling, but in the Peel Valley that comment does not wash  
5 with us because we know that at 66 per cent cost recovery  
6 at the moment our prices are going to go up by at least  
7 another 50 per cent from where they are today. It's all  
8 very well for DPI to want less but I just wish they'd want  
9 less from the Peel Valley. Thank you.

10  
11 THE CHAIRMAN: Thank you very much, Ildu. Zara?

12  
13 MS LOWIEN: Actually, I just find it quite a profound  
14 comment in the sense that we do focus often on the state  
15 overall revenue requirement and the percentage of a user  
16 share across the state, but I think we need to strip it  
17 back to the valley because the valley impacts are quite  
18 different and I think sometimes you can distort the  
19 message, in particular, where regions are not at full cost  
20 recovery or where the notional revenue is actually maybe  
21 not decreasing as much as what it is across the other part  
22 of the state. Whilst I like the headline messages and  
23 I believe that is very good for the government, it doesn't  
24 actually reflect the situation for many at the  
25 valley specific level.

26  
27 THE CHAIRMAN: I agree, Zara, and in session 2 we are  
28 going to get into the pricing by the valley and, as  
29 I mentioned earlier, in some valleys it goes up and in  
30 other valleys it goes down: that's the proposed price.

31  
32 MS BAKER: I am just conscious of the questions that you  
33 have asked us to address and we haven't addressed the MDBA  
34 costs. Could I just suggest with regard to the MDBA  
35 submission, which I have not read in detail, that I would  
36 significantly question their assumptions in terms of  
37 increases required over time. I would probably like the  
38 opportunity to review that in more detail and provide a  
39 secondary comment to you.

40  
41 We have had very little benefit and interaction with  
42 the MDBA through the northern review and going forward  
43 we would like to ensure that any services that are delivered  
44 by them are done efficiently. In the past they haven't  
45 provided any real detail on the costings of services that  
46 they've provided, so I'm hoping that in their submission  
47 they provided some level of detail because certainly

1 I would suggest that we would support New South Wales' view  
2 on the costs going forward to the MDBA and we would like to  
3 see them reduced even further.

4  
5 As far as we're aware, any costs for the MDBA plan  
6 were to be 100 per cent paid by the federal government, so  
7 any services that are levied on water users are an  
8 additional cost and we are already struggling under the  
9 burden of existing water sharing plans and existing  
10 services, so any additional cost should be borne by the  
11 public.

12  
13 THE CHAIRMAN: Thank you, Jon-Maree. We are looking at  
14 our consultants investigating the costs of both the water  
15 sharing plans. Gavin?

16  
17 MR HANLON: Just on the MDBA corporate plans, they have  
18 drafted up a corporate plan that has forward projects for  
19 what they think the States should be coughing up. We have  
20 not accepted that. That is why our numbers are less than  
21 what the MDBA's corporate plan is. New South Wales has  
22 been driving efficiency reviews of the MDBA and the joint  
23 venture that operates these things and will continue to do  
24 so. We, quite deliberately, just did not accept the  
25 numbers in the corporate plan because, ultimately, there  
26 will be a negotiation between the states about what the  
27 final amount would be.

28  
29 THE CHAIRMAN: Thanks, Gavin. Are there any other  
30 questions or comments before we break for morning tea and  
31 then move into the pricing?

32  
33 THE CHAIRMAN: Matt?

34  
35 MR EDGERTON: I have a question for Gavin and Nick.  
36 Gavin, you mentioned before that you are working with  
37 WaterNSW to ensure there is no overlap of activities  
38 between both agencies and I think you also suggested that  
39 there might be some efficiency gains there through that  
40 process. Could you talk us through a little bit about how  
41 that is reflected in your pricing proposal.

42  
43 MR HANLON: Very briefly. So WaterNSW and ourselves are  
44 working through an exercise on how we can get much more  
45 efficient. To get to Mark Hamblin's point about getting  
46 bounced between the two corporations, how do you go  
47 through a process to make sure that there is single point

1 accountability with this sort of stuff?  
2  
3 It is very early days for us. The minister announced  
4 this work, I think two or three months ago. We have  
5 consultancies looking at questions like, if we do bring the  
6 two together, what parts, what sorts of efficiencies, what  
7 sorts of mechanisms, what sorts of IR issues will we come  
8 across? We have a bit of a way to go in that.  
9  
10 I guess the general principle here applies in our  
11 submission. I cannot remember the exact words, but we said  
12 something like we have designed it in a way so it is bolt  
13 in, bolt out. Should a service be picked up and go across  
14 to WaterNSW to deliver in totality rather than bouncing  
15 backwards so there would be single-point accountability,  
16 I think the general principle there if there is any  
17 efficiency going through that process, it gets passed on to  
18 the customer. I also mentioned the government where they  
19 are paying for their share as well.  
20  
21 MR EDGERTON: I have another question in relation to your  
22 proposal. You mentioned that it is based on an efficiency  
23 dividend of 1.5 per cent. Could you talk us through  
24 essentially how that number was derived, how you came up  
25 with that figure as opposed to a higher or lower figure?  
26  
27 MR HANLON: My background is running water corporations  
28 in Victoria, rural, bulk and urban corporations, where the  
29 regulator sets a 1 per cent productivity dividend, and  
30 I thought we could do better than that.  
31  
32 Also inside of that, you will see we have increased  
33 over the larger number for the Murray-Darling Basin  
34 contribution a larger contribution than last year, but we  
35 are saying effectively the way it is put together is that  
36 we are paying for that additional increase through  
37 efficiencies inside of it.  
38  
39 If you look at the total number there, the efficiency  
40 we are looking for is probably a little bit larger than  
41 1.5 per cent although we have not negotiated the final  
42 amount for years to come. They are judgment calls and  
43 management decisions as we go through the process.  
44  
45 Could we have made it 2 per cent? Could we have made  
46 it 0.5 per cent? I guess that is a question for the  
47 regulator.

1  
2 THE CHAIRMAN: Thanks, Gavin. John?  
3  
4 MR MADDEN: This is a question for DPI about MDBA costs,  
5 to get a bit of clarity around the process. We have talked  
6 about the total quantum, but to get back to the question  
7 about valley by valley, how do you actually share those  
8 MDBA costs amongst the different users and obviously the  
9 different valleys? I assume it is across the  
10 Murray-Darling Basin part of the system?  
11  
12 MR MILHAM: Thanks, John. The way we allocated the MDBA  
13 costs is across just the inland valleys obviously, those  
14 that are part of the Basin. The way we did it was by  
15 reviewing the MDBA program or the individual projects that  
16 are part of the MDBA joint programs. We then assigned  
17 those programs to the equivalent defined government  
18 service in New South Wales. We then applied the relevant  
19 cost share to those different programs and the costs of  
20 those programs in order to arrive at the final user share.  
21 That user share is then allocated across all the inland  
22 valleys on the basis of forecast water take.  
23  
24 MS LOWIEN: Our point is that, from reading the  
25 submission, it was very difficult to ascertain how that  
26 came about. The question I have from the Gwydir's  
27 perspective is: what are the projects that are relevant  
28 for us to incur an MDBA charge?  
29  
30 We are technically a closed system that does not have  
31 a great deal of connectivity to the rest of the  
32 Murray-Darling Basin. Any of the projects that are linked  
33 to the Murray-Darling Basin Authority are funded through  
34 their activities alone in terms of the northern review  
35 and other externally Commonwealth-funded projects. Even  
36 from our experience in the northern review through the  
37 Northern Basin Advisory Committee, DPI Water does not  
38 have an active role in participating in that, so we really  
39 question the costs and the transparency around the  
40 establishment of costs there.  
41  
42 THE CHAIRMAN: Thank you, Zara. Did you want to comment,  
43 Jon-Maree?  
44  
45 MS BAKER: Yes, thank you. John, very handily, had a copy  
46 of the letter that I glanced over. Just for the people in  
47 the audience, it relates to the Living Murray salt

1 interception, escalation of non-RMO costs. There is  
2 nothing in here that actually relates to the northern  
3 basin. You have allocated a share of that across all of  
4 the cost codes to the inland of which we are not receiving  
5 any services and benefits.

6  
7 We would actually ask for the detail of what specific  
8 services are delivered in the northern part of the system  
9 and, with those cost codes, what portion is actually  
10 allocated to us.

11  
12 MS SIDORENKO: If I can jump into this one, these are not  
13 all the MDBA costs. These are the ones that the MDBA  
14 picked up that DPI Water has not added completely. So  
15 there are other MDBA costs that have been allocated and it  
16 is up to DPI Water to comment on how that was allocated and  
17 which part of that went to Gwydir. These are the  
18 incremental costs that the MDBA wanted us to look at on top  
19 of everything else, so it is not just the salinity  
20 interception.

21  
22 MS BAKER: I will politely suggest that there will be very  
23 minimal costs and we would like it accounted for.

24  
25 MR MADDEN: We understand the principle.

26  
27 THE CHAIRMAN: Thank you. Yes, Nick?

28  
29 MR MILHAM: The principle of the allocation of the costs  
30 is that we needed a valley-wide basis for cost allocation.  
31 The other principle is that whatever happens in the top of  
32 the valley also affects the bottom of the valley, so while  
33 individual projects may not be happening in particular  
34 valleys, the projects that we are talking about in relation  
35 to the Murray-Darling Basin joint programs are designed to  
36 deal with effects of the extractive use right across the  
37 basin in New South Wales.

38  
39 THE CHAIRMAN: Thank you, Nick. Are there any other  
40 questions or comments before we break for morning tea? No?  
41 Let's break now and say we can resume at 11.45. Thank you.

42  
43 SHORT ADJOURNMENT

44  
45 THE CHAIRMAN: Welcome back to the public hearing for  
46 IPART's review of prices for DPI Water. For those who were  
47 not present at this morning's session. My name is

1 Peter Boxall. I am Chair of the Independent Pricing and  
2 Regulatory Tribunal and I am joined today by my fellow  
3 tribunal member, Catherine Jones.

4  
5 In the first session, we discussed, amongst other  
6 things, DPI Water's expenditure to provide its water  
7 management services and the user share of costs. We will  
8 now consider DPI's proposed prices and price structures.

9  
10 Similar to the first session today, IPART's  
11 secretariat will give a brief introduction before we open  
12 discussion, so I will ask Alexandra to give a brief  
13 introduction.

14  
15 SESSION 2: WATER MANAGEMENT PRICES AND PRICE  
16 STRUCTURES

17 MS SIDORENKO: Thank you, Peter. We will be talking  
18 about the price levels and structures in this session. Just to  
19 recap that previous session that we had about building  
20 blocks and determining the notional revenue requirement, to  
21 give you an actual understanding of how we price by valley,  
22 we calculate the notional revenue requirement. DPI Water  
23 proposes the notional revenue requirement and we will  
24 confirm what are the efficient costs and the capital  
25 expenditure programs to give return on and of.

26  
27 Once we establish that number, we will allocate the  
28 user share and then we will divide this user share across  
29 water sources and valleys.

30  
31 DPI Water has this cost allocation model which we will  
32 be also reviewing and verifying, which exactly answers the  
33 questions of how those costs are attributed to the Gwydir,  
34 the Namoi or the Peel Valley. There are these cost drivers  
35 that are underlying the cost allocation model. Based on  
36 these cost drivers, a valley and water source ends up with  
37 the proportion of notional revenue requirement that will  
38 have to be recovered from this particular water source and  
39 valley.

40  
41 Then, we apply a price structure. We will have an  
42 estimate of how many customers will be on a minimum bill,  
43 how many customers will be on a one-part tariff and on  
44 two-part tariffs. We will have this price structure  
45 embedded to determine the prices. I will talk about  
46 structures a bit later, but this is the 70:30 fixed to  
47 variable split that we will be using for the two-part

1 tariff.  
2  
3 Then we look at actual entitlement volumes in this  
4 water source and the water use or water take by water  
5 source. For a given cost to be recovered, obviously the  
6 higher the number you divide by, the lower number you get.  
7 In these proposed prices we have lower water take forecasts  
8 than in the previous determination and we are about to see  
9 a higher per megalitre water take price. The actual level  
10 of price will depend on the current level of cost recovery  
11 and all this managed glide path that has been proposed, so  
12 prices may not go as high as the full cost recovery level  
13 would require.

14  
15 In summary, what we observe in the DPI Water proposal  
16 is an increase that is pretty much across the board in the  
17 water take price, which is a variable price per megalitre  
18 of water taken. Partially that is an outcome of our prior  
19 pricing approach in the 2011 determination where the  
20 decision was made about the level of forecast for water  
21 take in unregulated sources and groundwater to have  
22 forecast usage equal to entitlement. That gave a lower per  
23 megalitre variable price.

24  
25 This time around, DPI Water has forecasts for over  
26 longer periods of time and there was better forecast data  
27 available on water take. Based on this number, the  
28 forecast water take will be significantly lower than the  
29 entitlement. The outcome of that forecast basis is a  
30 significantly higher increase, per megalitre, in water take  
31 prices.

32  
33 The entitlement prices are largely going down for  
34 unregulated rivers and groundwater. That is proposed to be  
35 managing the customer input by looking at the average bill  
36 for an average licence and having no change imposed to the  
37 value of this average bill for the first year of the price  
38 change. Then there is the glide path of 2.5 per cent in  
39 price levels per year.

40  
41 After that high level exposition, we can now look by  
42 water source. Basically for regulated rivers, there is an  
43 increase in both the entitlement charge and variable water  
44 take charge in the majority of sources. So in eight out of  
45 11 sources overall in 11 valleys, the price goes up,  
46 somewhat and in nine out of 11, the water take charge goes  
47 up as well in price.

1  
2 For unregulated streams, we have a kind of  
3 re-balancing. It is not re-balancing of tariffs per se, but  
4 it is the outcome of these different forecast values used.  
5 So one-part entitlement price goes down in most of the  
6 regions - in the valleys - and the water take price goes up  
7 in pretty much most of the regions. I will show you the  
8 tables with specific prices, but this is just a summary of  
9 the change. In summary, the entitlement price for unreg  
10 goes down and the water take price goes up.  
11  
12 With groundwater, it depends on where we are, but the  
13 water take price again goes up significantly and the  
14 entitlement price goes down to keep that average bill  
15 unaffected. That is a large proposed change.  
16  
17 Before going to the prices themselves, this slide  
18 shows the contributing factors that explain this change  
19 together or separately. We have not identified the factor,  
20 but there are a number of factors that can explain the  
21 proposed change.  
22  
23 First, we do observe the notional revenue requirement  
24 goes down, so the total amount should be less. The  
25 reallocation of costs across water sources means that there  
26 are changes from what was in the 2011 determination  
27 compared with what is in the new determination. That is an  
28 outcome of these new cost codes and also the new cost  
29 allocation formula - so new cost drivers. These variables  
30 that actually drive the costs in each water source have  
31 changed from the past determination.  
32  
33 Previously entitlement in a valley and water source  
34 was used to allocate costs. If a valley had, roughly,  
35 30 per cent of entitlement for regulated rivers, this  
36 valley was allocated 30 per cent of the regulated river's  
37 costs, and entitlements were driving a good chunk of the  
38 total cost. Now entitlements have been replaced by water  
39 take as a cost driver. That should reflect better the kind  
40 of impactors and/or beneficiaries, because whoever is able  
41 to draw water and use water is getting more costs allocated  
42 to that particular valley and water source.  
43  
44 This switch from entitlement to water take as the new  
45 cost driver seems to be a big explanatory factor between  
46 the reallocation of costs, for example, to regulated rivers  
47 that we observed in the first diagram in the first session.

1 So unregulated rivers and groundwater costs, we have  
2 reallocated effectively because of the change in cost  
3 drivers.  
4  
5 Then again there is a change with the kind of value of  
6 this forecast water take, which has definitely changed  
7 between the current determination and the next  
8 determination. If the actual water take is low, if water  
9 is not available and has not been available in a valley,  
10 that valley will get less costs allocated to it as a  
11 result.  
12  
13 Another explanatory factor is the adjustments to  
14 manage customer impacts for an average licence. Then again  
15 there is a proposed change to the minimum annual charge  
16 that shifted the composition of revenue, as I will explain  
17 a bit later.  
18  
19 Another factor is the current level of cost recovery  
20 by water source and valley. The valley that is below cost  
21 recovery prices will have to go up even if the total  
22 revenue allocated to this valley may go down.  
23  
24 This slide shows the prices. This is regulated  
25 rivers, two-part tariffs. The left block is the fixed  
26 price, entitlement price, and the right block is the  
27 variable or water take price per megalitre of water taken.  
28  
29 The first column is current - 2015-16. Then the next  
30 column is the proposed price in 2019 in four years and the  
31 percentage change. I can draw to your attention that in  
32 the northern valleys you do have an increase. The highest  
33 increase in entitlement here was for the Gwydir and the  
34 highest increase in usage of the water take price is for  
35 Peel, in this group.  
36  
37 MR LOWIEN: Is there any relevancy to the pink?  
38  
39 MS SIDORENKO: Pink means negative. That is where  
40 decreases happen and the green is where increases happen.  
41  
42 There was a decrease in the Macquarie and Lachlan  
43 valleys, also in the North Coast and South Coast somewhat,  
44 in the entitlement charge. That is accompanied by a  
45 decrease in Macquarie's and Lachlan's usage price but an  
46 increase in the water take price, say, in the North Coast.  
47 For example, the North Coast has a 19.7 per cent reduction in

1 fixed prices over these four years and a 19.9 per cent increase in  
2 water take price over the same period, compared with 19.7 per  
3 cent in the Peel over the same period in the water take price.  
4  
5 For unregulated rivers --  
6  
7 MS BAKER: Can you just explain that the two-part take  
8 price is actually driven by the forecast, so what is the  
9 relevance of how the forecast impacts on the two-part water  
10 take price - the forecast water availability?  
11  
12 MS SIDORENKO: First, this is still DPI Water's proposal  
13 which we have not remodelled yet fully. The regulated  
14 rivers will not be impacted by changes in forecasts as much  
15 as unregulated and groundwater. In 2011, the determination  
16 did have 20-year forecasts for regulated rivers, so that  
17 would not be driven on the basis of change to forecast.  
18 This is our guess, so it is our current thinking but we  
19 have to confirm it. I think this is the outcome of the  
20 changes to cost drivers and the cost allocation model.  
21 More use has happened and water take has occurred in  
22 regulated sources in the valley compared with other water  
23 sources, and there would have been some other activities  
24 that would be allocated to regulated sources - that would  
25 not be driven by forecasts.  
26  
27 However, unregulated sources and groundwater would be  
28 impacted by the proposed change in the level of the  
29 forecast use.  
30  
31 We can see here that in six out of eight regions,  
32 I probably should point out there is a proposed  
33 consolidation of valleys, so the four northern  
34 unreg zones are consolidated into North West, so that would be  
35 the Border, Gwydir, Namoi and Peel, then Central West is  
36 Lachlan and Macquarie and the rest are just as they were on  
37 the valley basis.  
38  
39 In the North West there was a reduction in the one-part  
40 tariff, so someone on a one-part tariff is looking at  
41 11 per cent reduction per megalitre of entitlement, but  
42 someone on a two-part tariff is looking at 38 per cent  
43 reduction in entitlement charge or price, entitlement  
44 price, per megalitre entitlement, and 54 per cent proposed  
45 increase in the water take price over the four years.  
46  
47 For Central West we have a reduction in entitlement



1 prices and increase in water take prices. We have major  
2 swings in prices in the Murray and Murrumbidgee, so as a  
3 general tendency entitlement price goes down, offset by  
4 significant increases in the per megalitre usage price or water  
5 take price, but these prices were derived so that the  
6 average licence, someone who has median entitlement and  
7 water take would be indifferent.

8  
9 In fact, we know that DPI Water put together a tariff  
10 calculator on its website. I am not sure how many of you  
11 actually went and checked it but you can put in what valley  
12 you are in and what kind of tariff you are on and verify  
13 for yourself what the impact of these proposed prices would  
14 be on your particular licence.

15  
16 We recognise that while this customer impact is  
17 mitigated for an average licence, if you're not average,  
18 say if you're a larger user, obviously there will be  
19 impacts from this pricing decision.

20  
21 For groundwater prices there was a proposed reduction  
22 in two-part tariffs, so the entitlement charge goes down,  
23 the entitlement price. The more significant reduction in  
24 entitlement price is in coastal valleys, but then again it  
25 is offset by a large increase in the per megalitre usage  
26 water take price.

27  
28 I think I touched on briefly that in terms of managing  
29 customer impacts, DPI Water proposed to keep a bill for  
30 typical licences unchanged, moving from 2015-16 to 2016-17,  
31 and that is based on the median entitlement share and  
32 average water take.

33  
34 Then after this jump in prices there was a glide path,  
35 so the annual increase from 2016-17 onwards is capped at  
36 2.5 per cent increase for valleys that are below full cost  
37 recovery, because some valleys and water sources may  
38 already be at cost recovery, so there will be a constant  
39 price in real terms for these valleys over the proposed  
40 period.

41  
42 We have received your comments and concerns on the  
43 cumulative effect of price increases, especially for  
44 regulated rivers, and we would like to hear more about that  
45 today and obviously we will be doing our own analysis to  
46 verify the customer impacts and assess the effects.

47

1 Just going briefly to what was underlying these  
2 proposed prices, there was no proposed change to the  
3 existing 70:30 fixed to variable split in two-part tariffs.  
4 In two-part tariffs 70 per cent of revenue is collected  
5 through entitlement charges and 30 per cent is recovered  
6 through the water take or usage component. This is in all  
7 valleys except for North Coast regulated rivers and this  
8 valley is still on 92 percent fixed, 8 per cent variable  
9 ratio.

10  
11 We received, probably in general, direct support for  
12 the existing fixed to variable ratio for two-part tariffs.  
13 Smaller users would like to have a higher variable charge  
14 or the usage component to reflect their actual use and we  
15 have already heard supporting statements in this meeting  
16 today as well.

17  
18 In terms of geographic split, the only change was  
19 consolidation into the North West and Central West in unreg  
20 sources, but going back to the 2011 determination these  
21 four valleys in the north and two valleys lower down were  
22 already priced at the same price level, so even though it  
23 appears to be a change in geographic split, effectively,  
24 that is not a novelty in this proposal, so pretty much it's  
25 business as usual compared to the last determination.

26  
27 We received stakeholders' comments generally  
28 supporting the proposed geographic split of prices.  
29 However, we did hear from, in particular, Peel Valley users  
30 that probably more uniform distribution of costs would be  
31 more appropriate, but again, we have looked at cost  
32 reflective prices and if the costs are allocated to a valley  
33 end source for a valid reason, reflecting the cost of  
34 provision of the services, then uniform pricing would be  
35 cross-subsidies, with some valley users cross-subsidising  
36 others, but we are open to hearing more about this today.

37  
38 Another component of the pricing proposal is the  
39 minimum annual charges or the minimum bill. DPI Water has  
40 proposed to increase this minimum annual charge  
41 substantially. It is \$105 going to \$150 in current prices,  
42 2015-16, and then capped at \$150 in real terms. In the  
43 proposal, DPI Water mentions that the actual cost of  
44 administering this minimum licence is more in the vicinity  
45 of \$235, so the proposed \$150 seems to be below what is the  
46 licence specific cost for the minimum bill.

47

1 What this change in nominal terms means is that there  
2 will be a substantial increase in head count of licences on  
3 this minimum annual charge, so it will go from 15,000 last  
4 year to 21,000 in 2016-17, so almost 60 per cent of  
5 licences with this proposed minimum charge will end up in  
6 the minimum annual charge category. The share of revenue  
7 collected from the minimum charges is also proposed to  
8 increase from 4 per cent to 7 per cent.  
9  
10 We have not received comments from individual  
11 irrigators on the minimum charge. We have received  
12 comments from irrigation organisations and we understand  
13 that smaller water users may have also their views on the  
14 appropriateness of minimum charges, so please give us these  
15 views.  
16  
17 That is just a diagram that plots together the minimum  
18 bill customers as allowed for in the 2011 determination and  
19 you can see that there was this big gap between what was  
20 actually charged for minimum bill customers and what we put  
21 in the model for. Personally, I understand that these are  
22 domestic and stock licence holders that were not billed in  
23 the prior determination but DPI Water proposes to start  
24 charging these licences. Most of them will be a minimum  
25 bill from the new determination period.  
26  
27 That brings us to questions for session 2. We would  
28 like to have your comments on whether you think that the  
29 proposed water take and entitlement prices are reasonable  
30 and whether you can give us your comments on the proposed  
31 fixed to variable split 70:30, the geographic split by  
32 water source and valley, the increase to minimum bills and  
33 other proposed measures to manage customer impacts,  
34 for example, the glide path. Thank you.  
35  
36 THE CHAIRMAN: Thank you very much, Alexandra. Are there  
37 any comments or questions around the table? Who would like  
38 to go first? Jon-Maree?  
39  
40 MS BAKER: One of the challenges that we actually faced in  
41 looking at the charges - and we did discuss it over the  
42 break with DPI Water - is that the level of detail at a  
43 valley level is not available for us to review until after  
44 the determination is actually made. We actually see that  
45 the reconciliation between services and costs attributed to  
46 all of the different cost codes are relevant in terms of  
47 what you've just presented in terms of the pricing, that

1 that's actually not available at this time and we think  
2 that we've actually missed an opportunity for us to provide  
3 some feedback.  
4  
5 I am not necessarily saying that every water user  
6 would want that level of detail, but I think it should be  
7 available on request prior to this step and by actually  
8 holding it back, we are not able to give you a level of  
9 detailed feedback that actually provides some useful  
10 comment.  
11  
12 We also discussed that given that you are directing  
13 your reviewers to go back and assess and request  
14 information from DPI Water, that there is also a missed  
15 opportunity for them to incorporate our feedback on issues  
16 that we have experienced over the pricing determination for  
17 them to request information from DPI Water. That is a  
18 general comment.  
19  
20 Could I ask a question of DPI Water. I am quite  
21 concerned about the increase in costs from a groundwater  
22 perspective and I couldn't see any reconciliation with  
23 respect to what the changes are in terms of what would be  
24 driving that cost increase in groundwater and I was  
25 wondering if you could elaborate on what those changes  
26 might be.  
27  
28 THE CHAIRMAN: Gavin or Nick?  
29  
30 MR HANLON: Yes. I will provide a general comment but  
31 detailed stuff we can take on notice and go back. If we  
32 look at the groundwater sources and the one path and we  
33 look at average bills in the inland, it is an increase of  
34 \$47. That is an entitlement with a midpoint of about  
35 188 megs. It is primarily driven by capital. We did  
36 propose and you have seen in the earlier presentations that  
37 we were proposing increasing capital expenditure around  
38 refurbishing old bores. Detailed specifics I am happy to  
39 take on board. Nick, did you want to comment?  
40  
41 MR MILHAM: No, thank you.  
42  
43 THE CHAIRMAN: Thanks, Gavin. Zara?  
44  
45 MS LOWIEN: Could I follow on from that in terms of the  
46 groundwater and the capital? One of the questions we had  
47 for DPI Water or IPART is the rate of return that is

1 getting leveraged from that capital, whether it is existing  
2 assets and future assets, and we have a real in-principle  
3 issue with a State Government organisation generating a  
4 return on investment equivalent to the commercial market.  
5 That is a big issue for us and I'd like that to be looked  
6 at further, if we could, whether you want to respond or  
7 not.

8  
9 MR MADDEN: Yes. We apply a weighted average cost of  
10 capital to capital that is held by different utilities and  
11 that is actually applied equally at a point of time in each  
12 review looking forward. The issue here is really one of  
13 principle when we're looking at monopoly services, which is  
14 trying to replicate what a private provider would actually  
15 have to incur to provide those services. That is why we  
16 actually have a return on capital. Is there any more  
17 comment on that?

18  
19 THE CHAIRMAN: Zara?

20  
21 MS LOWIEN: I do appreciate that you do try and simulate  
22 that this organisation is a commercial entity and what they  
23 may pay, but the reality is it is a state organisation,  
24 backed by the State Government, and a rate of return or a  
25 WACC of 4.6 is well and above what we would consider  
26 reasonable, if you even accept the "in principle" that it  
27 should apply.

28  
29 I think it needs to be something that is looked at and  
30 I think it's something that users are having to generate an  
31 income off something which is a state or a general benefit  
32 to a broader population. We really do have issues in  
33 ratifying the requirement of that.

34  
35 THE CHAIRMAN: Thanks, Zara. Just on the principle, the  
36 principle is that this is capital that the New South Wales  
37 taxpayers have made available or are making available to  
38 DPI to provide a service to users, about 72 per cent, and  
39 other environmental and other flood mitigation benefits for  
40 the rest of the community and all are state utilities, such  
41 as Sydney Water and Hunter Water which are also  
42 state backed utilities. We do apply a rate of return to  
43 the assets employed.

44  
45 In terms of the level, over the past two years or so  
46 we did a major review of the methodology for calculating  
47 WACC, the weighted average cost of capital, and we apply

1 that methodology to all utilities, but of course we do  
2 welcome further comments on this and other issues. Zara?

3  
4 MS LOWIEN: Another area where we looked at the building  
5 blocks for individual prices was the forecasting and the  
6 impact of that. I think it would be remiss of me not to  
7 outline the challenges in forecasting water take in a  
8 dynamic region such as the north and we have seen  
9 significant over-recovery against forecasting in the past  
10 and we are probably going into a different water  
11 availability sequence going forward and that has impacts,  
12 we believe, on the water take price.

13  
14 I think whilst a 20-year rolling average may be a good  
15 system for elsewhere in the state, we significantly  
16 question its implications and its application in the north  
17 and in the Gwydir in particular.

18  
19 MR HANLON: Have you recommended another way in your  
20 submission?

21  
22 MS LOWIEN: No, but I think it said to work together on a  
23 forecasting system for the north.

24  
25 MR HANLON: I am happy to do that.

26  
27 MS LOWIEN: I think it has to be a constant reflection of  
28 how different the systems are here and I will raise the  
29 implication across reg, unreg and then groundwater.  
30 Obviously when there is higher regulated water use or  
31 higher regulated water availability, our groundwater use  
32 drops and it was very difficult for us in the current  
33 submission to unpick whether that relationship is being  
34 reflected in the water take pricing and the forecasting in  
35 the inland groundwater system. We know how our systems  
36 respond and how they seasonally change depending on water  
37 availability.

38  
39 Unfortunately, we can't predict when it is going to  
40 rain, otherwise I would be worth a lot more money, but the  
41 reality is we know there are certain relationships and it  
42 is unclear to us whether that is getting picked up in the  
43 current determination.

44  
45 MR MILHAM: Just in relation to the specific issue of  
46 whether or not that inverse relationship between the use of  
47 groundwater and alternative water sources has been taken

1 account of, it has. As Gavin said, whether we can actually  
2 improve those forecasts is an open question and the agency,  
3 I'm sure, as Gavin said, would be happy to work with  
4 organisations in the north to seek to improve those  
5 water take forecasts.

6  
7 MR HANLON: Just as a general comment, this is one of the  
8 hardest parts of putting together a proposal: trying to  
9 forecast what the usage might be. You can take long-term  
10 views, you can take a risk profile and try and work out  
11 your tolerance to risk over some sort of curve and say in  
12 80 per cent of years we could expect X, but it still  
13 assumes that the past is some sort of indicator of the  
14 future with climate, and certainly in the southern systems  
15 that's not holding; in the northern systems it's probably  
16 starting to hold as well.

17  
18 We are happy to work with anyone to see what sort of  
19 tolerance to risk we are prepared to take. On picking a  
20 number, you could see why you'd want it higher, what it  
21 does to prices and what it does below, and so I'm happy to  
22 work on another way if there is one.

23  
24 THE CHAIRMAN: Thanks very much, Gavin. Anybody else  
25 around the table? Tom?

26  
27 MR WOOLASTON: Thank you. This is a part that hits home  
28 with Peel. Are DPI Water proposed water take and  
29 entitlement prices reasonable? No. Should we maintain  
30 water source and valley-based pricing? No. Is DPI Water's  
31 proposed increase to the minimum charge cost reflective and  
32 reasonable? No.

33  
34 Could I give you an example before I go further? I am  
35 on the lower part of the Peel and a lot of the water I use  
36 is actually unregulated water. This water often generates  
37 in the Cockburn and, look, my figures are only going to be  
38 rough but probably in the vicinity of \$6 a megalitre is the  
39 cost. As soon as that flows into the Peel that same water  
40 is \$60 a megalitre. I've got to pay \$60 a megalitre as  
41 against \$6 a megalitre where it originated from.

42  
43 When it flows into the Namoi, it drops back - you will  
44 have to correct me John - to around \$20 a megalitre, or  
45 something like that; it's significantly less. It's \$40, is  
46 it? Okay. It just depends how you put the figures  
47 together in a lot of the cases, but it is significantly

1 less.

2  
3 Our entitlement charge is actually five times higher  
4 than what is stipulated there because we're only allowed to  
5 irrigate or pump roughly one-fifth of our entitlement,  
6 therefore, the entitlement charge is actually five times what is  
7 written down there. If we were allowed to take the full  
8 entitlement and our costs spread over the full entitlement,  
9 everything would be quite reasonable I think in the Peel,  
10 but we are not, we are only allowed to take one-fifth, and  
11 that puts our costs up to quite unreasonable prices and we  
12 really can't afford them.

13  
14 The question I suppose is why isn't the environmental  
15 water charged at the same rate as we are and why are we  
16 expected to pay 100 per cent of the water in the Peel when  
17 we only use 5 per cent?

18  
19 MR MADDEN: I will just comment on the environment and  
20 the charge for that and DPI might want to add something.

21  
22 There are two broad types of environmental water,  
23 and there is more of purchased entitlement used for  
24 environmental purposes in some valleys than others, but  
25 that is levied at the same charge, so if they hold a  
26 general security or a high security entitlement, they are  
27 actually levied at the same charge as irrigators. With  
28 other entitlement water, such as in the Gwydir, I think  
29 there is an environmental contingency allowance. I am not  
30 so sure.

31  
32 MR EDGERTON: Tom, just to respond to the other element of  
33 your comment - which I think gets to the question of why  
34 are charges structured so there is a fixed per entitlement  
35 amount and also a usage component - it seems you might be  
36 arguing for a higher usage component.

37  
38 MR WOOLASTON: No, definitely not.

39  
40 MR EDGERTON: You mentioned you should not pay when  
41 water is not available to be extracted.

42  
43 MR WOOLASTON: Did I?

44  
45 MR EDGERTON: I thought you were making the point that,  
46 in some instances, you are still paying even though the water  
47 is just not there.

1  
2 MR WOOLASTON: No, my comment was that, in our  
3 entitlement charge, we are paying five times what it actually is  
4 because we are only allowed to pump one-fifth of our  
5 entitlement.

6  
7 MR HANLON: We have punched the numbers into what it  
8 means for different customers, we will take your comments on  
9 board and there are a few things for us to consider there.

10 Just as an example, if I look at the Peel, and I will do a  
11 one-part tariff given the comments earlier, if your  
12 entitlement was about 65 megs, your bill over the  
13 regulatory period we are forecasting would decrease by  
14 about \$37.

15  
16 MR MILHAM: Unregulated.

17  
18 MR HANLON: Unregulated streams I should say, so I will  
19 get that one right too, thanks. If we go to unregulated,  
20 with the two-part tariff, the bill will actually decrease.  
21 If you have 65 megs and you have a 40 per cent allocation  
22 or your usage is 40 per cent, your bill drops by about \$70.

23  
24 MR WOOLASTON: My comments were on regulated.

25  
26 MR HANLON: Right, let's go to regulated. It is a  
27 different story. On the regulated water sources on the  
28 Peel, the median entitlement is about 120 megs. Average  
29 usage last year was about 24 per cent. The bill over the  
30 whole four years goes up by \$29.

31  
32 MR WOOLASTON: What you must do is take it as a group.  
33 Our licence is for about 30,000 megs. You are talking  
34 about individual ones, but we have to look at this as a  
35 group. The entitlement is 30,000 megs, yet we are only  
36 entitled, on an average annual usage, to use 6,000 or  
37 something like that, which is roughly one-fifth. The  
38 charges will be five times what is written down there as a  
39 group.

40  
41 MR HANLON: I guess one of the challenges for us is to  
42 work out customer impacts and that is why we go to median  
43 customers and look at historic use. You are quite right.  
44 Last year's average use was 24 per cent - about a quarter;  
45 I think that is what it was - median entitlement. The  
46 mid-point is about 120 there, so that is the number that  
47 ends up.

1  
2 If you want us to look at the whole system and the  
3 price impacts, I guess some of these comments have been  
4 made earlier by your colleagues around the table here about  
5 looking at the detailed information available on a  
6 valley-by-valley basis.

7  
8 MR WOOLASTON: On one quarter, we have actually blown  
9 our average annual usage - on one quarter. That means last  
10 year, in a drought year, we used more water than we were  
11 actually allowed to on an average.

12  
13 MR HANLON: I don't know if I want to know that, but what  
14 it is saying here is that the average used last year was  
15 24 per cent of entitlement, so that's what it is. Thanks.

16  
17 THE CHAIRMAN: Are there other comments or questions  
18 around the table? Jon-Maree?

19  
20 MS BAKER: Thank you. In terms of the unregulated  
21 charges, given that you are changing the water take  
22 measurement strategy, how are you actually plugging that in  
23 and out? In particular we are hoping there will be an  
24 increase in two-part tariff uptake in the next  
25 determination period, because I have about 20 of them  
26 sitting on my desk waiting for the water take measurement  
27 strategy to be finalised. There are also some substantial  
28 licences in the Namoi that are not forecast for the  
29 two-part tariff that will have a significant impact on the  
30 income numbers that have been presented. So just an update  
31 on that needs to probably be taken into account.

32  
33 THE CHAIRMAN: Gavin?

34  
35 MR HANLON: On the water take measurement strategy, it is  
36 still a draft. We still have a bit more work to do. It  
37 still has to be adopted by government, so it would be a  
38 little bit premature for us to incorporate it into here.  
39 However, if it was material enough and changed things,  
40 I think my feeling at the moment is that it would be a  
41 benefit to customers. I am not familiar enough with the  
42 IPART rules about how we pass those benefits on, but  
43 I think it is a general principle that those benefits would  
44 get passed on at some point.

45  
46 With regards to the forecasting and uptake of two-part  
47 tariffs we certainly discussed that and I'll hand over to

1 Nick.  
2  
3 MR MILHAM: Yes, we spent a bit of time and effort, in  
4 actual fact, trying to figure out how we might take account  
5 of an increased uptake of two-part tariffs. In the end  
6 because of the uncertainty of the rollout of the water take  
7 measurement strategy across the state, we decided that any  
8 sort of estimate that we tried to put in to our pricing  
9 models would be very speculative, so we decided not to do  
10 it.  
11  
12 As Gavin intimated, what that means is that if there  
13 is increased uptake of water take measurement and movement  
14 to two-part tariffs, which is indeed what we would desire to  
15 happen, DPI Water is actually wearing the risk of that  
16 because a movement to a two-part tariff does expose us to  
17 revenue risk.  
18  
19 THE CHAIRMAN: Thank you, Nick. Mark?  
20  
21 MR HAMBLIN: Thank you. Looking at the proposed  
22 groundwater charges there, for the two-part tariff, there  
23 is a 58 per cent in the inland increase on the usage.  
24 First off, I am a bit curious as to what would be your  
25 typical bill. You seem to be using this scenario of a  
26 typical bill. I don't know what a typical bill looks like,  
27 but I am just looking at this as an irrigator who does  
28 purchase a substantial amount of temporary water. I think  
29 my usage will probably go up by maybe 80 per cent, I don't  
30 know. It just seems that people who are not utilising the  
31 water will not be paying as much, but I guess that  
32 discourages them from ever selling it. If mine is a  
33 typical bill, it will increase by a large amount.  
34  
35 THE CHAIRMAN: Thank you, Mark. Are there any questions  
36 or comments from the floor? Ildu?  
37  
38 MR MONTICONE: Mr Chairman, I seek permission to table,  
39 these figures before you. I must say they are tabled with  
40 some frustration because at every previous IPART hearing we  
41 have tabled something similar. The fact is that the prices  
42 that you are quoting in the Peel Valley are not the prices  
43 the Peel Valley will actually pay.  
44  
45 As Tom Woolaston was explaining, we pay charges on  
46 31,000 megalitres of entitlement, however we can only  
47 access 6,100. We have to pay the fees on that full 31,000.

1 Instead of your figure of \$3.64, we are actually paying an  
2 effective entitlement charge of \$18.50. I would like to  
3 ask the IPART panel whether you accept that as a fact or  
4 not.  
5  
6 MR EDGERTON: In general terms our position is to set  
7 prices - our starting point is to set prices that reflect  
8 costs and the costs that DPI Water incurs in undertaking  
9 its water management activities.  
10  
11 In the first instance, this might be something  
12 DPI Water might want to speak to. They have put forward a  
13 proposal where prices are largely based on entitlement  
14 volumes. That suggests that their costs of delivering  
15 water management activities are likely determined by  
16 entitlement volumes in particular water sources.  
17  
18 MR MONTICONE: We accept that, but we are paying charges  
19 on 31,000 megalitres while we can only access 6,100. That  
20 automatically drives the effective price up from \$3.64 to  
21 \$18.50. Is that correct? Do you accept that or is that  
22 wrong?  
23  
24 MR EDGERTON: That is something we can certainly take on  
25 board and look at. In the first instance, though, I think  
26 we would be interested in hearing DPI's response to the  
27 difference between your entitlement volume on paper, which  
28 is what prices are based on, and where their position is -  
29 that is what drives costs - versus what you are saying is  
30 your effective entitlement amount.  
31  
32 MR HANLON: I can certainly understand where you are  
33 coming from and hear what you are saying. The way we have  
34 tried to look at it is to come back from the actual bill  
35 itself - so the total water available versus what your  
36 allocation might be. The way we have looked at it is to  
37 look at what the costs are in total.  
38  
39 The example I gave before was an example of what would  
40 happen to a bill with only 24 per cent of usage, which is  
41 about a quarter. We don't just times that number by X,  
42 because next year the allocation could be much higher, so  
43 we try to keep it related back to the bill where we can.  
44  
45 MR MONTICONE: But you don't take into account the fact  
46 that the effective entitlement charge is much higher. That  
47 is the point we have tried to make at successive IPART

1 hearings and we have never been able to get the message  
2 accepted and we don't know why.  
3  
4 THE CHAIRMAN: The issue is that the price is set based on  
5 entitlement and it is distributed according to entitlement.  
6 What you are saying is that the price should be set on some  
7 effective entitlement or some average usage. You are  
8 claiming, and Tom is claiming, that you get to use about  
9 one-fifth of your entitlement.  
10  
11 MR WOOLASTON: Just give us the 100 per cent entitlement  
12 and we would be happy.  
13  
14 THE CHAIRMAN: The point is that you are saying that you  
15 get to use about one-fifth of the entitlement.  
16  
17 MR MONTICONE: We are limited by the water sharing plan.  
18 We couldn't use more if we wanted. We are limited by the  
19 water sharing plan.  
20  
21 THE CHAIRMAN: The point you are making is that the price  
22 should not be based on entitlement in the Peel Valley, and  
23 possibly elsewhere, but in the Peel Valley price should not  
24 be based on entitlement, it should be based on some notion  
25 of effective entitlement. We hear that. We hear it and --  
26  
27 MR MONTICONE: Well, we are paying it. We feel it.  
28  
29 THE CHAIRMAN: We hear it and we will take that on board,  
30 thank you.  
31  
32 MR MONTICONE: Can I ask a couple of other questions in  
33 regards to the figures on that page?  
34  
35 THE CHAIRMAN: Sure.  
36  
37 MR MONTICONE: The top section is the prices for water in  
38 the Murray-Darling Basin. My question to the panel is: In  
39 the current review of DPI Water's proposed prices, is it  
40 part of IPART's role to ensure that the prices are fair and  
41 equitable or not?  
42  
43 THE CHAIRMAN: Yes.  
44  
45 MR MONTICONE: So do you think it's fair and equitable  
46 that the Peel is paying, on those figures, \$10.20 when  
47 another valley is paying \$2.22? Is that fair and

1 equitable?  
2  
3 THE CHAIRMAN: It depends on what the cost is of  
4 delivering that and it depends on the relevant costs. This  
5 is a proposal by DPI. This is not IPART's decision. We  
6 will be reviewing this proposal both for the total costs of  
7 DPI and the way those costs are allocated across the  
8 valleys and we will be taking on board your comments.  
9  
10 MR MONTICONE: Okay, thank you. The final question, for  
11 the moment anyway, is in regard to valley-based pricing.  
12 It is a fact that irrigators on the council in the Peel  
13 Valley use 5 per cent of the long-term average annual  
14 end-of-stream flow. The balance - 95 per cent - runs out  
15 of the Peel into the Namoi. However, we pay 100 per cent  
16 of the charges for 5 per cent of the benefit. Do you think  
17 that is fair, reasonable and equitable?  
18  
19 THE CHAIRMAN: We will be looking at the issue of the  
20 price by valley, which includes the price that is charged  
21 in the Peel Valley and the Namoi, against the criteria of  
22 what it costs to deliver. We also look at the impact on  
23 the user, which is one reason why in valleys that are not at  
24 full cost recovery, like the Peel, the price is put up on a  
25 glide path rather than up to full cost recovery right away.  
26 We will take that on board.  
27  
28 MR MONTICONE: Thank you. That is all for the moment.  
29 I have more later but I'll let somebody else have a go.  
30  
31 THE CHAIRMAN: Thank you. Yes, Bruce?  
32  
33 MR LOGAN: I think I am going to ask some questions that  
34 relate to the slides, so that is good.  
35  
36 I should say, firstly, that Tamworth Regional Council  
37 has been on the public record for a long time saying that  
38 it supports postage stamp pricing across the state. We  
39 have made that submission to a number of IPART  
40 determinations in the past.  
41  
42 I suppose I am interested that in the current  
43 submission there is a state-wide price for meter reading -  
44 \$198 - and everyone seems to be accepting that. There  
45 seems to be, as I understand it, an inland price for  
46 groundwater, which is almost the whole of the state, and  
47 everyone seems to be accepting postage stamp pricing for

1 groundwater. I think we are getting closer to the  
2 council's vision of a postage stamp price for water pricing  
3 in the state.  
4  
5 I note some of the comments made by representatives  
6 today which suggest we might be going further away. Anyway  
7 from the council's perspective, we certainly support  
8 postage stamp pricing and not valley-based pricing. Should  
9 I say that we accept that that means there will be a level  
10 of cross-subsidy from other valleys into the Peel and  
11 likewise from the Peel out to those other valleys. I don't  
12 see how you can accept postage stamp pricing without  
13 accepting that you will have to pay subsidy towards capital  
14 work and the like in other valleys. Anyway, that is a  
15 comment.

16  
17 Can I also say something in relation to groundwater.

18 I think I am right in saying that the inland groundwater  
19 prices have all been aggregated or all inland groundwater  
20 has been aggregated into the one pricing regime, but am  
21 I not correct?

22  
23 MR HANLON: Two

24  
25 MR LOGAN: I wonder about that. For argument's sake,  
26 Tamworth Regional Council owns groundwater licences in the  
27 Peel Valley. There have been some calculations done on the  
28 level of cost recovery that is occurring in the Peel  
29 Valley. Is that just based on regulated and unregulated  
30 streams and have we left the groundwater out of that?

31  
32 I would be interested to know what that cost recovery  
33 figure might be if you put back the groundwater allocations  
34 from the Peel Valley. As far as the water sharing plan  
35 goes, and certainly our licences, we have groundwater in  
36 the Peel, in the Peel alluvium, and we do have it in  
37 fractured rock as well. I would be interested in an answer  
38 as to whether the cost recovery includes the groundwater  
39 from the Peel or whether it is separated and, if it is  
40 separated, what would be the answers if they were all put  
41 back together?

42  
43 MR MADDEN: I think that's a DPI response.

44  
45 MS SIDORENKO: But we do have a number. We have a  
46 number of 100 per cent cost recovery in inland, apart from the  
47 Murrumbidgee. Murrumbidgee is 92 per cent cost recovery

1 and the other groundwater sources should be at cost  
2 recovery

3  
4 MR LOGAN: I am sorry, I think you might be missing the  
5 point --

6  
7 MR MADDEN: I would just note that we do not know what the  
8 Peel cost recovery is from the proposal, so we would have  
9 to pull that out. Across inland groundwater it  
10 is 100 per cent per valley groundwater.

11  
12 MR LOGAN: Yes, I understand that but if you separated  
13 them out --

14  
15 MS SIDORENKO: It is impossible to give you this number  
16 because this data is reported by inland and coastal only,  
17 except for the Murrumbidgee, which is the third region

18  
19 MR LOGAN: That is fine, and I accept that that is the  
20 information you have, but my question is based on: if you  
21 didn't get that information, if you had added the Peel  
22 groundwater into the Peel regulated and unregulated, would  
23 the cost recovery for the Peel be higher than the 66 per  
24 cent, or whatever it is at the moment? We, therefore,  
25 would have to go on a glide path, and I might accept that,  
26 but our glide path would not be as high if you were to put  
27 the groundwater that is taken from the Peel back into the  
28 Peel Valley.

29  
30 MR MADDEN: I assume DPI don't have this either but are  
31 happy to go back and look at their numbers, and  
32 disaggregate groundwater in land and see, at the moment, if  
33 the Peel groundwater is 100 per cent. Because we have put  
34 groundwater together for inland there could be  
35 cross-subsidy into the Peel for groundwater, so you could  
36 actually go backwards rather than forwards. DPI, I assume,  
37 would take that on notice

38  
39 MR LOGAN: I accept that the answer might not help the  
40 situation, but I would rather see your numbers rather than  
41 just assume that it is not.

42  
43 THE CHAIRMAN: We will have to take that on notice, Bruce.  
44 Who's next in the audience?

45  
46 MR ANDERSON: Thank you. I am Kevin Anderson, the  
47 member for Tamworth. With all of the rivers and streams in the



1 Tamworth electorate that ultimately flow in through the  
2 MDBA, is this region getting credited for all that water  
3 that leaves this area and heads up and west?  
4  
5 MR MADDEN: This almost comes back to a Murray-Darling  
6 Basin Plan discussion and the different shares that they  
7 put on the north versus the south, et cetera, and the  
8 contributions towards the Murray-Darling Basin Plan. There  
9 is the other point, which is that some of them don't really  
10 meet and are not connected. The Lachlan, the Macquarie and  
11 the Gwydir as far as I know, pretty well in most years  
12 unless there is a huge flood, are disconnected from the  
13 system.  
14  
15 I am trying to remember my Basin Plan details, but  
16 I think only 7 per cent of the water down into South  
17 Australia only comes from the Darling. If you really look  
18 at the Basin Plan and the changes and the reductions that  
19 have been undertaken through the Plan most of the benefit  
20 really in the north, you would argue, comes from the  
21 environmental changes, such as the Narran Lakes, the Gwydir  
22 Wetlands and the like.  
23  
24 As far as pricing is concerned, it has really been  
25 back to a discussion of do you do it valley-by-valley?  
26 I guess there is a bit of an issue here. DPI might want to  
27 talk about this principle, but it is also with the  
28 infrastructure which is probably more important in terms of  
29 valley-by-valley decisions where you generally have  
30 stakeholders maybe not happy that they are upgrading a dam  
31 that they have absolutely no connection to. You are even  
32 getting into a situation where in the South Coast, or if there is a  
33 new dam proposed near Cowra, with state-wide pricing who  
34 makes the decision? Obviously local users would want a dam  
35 built if they are not having to pay that back.  
36  
37 You then get into Commonwealth principles that we are  
38 meant to be signed up to, such as new developments in  
39 Tasmania, et cetera, which are meant to be not subsidised  
40 by the Federal Government. My point there is the  
41 valley-by-valley pricing actually has a number of levels to  
42 it. Really the key question is, "What is the scale to make good  
43 good decisions around infrastructure investment?", and then  
44 those tie back down to management costs at the local level.  
45  
46 I guess really it is what is the best pricing that  
47 helps people make good decisions and not repeat some

1 mistakes of the past.  
2  
3 MR ANDERSON: Further to that, I would suggest to you  
4 that, in the current pricing regime, this region is not  
5 getting credited for all the water that leaves this region  
6 and heads out.  
7  
8 THE CHAIRMAN: Thanks, Kevin. Zara?  
9  
10 MS LOWIEN: This is not to reiterate a couple of issues,  
11 but I think it is clear that there are questions around the  
12 amalgamation and whether it should be broadened and  
13 amalgamated more or whether it should go back down to a  
14 valley level. In particular the view of the Gwydir is that  
15 we would like to see a breakdown of the price for Gwydir  
16 and the background information as to why that price was  
17 determined. That would be across both the regulated,  
18 unregulated and groundwater.  
19  
20 I do feel that the amalgamation of prices both in the  
21 unreg system to the north-west conglomerate and also to the  
22 inland system is distorting our ability to really assess  
23 the efficiency of the prices at the valley scale.  
24  
25 Once the draft determination has been made and the  
26 consultants' report is made available, I feel that  
27 potentially we should have another forum very similar to  
28 this to allow a more thorough discussion on a valley level.  
29 I think that would be my major suggestion coming out of  
30 today. Hopefully both DPI Water and IPART would consider  
31 that.  
32  
33 The other point I wish to make to the tribunal is that  
34 there are some tipped changes, some further changes, within  
35 the department and it is unclear what they might be. Gavin  
36 mentioned earlier that they might be able to unpack the  
37 building block and potentially pass that on to WaterNSW or  
38 change who might be charging that.  
39  
40 One of the questions we ask is: is there an  
41 opportunity to review prices mid-term if there are  
42 substantial changes and what will be the process of that  
43 and who makes the decision on whether a price review  
44 occurs?  
45  
46 I will note that I am parking all of my comments and  
47 the discussion on floodplain harvesting to the next

1 session, but obviously it is one of the substantial things  
2 that will roll out in the next few years. If the  
3 department continues to restructure as it is proposing to  
4 do, I believe there should be more price reductions to be  
5 passed on and what will be the process for that being able  
6 to occur?

7  
8 MR EDGERTON: Zara just in terms of the question of what  
9 is the process if, essentially, costs change during the new  
10 determination period, when IPART sets prices for a given  
11 period, those prices are fixed, so if there is a major  
12 change in circumstances and a major change in costs, then  
13 that might be a case for reopening the price determination  
14 and going through the price determination again.

15  
16 Having said that, things such as any uncertainty of  
17 costs or any potential efficiency gains associated with a  
18 change in activities or better coordination between  
19 DPI Water and WaterNSW are things that our expenditure  
20 consultants should be taking into account. I hope that  
21 answers your main questions.

22  
23 There is one other thing to take into account. Any  
24 uncertainty associated with costs or operating environments  
25 can also feed into IPART's consideration about what an  
26 appropriate determination period is - for example, whether  
27 it should be three years, four years or five years.

28  
29 THE CHAIRMAN: Thanks, Matt. To reopen a determination,  
30 stakeholders could make a request and IPART could decide to  
31 do it or, alternatively, the government could request that  
32 we do it. However, it is actually quite a big decision to  
33 reopen a determination. Under our Act, you just cannot  
34 reopen a determination and tweak it; you have to go through  
35 the whole process again and reset it.

36  
37 MR HANLON: To confirm my understanding, when the prices  
38 are set by the regulator, it is the maximum we can charge.  
39 If we are generating substantial savings and we don't pass  
40 them on through pricing, we are effectively doing what we  
41 were talking about earlier, namely, over-recovering, and  
42 you would totally expect the regulator to ask you to pass  
43 that back on at the end of the term.

44  
45 As mentioned earlier, we are also audited annually.  
46 If and when - I say "if" because they are still proposals  
47 at the moment - they are actually generated and real and

1 audited and shown to be real, we would expect to be passing  
2 them on.

3  
4 I am sorry, I have just been reminded that the  
5 treasurer would have to endorse that.

6  
7 THE CHAIRMAN: Thank you, Gavin. Jon-Maree?

8  
9 MS BAKER: Gavin, you're basically saying, "We are from  
10 the government. You can trust us"?

11  
12 MR HANLON: Yes.

13  
14 MS BAKER: I have heard that before. I am not  
15 necessarily saying that I doubt that you would not pass  
16 those changes on, but we would look for some sort of  
17 regulatory oversight of that.

18  
19 One of the issues we have in terms of groundwater is  
20 how aquifer interference is being charged for. I note in  
21 the determination it is suggested that it will be recovered  
22 or has been recovered. Obviously with the increase in  
23 costs in groundwater and the significant potential for  
24 extractive industries, we see that staff time is taken way  
25 from normal services provided to groundwater systems and  
26 allocated to assessing applications for major planning  
27 projects.

28  
29 I want some assurance in terms of aquifer  
30 interference. Have you actually made a charge or a levy on  
31 that and how are you actually proposing to put that into  
32 the detail of your submission?

33  
34 THE CHAIRMAN: Thanks, Jon-Maree. Nick?

35  
36 MR MILHAM: That is a good question and it is an issue  
37 that we did give significant consideration to in putting  
38 together the submission. At the end of the day, again due  
39 to uncertainty, the call was that we would not include  
40 charges that are in relation to aquifer interference in our  
41 submission. That means that the government is wearing  
42 those costs for the time being.

43  
44 THE CHAIRMAN: Thank you, Nick. I was going to ask John  
45 to make a comment and then we will move into session 3.

46  
47 MR HALL: One of the problems we have on our section of

1 the river is due to the drought situation. There's a lot  
2 of unlicensed, which don't require to be licensed, stock  
3 and domestic schemes going in powered by solar pumps that  
4 pump, basically, in the summer time, 12, 13 hours a day.  
5 They're not large pumps, they don't have to be  
6 licensed but they're still taking water out of the river.  
7 What allowance is DPI Water making for that water leaving  
8 the system?

10 Another comment that I would like to make is that  
11 prior to I think it was around about 2006 our section of  
12 the river received water from the Macquarie by way of two  
13 creeks that basically disappeared when the Murray-Darling  
14 Basin Plan came into existence. A trickle of water is now  
15 maintained down the Bogan River from that source until  
16 Burrendong Dam gets down below about 20 per cent and also,  
17 at the same time as it went on to volumetric allocation for  
18 our irrigation, the required river level heights were  
19 raised dramatically.

21 In my case I can't pump from 1 May through to  
22 31 October unless the gauging station is showing a stream  
23 of more than 200 megalitres a day. In summer time I'm  
24 allowed to pump when the river is at 60 megalitres a day.  
25 I know there is a reason for that because DPI Water has  
26 recharged the Bogan River for stock and domestic purposes  
27 and also supplies at times a flow in to the Darling for the  
28 township of Bourke and downstream.

30 Now, that is quite acceptable, but, by the same token,  
31 with regard to the charges for my water when I was on an  
32 acreage based licence, I was paying about \$200 a year.  
33 When I went on to a volumetric allocation, I was paying  
34 about \$465 a year but suddenly last year, in 2014, that  
35 jumped to \$1,700. I got a bill which I haven't paid and  
36 I don't intend to pay and I got another bill this year for  
37 another \$1,700.

39 My wife showed the Chairman some photos of our river  
40 and what I am expected to pump from. There's no bloody  
41 water there, but we're being charged for it, and this is  
42 the problem that we are facing, not only me but people on  
43 the Namoi are facing as well and IPART needs to take this  
44 into account when setting their determinations. Thank you.

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

1 MR GOWING: I was trying to explain to you earlier that it  
2 was uneconomical to use regulated river water, so obviously  
3 on your question 2 there, if you reverse those figures, we  
4 would be a lot happier about it.

6 The question I am really going to lead to is: I have  
7 unregulated and regulated and fractured rock licences, so  
8 I have the ability to sell my regulated river licence and  
9 presumably that would get sold downstream. The question  
10 that I've got is if a lot of people take the same action  
11 that I'm thinking of taking, what effect does that have on  
12 the licence holders that are left?

14 MR MILHAM: Because water charges are based on the level  
15 of entitlement, unless entitlement is actually surrendered  
16 all that simply means is that the entitlement has changed  
17 hands, so whoever now owns the entitlement would be paying  
18 the fixed charges and if they then access their water, then  
19 their usage charges.

21 MR GOWING: And if it went way down the Namoi, or  
22 further down than that, what effect on the Peel people?

24 MR MILHAM: That then reduces the level of entitlement  
25 within the Peel if the rules allow that movement of  
26 entitlement between water sources.

28 THE CHAIRMAN: Just one comment from Jon-Maree and then  
29 we will have John Madden introduce session 3. There will be  
30 plenty more opportunities.

32 MS BAKER: Can I just go back to the issue that John  
33 raised which was actually about the charges levied against  
34 stock and domestic users.

36 I know that DPI Water has just gone through a process  
37 now where if someone has an unregulated licence, you're  
38 separating out their stock and domestic proportion. What  
39 that actually means is that they will go on to a minimum  
40 charge which is substantially higher than their stock and  
41 domestic portion if it was just included in their  
42 unregulated licence. It is currently \$37 included in their  
43 current unregulated entitlement, but if they were to move  
44 that proportion of the licence, which is occurring now,  
45 they will actually be faced with a minimum charge which is  
46 \$37 to \$200, whatever the minimum charge is, \$150; it's a  
47 substantial increase.

1  
2 I just want that noted. I think John's point was  
3 really about how do you recover the costs associated with  
4 stock and domestic usage, but at the same time I am  
5 questioning that you are now going through a process of  
6 separating that out, but you're going to increase their  
7 charges substantially.  
8  
9 THE CHAIRMAN: Thanks very much, Jon-Maree. John will  
10 introduce session 3. Session 3 is water take, consent and  
11 metering charges, service levels and floodplain harvesting.  
12  
13 SESSION 3: OTHER ISSUES  
14  
15 MR MADDEN: Thank you, Peter. We may touch on things  
16 that we have already talked about, so I will try to go  
17 relatively quickly to encourage discussion time.  
18  
19 Just looking at forecast take, we have different  
20 forecasting approaches for the different water sources, so  
21 regulated rivers using a 20-year historical average,  
22 unregulated rivers, a water take model with limited data in  
23 some cases, and for groundwater based on water take  
24 measurement where available.  
25  
26 Those estimates are then provided in three different  
27 graphs. We have the water take for regulated rivers  
28 forecast going forward at 4.4 million megalitres. We will  
29 just go through these quickly. Unregulated rivers and  
30 streams - because I think the Darling might not like being  
31 called a stream - that's 0.9 in terms of a forecast water  
32 take and for a water take for groundwater it is 0.8 million  
33 megalitres.  
34  
35 In terms of moving on to another issue, floodplain  
36 harvesting, it has been mentioned a few times throughout,  
37 the approach within the proposal, given that floodplain  
38 harvesting licence entitlements haven't been established as  
39 a regime as yet, it's in the process thereof, DPI Water has  
40 proposed two-tiered pricing in the valleys where  
41 floodplain harvesting entitlements will be issued  
42 potentially throughout the determination period.  
43  
44 There are five water sources where that will happen.  
45 Really, it's just a matter of some contingency planning on  
46 behalf of DPI Water. Obviously, with the water take  
47 included from floodplain harvesting, the water take prices

1 across the whole of those valleys would go down once that's  
2 actually included.  
3  
4 There were stakeholder comments around floodplain  
5 harvesting and the approach noting that uncertainty. The  
6 second issue of that is the actual uncertainty around the  
7 water take forecasts and I would just note that I think at  
8 this stage it is proposed to be a water take or usage  
9 charge only, not an entitlement charge.  
10  
11 MR DUDDY: Could you say that again, that last little bit  
12 that you said?  
13  
14 MR MADDEN: The proposal is that for floodplain harvesting  
15 they will be charged when you actually take water, not a  
16 charge on their entitlement.  
17  
18 MR DUDDY: I hope that goes across the whole of unreg, to  
19 maintain the fairness of that position.  
20  
21 MR MADDEN: DPI Water can comment on that because it is  
22 their strategy and their proposal. We will come back to  
23 the question at the end of the session.  
24  
25 With water take measurement charges, or the old  
26 metering as it was called, DPI Water is developing a water  
27 take measurement strategy. DPI Water propose to maintain a  
28 current approach of recovering costs through separate  
29 charges. There is a pricing structure based on meter size  
30 to harmonise with Water NSW's metering charges set by the  
31 ACCC. The water metering here is on groundwater and unregs  
32 and not regulated rivers.  
33  
34 There are two charging schedules proposed based on the  
35 method used for meter reading, agency read and customer  
36 read. The broad comments from stakeholders as regards the  
37 metering strategy was that the benefits must outweigh costs  
38 and access to two-part tariffs without the high cost of  
39 meters could be a preferred option. I assume that's  
40 supportive - as we mentioned earlier - of the ability for  
41 systems to involve customer read and low costs.  
42  
43 Moving to consent transaction charges, generally, DPI  
44 Water has proposed reductions in the majority of the  
45 consent transaction fees. The largest reductions in  
46 absolute value include water access licence dealings in  
47 unregs, groundwater and some works approvals.

1  
2 Increases in transaction fees are slated or proposed  
3 for those currently priced at low levels or the lowest  
4 levels. These include new basic rights bore approval,  
5 extensions of approval and water allocation assignment for  
6 unreg rivers and groundwater, so I think there's a  
7 temporary trade in those systems, and also there's a  
8 discount for online lodgment.  
9  
10 This is the last slide and we are moving on to service  
11 levels, DPI Water's submission reported on performance  
12 against the service targets set in the 2011 determination  
13 and also proposed future output measures and performance  
14 indicators. We have had some comment on that already about  
15 probably the design of some of those performance  
16 indicators.  
17  
18 We did have, as per earlier discussion, some  
19 submissions that actually articulated where stakeholders  
20 felt that service levels were not met, so that's part of  
21 our review with the expenditure consultant but we'll also  
22 look at that ourselves, taking into account today's  
23 discussion.  
24  
25 These are the questions for session 3:  
26  
27 Are the proposed water take forecasts appropriate?  
28 Should floodplain harvesting be taken into account for  
29 pricing - that is, the proposed two-tier structure with and  
30 without floodplain harvesting?  
31 Are the forecasts of floodplain harvesting water take  
32 appropriate?  
33 Are the proposed water take measurement prices and  
34 price structures appropriate?  
35 Are the proposed consent transactions prices  
36 appropriate?  
37 Are the proposed output measures and performance  
38 indicators appropriate?  
39  
40 THE CHAIRMAN: Thank you, John. Are there questions or  
41 comments from the table? Zara.  
42  
43 MS LOWIEN: To start off on question 1 there, I think it  
44 is pretty clear, and we have raised it earlier, that there  
45 is an issue with forecasting and looking at the water take  
46 versus the actual allowed, it is quite evident that there  
47 has been a significant error in the forecasting in the

1 past. Whilst I acknowledge that the forecasts have been  
2 revised substantially down from past determinations, I do  
3 believe there needs to be more work on getting that as  
4 accurate as possible.  
5  
6 In principle, DPI Water has invested significantly in  
7 improving their modelling capabilities within the  
8 department. They have done that through the reviews of  
9 water sharing plans, preparation of current condition  
10 models and a whole range of investments, for instance,  
11 through the Healthy Floodplains Project. It is beyond  
12 comprehension that we're not using modelling based on over  
13 100 years of data rather than a 20-year rolling average.  
14 We are moving away from a very high sophistication level to  
15 a somewhat simplified version and that would be my point  
16 for today's discussion on forecasting.  
17  
18 Floodplain harvesting. We were one of the valleys  
19 that were not surprised to see a price for floodplain  
20 harvesting in the proposal and we accept that DPI Water  
21 will leverage some form of cost for ongoing compliance and  
22 monitoring of that future implemented access. Let's be  
23 clear that it is legitimate access that is allowable under  
24 the water sharing plan, it is not new water. DPI Water, as  
25 well as WaterNSW, have no role in effecting the opportunity  
26 of take for an individual to access that water and hence,  
27 we were very surprised to see the price to be in line with  
28 the regulated system.  
29  
30 We believe that a unique price for floodplain  
31 harvesting needs to be developed because it's a unique form  
32 of water. It has been fully funded by the  
33 Commonwealth Government to implement and plan and there  
34 are no cost burdens on water users to provide the entitlement  
35 for that. It is only the future ongoing monitoring and  
36 compliance that needs to be recovered.  
37  
38 If I was a floodplain harvester to soon receive an  
39 entitlement in the Gwydir, which we may find out in the  
40 next few months, we would ask ourselves what impact or what  
41 service should we be expecting from the department to  
42 access that and we would say that without having a  
43 finalised compliance and monitoring strategy, it's very  
44 difficult to ascertain what the full cost is, but maybe we  
45 would anticipate there being a compliance officer to be  
46 shared within our valley and potentially across our  
47 neighbours because it is additional compliance work that

1 may have to occur. Maybe that is an EFT off someone, or  
2 maybe shared, it might be 0.8 of an EFT.

3  
4 We are looking at possibly \$100,000, not the current  
5 level of recovery that has been requested. I think that  
6 needs to be specifically looked at. I do not agree with  
7 the statement within the application by which floodplain  
8 harvesting recovery provides an opportunity for valleys  
9 like ours to move to full cost recovery. Not everybody in  
10 our valley will have a floodplain harvesting licence, so  
11 I don't see why they should be wearing the burden of  
12 recovery in other parts of the valley, in other water  
13 entitlements. We are very much of the view that each water  
14 source should cover the costs for the implementation and  
15 services provided for that water source and type and there  
16 should not be cross-subsidisation within a valley, let  
17 alone between.

18  
19 THE CHAIRMAN: Thank you, Zara. Jon-Maree?

20  
21 MS BAKER: Can I just say that the Namoi has the exact  
22 same position as the Gwydir on the issue of floodplain  
23 harvesting, so I won't reiterate anything that Zara has  
24 already said, other than to say that we agree that there  
25 should be a unique price set for floodplain harvesting and  
26 we expect that the requirement of that service is fairly  
27 low and thus, the pricing should be accordingly attributed  
28 to it.

29  
30 We would also like to make a point about the water  
31 take measurement, prices and price structures. The ACCC  
32 approved pricing was on the premise of the southern pilot  
33 system which was pricing that we still have not seen some  
34 three or four years after that pricing and pilot study was  
35 undertaken. In terms of even the ACCC process, those cost  
36 implications for metering and meter service charges were  
37 not transparent, they weren't fully available, because  
38 those pilot figures have not been released publicly.

39  
40 In terms of whether or not the ACCC has actually  
41 validated those meter service charges I think that is  
42 something that we would call into question and we would  
43 actually specify that the pricing structure based on meter  
44 size in terms of harmonising with WaterNSW we completely  
45 disagree with in this process. We think that particularly  
46 where you actually own your own meter, as the north has  
47 rejected the metering business case, that there is

1 substantive evidence of costs attributed to the current  
2 meter service charges and those should be used for setting  
3 the prices, not those that were based on the pilot system  
4 and a separate pricing that does not apply here.

5  
6 We do agree that there should be two schedules of  
7 pricing based on meter reading whether or not it is agency  
8 read or customer read and we think that that is moving in  
9 the right direction and we would like to encourage that  
10 process.

11  
12 We disagree with WaterNSW suggesting that there was  
13 only a 7 per cent reduction in the service saving as a  
14 result of that and we would like to see their figures that  
15 are attributed to that 7 per cent saving because we would  
16 strongly disagree and we actually think that that's a bit  
17 of an ambit claim by WaterNSW. Those are our comments on  
18 that issue.

19  
20 Consent transaction prices. Given that there has been  
21 a reduction, there's a slight increase in some of those.  
22 We agree, like the Gwydir, that there should be an  
23 administration fee in terms of setting the licensing for  
24 floodplain harvesting, but in terms of our position, we  
25 think that that's a fair and reasonable cost and so we  
26 don't have any real concerns with those proposed charges.

27  
28 As far as the proposed output measures and performance  
29 indicators, given that we haven't seen the real cost  
30 drivers or the cost methodology, it is a little bit  
31 premature for us to make some assumptions on those issues  
32 and I think we would like to see the detail to provide a  
33 much more robust comment on question 5.

34  
35 THE CHAIRMAN: Thank you very much, Jon-Maree. Tom or  
36 Mark before we go to the floor?

37  
38 MR WOOLASTON: Cost is our main concern.

39  
40 THE CHAIRMAN: Noted. Mark? Do you want to wait?

41  
42 MR HAMBLIN: Yes, I will wait.

43  
44 THE CHAIRMAN: Questions or comments from the floor?

45  
46 MRS HALL: My name is Di Hall, I also am an irrigator on  
47 the Bogan River. All the figures that have been supplied

1 by the DPI today assume that there is water in the river.  
2 What allowances do they make when there's no water in the  
3 river?  
4  
5 THE CHAIRMAN: Thanks, Di.  
6  
7 MR HANLON: Other than having a two-part tariff where we  
8 can, which allows for a fixed and variable component,  
9 if there is no water, the variable component doesn't kick  
10 in. There is a broader question there about dealing with  
11 extreme droughts. We have certainly seen that in this part  
12 of the world and a little bit further west and a little bit  
13 further south west, so there's a broader discussion there  
14 about how we deal with extreme events in terms of our  
15 pricing. At the moment we haven't proposed any mechanism  
16 for dealing with extreme events.  
17  
18 MRS HALL: Can we have an assurance from you that we won't  
19 be continually charged for water that is not in the river?  
20  
21 MR HANLON: Unfortunately, I can't do that. I would like  
22 to but I can't do that. Some of the costs remain whether  
23 there's water there or not. In fact, in dry times costs in  
24 some parts of the business tend to increase. We have more  
25 requests for information, more compliance actions, more  
26 forecasting and we try to balance those things out.  
27 I would like to be able to do that but I think it would be  
28 unfair if I said we could.  
29  
30 MRS HALL: I would hope that IPART could see the  
31 unfairness of that situation.  
32  
33 THE CHAIRMAN: Thank you very much, Di. Shirley. And  
34 then John.  
35  
36 MRS PATMORE: I would like to support Di. I don't know  
37 that there's anywhere else in the country where we have to  
38 pay for something that we do not receive. Paying for a  
39 water access licence when there is no water to go with it  
40 is paying for something that these people are not receiving  
41 and that is unfair and it is fraud, it is illegal, and  
42 something needs to be done about it. You cannot charge for  
43 something that you cannot supply.  
44  
45 THE CHAIRMAN: Thanks, Shirley.  
46  
47 MR PATMORE: Could I just butt in? It seems to me that

1 this whole exercise is really quite pointless because  
2 DPI Water wants their \$51 million and they will get it by  
3 hook or by crook. It doesn't matter. You can fiddle  
4 around with all your figures and all this stuff that you  
5 have been going through, but you want your \$51 million.  
6 When we are in drought we suffer, we can't make our  
7 incomes, but DPI Water still gets its \$51 million, it  
8 doesn't matter, but we still have to pay.  
9  
10 Peter, you are worried about the taxpayer having to  
11 pay. We are also taxpayers. We have paid our taxes to the  
12 Federal Government which are supposed to come back to the  
13 State Government and all this stuff should be provided.  
14 With respect to irrigators, it is totally unfair to put  
15 this tax on food production for we who are trying to  
16 produce food to supply to the rest of the community and  
17 that's what it boils down to.  
18  
19 THE CHAIRMAN: Thank you, Newman. John?  
20  
21 MR BRIGDEN: Thank you. My question relates to the return  
22 on investment that we've spoken about before, the WACC,  
23 which I think is spelt W-A-C-K rather than W-A-C-C. Is it  
24 based on historical cost of the government's asset or is it  
25 on current-day cost? That is one part of the question.  
26  
27 THE CHAIRMAN: It is not based on the historical cost, it  
28 is current-day cost. For example, half of it is based on  
29 the short-term bond rate, the average over the last 40  
30 days, and the other half is based on a longer term bond  
31 rate.  
32  
33 MR BRIGDEN: So it has nothing to do with the value of  
34 Chaffey Dam when it was put up in 1952, or 1945, or  
35 whenever it was? I wasn't around then: I was but I wasn't  
36 here.  
37  
38 THE CHAIRMAN: It is applied to the regulated asset base  
39 and to the extent that Chaffey Dam is in the regulated  
40 asset base, it is applied to that. It is a return on the  
41 capital to deliver a service.  
42  
43 MR BRIGDEN: It doesn't reflect the costs that we the  
44 community and the government at the time pay.  
45  
46 THE CHAIRMAN: I am sorry, John, I have just been advised  
47 that Chaffey Dam is not in the regulated asset base, but

1 your point is that if a dam is in the regulated asset base  
2 then it is charged on the depreciated value of that.  
3  
4 MR BRIGDEN: But that's on current value then depreciated,  
5 not original cost depreciated.

6  
7 THE CHAIRMAN: No. The regulated asset base is the  
8 depreciated value of the assets used for a utility, or in  
9 this case for DPI Water, and the WACC is applied to that,  
10 so that the owner of the utility gets a return on the  
11 asset.

12  
13 MR BRIGDEN: Is the WACC applied to Sydney rail and  
14 transport?

15  
16 THE CHAIRMAN: Indeed. Indeed.

17  
18 MR BRIGDEN: Do you maintain 4.6 per cent total cost  
19 recovery from those people who use that facility?

20  
21 THE CHAIRMAN: The WACC is applied to just about  
22 everything we regulate. I think everything is applied to  
23 it and it can differ a little bit because there are  
24 different parameters for different businesses but broadly  
25 speaking, a WACC is applied to everything.

26  
27 MR BRIGDEN: Let's look at the situation of water users  
28 versus urban train users. We are being accused of not  
29 carrying our share of the cost of running the facilities  
30 and managing the facilities, but we're being jacked up to  
31 100 per cent of user contribution or user pays, if you  
32 like.

33  
34 The same does not apply in the city and I am not  
35 bashing the city, but if there is a gap between what the  
36 user pays in the city and the cost of providing that  
37 facility, that difference then is subsidised by the  
38 taxpayer, as we keep being told, so if we're subsidising  
39 that difference, why can't the taxpayer subsidise the  
40 difference in the water usage, whether it be in our valley  
41 or the Namoi or the Darling, or anywhere in between?

42  
43 THE CHAIRMAN: The premise of your question is not quite  
44 correct so let me just explain. Let's take, for example,  
45 when I first arrived at IPART, one of the things we needed  
46 to do was recommend ferry fares. As it turned out, the  
47 fares were too low to get the cost recovery, so we

1 recommended to the government a glide path mechanism. That  
2 is exactly the same mechanism that is recommended in the  
3 case of valleys, and not all valleys are not fully  
4 recovering, but in the case of those valleys.

5  
6 So the same principle applies, John, the same  
7 principle of WACC, the same principle of moving from not  
8 fully cost recovering to fully cost recovering.

9  
10 MR BRIGDEN: But then you sold the ferries off, but we  
11 won't go there.

12  
13 THE CHAIRMAN: Let's move on and we can have a chat  
14 about that afterwards.

15  
16 MR BRIGDEN: Yes, okay. All I am concerned about is the  
17 inequitable cost, as you are well aware, that the Peel  
18 Valley is paying for the water that it is supposedly using  
19 or is paying to maintain the structure.

20  
21 Somebody has to change the system. We don't  
22 necessarily want the Namoi to pay more for the water that  
23 they are getting. As you have already heard, they get  
24 95 per cent out of this valley. The point that Tom is  
25 making is that our friend here said 24 per cent was used  
26 last year. I would say the vast majority of that usage was  
27 from Tamworth. As you are aware, we get no water until the  
28 dam up here is over 60 per cent per cent. When it gets  
29 over that, we start getting small percentages.

30  
31 The only water we get is free flow. The free flow is  
32 the water, according to the department, that falls between  
33 Paradise Weir and the Namoi River. There are some water  
34 monitoring stations and there are other things, but we are  
35 still paying the same price as if that water fell out of  
36 the gates at the dam. There is just no equity in that  
37 cross-costing.

38  
39 THE CHAIRMAN: Okay, we hear you.

40  
41 MR BRIGDEN: Okay, well, let's hear that something will be  
42 done because we have asked for it for year after year after  
43 year. I am sorry to be rude, but one day someone will say,  
44 "Gee, maybe these blokes have a point. Maybe they are  
45 being raped."

46  
47 THE CHAIRMAN: The issue is whether you have the cost set



1 on a valley-by- valley basis or whether you have some  
2 version of postage stamp pricing, which ultimately involves  
3 one section of water users subsidising the other. That is  
4 a question which is open for discussion. We hear your  
5 point of view, and the point of view of others. You don't  
6 think that the Peel Valley has been treated fairly and we  
7 hear that.

8  
9 The next person is Bruce. Did you want to ask another  
10 question, John?

11  
12 MR BRIGDEN: No, I thought you were going to say the next  
13 person would be shot.

14  
15 THE CHAIRMAN: No, no.

16  
17 MR LOGAN: Notwithstanding the comments by Zara from the  
18 Gwydir and from Jon-Maree from the Namoi, who obviously  
19 know more about floodplain harvesting than I do, and the  
20 prices, when I read the submission it suggested that if  
21 nothing changes, there will be a reduction in cost in some  
22 valleys if and when floodplain harvesting is introduced.

23  
24 This is my first question: how is that going to work?  
25 I don't understand the floodplain harvesting issue, but  
26 will that cover everyone? Is it going to be introduced on  
27 a certain day or will it be 50 per cent uptake or will it  
28 be 10 per cent uptake and then everyone moves on to the  
29 lower tariff? How will that work?

30  
31 THE CHAIRMAN: Just let me hand over to Nick.

32  
33 MR MILHAM: To answer the overarching question first, the  
34 proposal is that floodplain harvesting licences will not be  
35 introduced until there is full agreement within a water  
36 source to be able to introduce it across the water source  
37 in its entirety, which requires ministerial agreement.  
38 Then, assuming, of course, that all the foregoing  
39 consultation and agreement has been reached, it would be  
40 introduced from the beginning of the following financial  
41 year once that agreement has been reached. So it would be  
42 introduced right across a water source at the same time,  
43 but only once all the decision rules and everything have  
44 been agreed and decided. That's sort of the overarching  
45 proposition.

46  
47 The proposal in relation to the way the additional

1 allocation that would be represented by floodplain  
2 harvesting licences reduces prices - I point out that it is  
3 prices not costs - is because prices are based on  
4 distributing costs across allocation. If we have  
5 introduced new allocations in the form of floodplain  
6 licence allocation, then those costs have been distributed  
7 across the broader base so prices come down, although  
8 I would point out that it has already been questioned by  
9 Zara as to whether or not that is the appropriate way to do  
10 it or whether in fact floodplain harvesting should be dealt  
11 with entirely separately

12  
13 MR LOGAN: Thank you. My final question is in relation to  
14 water meters. You may not know but the Tamworth Regional  
15 Council has some experience in dealing with water meters.  
16 We own or we put in the meters that are presently being  
17 read on our licences. It is conceivable that we will hand  
18 over ownership of those meters, notwithstanding Jon-Maree's  
19 comment that the north didn't accept the water meter  
20 proposal that was put forward. In any case, I am just  
21 asking this question from the council perspective.

22  
23 We own our meters. I assume we are going to hand over  
24 the ownership of those to DPI Water. Then we will pay a  
25 fee and, as part of that fee, they will maintain our  
26 meters. They won't be ours anymore and if there is  
27 something wrong with them, they will replace them. If that  
28 is not the case, one wonders what we are paying a fee for.

29  
30 MR MILHAM: No, there is no proposition that DPI would be  
31 taking over ownership of the assets. The proposition is  
32 around reading, if I am hearing your question correctly,  
33 and whether meters are then read by the owner or by DPI  
34 Water and that is the basis of the charge.

35  
36 MR LOGAN: But we are paying \$198 to have them read and  
37 I am happy to pay that - well, I don't know that I am happy  
38 to pay that; it seems a fair amount of money and we do it  
39 for less - however, my concern is we still own the meters  
40 and we still have to replace them so that you can read  
41 them.

42  
43 MR HANLON: There is a broad discussion across a range of  
44 utilities at the moment about meter ownership. I have been  
45 on both sides of the fence here where the utilities own the  
46 assets and they have belonged to their balance sheet. You  
47 also have a customer base saying, "We can do it cheaper and

1 better than you", and with telemetry, you pretty much get  
2 your meter read for nothing.

3  
4 In our case we have been through the process of  
5 working out what it costs us to read meters over the place,  
6 rightly or wrongly at various scales, and I think that  
7 point has been made well today. I think it is fair to say  
8 that the issue of meter ownership is probably one that  
9 still has a bit further to go in terms of discussions.

10  
11 MR MILHAM: Following on from Gavin's comment, it is  
12 important to appreciate that there are two components to  
13 the meter read charge. It is not just the actual cost of  
14 going to read the meter; it also incorporates an allowance  
15 for the costs of the data management, and that has to  
16 happen regardless of who actually reads the meter.

17  
18 THE CHAIRMAN: Thank you, Nick. We are just a little over  
19 time so I will ask Ildu, Jon-Maree, David, Zara and David  
20 and then we will wrap up. Ildu?

21  
22 MR MONTICONE: Thank you, Mr Chair. I want to follow up  
23 John's question on the inequity of the proposed water  
24 prices for regulated river water. I refer back to the  
25 figures that I handed out earlier. I am sure that the  
26 members of the panel are aware that the Commonwealth Water  
27 Act states that the water charging objectives are to avoid  
28 perverse or unintended pricing outcomes. Does the panel  
29 consider that the proposed water charges are perverse or  
30 not and, if not, what's your definition of a perverse  
31 pricing outcome?

32  
33 THE CHAIRMAN: The panel will be subjecting the proposed  
34 prices from DPI Water to further analysis. We will come  
35 out with a draft determination of the prices that we  
36 consider are not perverse. Then you and everyone else  
37 will have about four weeks to comment on that and then we  
38 will make our final decision.

39  
40 MR MONTICONE: So are you in a position to provide a  
41 definition? If you are determining what is perverse and  
42 what is not, can you tell us your definition of a perverse  
43 pricing outcome?

44  
45 THE CHAIRMAN: I can tell you that a pricing outcome that  
46 the tribunal is likely to adopt is a pricing outcome which  
47 is cost reflective and which takes into account the impact

1 on the user as well as the impact on the provider.

2  
3 MR MONTICONE: With respect, you are avoiding the  
4 question.

5  
6 THE CHAIRMAN: No, I am not because I am just the chair of  
7 the tribunal. I am not going to give a tribunal position  
8 without consulting my colleagues and without getting proper  
9 advice.

10  
11 The purpose of these public forums is to get input  
12 from stakeholders, including from you, and to take that  
13 on board and come up and make a judgment about what are  
14 the appropriate maximum prices that a government monopoly -  
15 in this case DPI Water - should be allowed to charge. We  
16 do that taking into account efficiency and costs and we  
17 also add an eye towards the impact on the users as well.

18  
19 MR MONTICONE: I understand that, Mr Chairman, but this is  
20 not a new issue. It was in our submission which was lodged  
21 to this review. It was also in the submission that was  
22 lodged to the previous review and, if I am correct, it was  
23 in the submission two reviews ago. I think it is highly  
24 appropriate that IPART provide a definition of what  
25 constitutes a perverse pricing outcome.

26  
27 THE CHAIRMAN: Okay, we will take that on board, thanks,  
28 Ildu, and if we decide to do that we will put it in our  
29 draft report. Thank you. Jon-Maree?

30  
31 MS BAKER: Thanks, Peter. Following back on what Nick was  
32 suggesting about the two parts of the meter reading costs,  
33 we are particularly concerned about the second charge in  
34 terms of data management. We see that in the pilot program  
35 that there was a significant underestimation of the costs  
36 associated with managing data. I think one of the things  
37 that we would caution is that there appears to be a move  
38 towards just because the data is available, we should be  
39 collecting it and therefore interpreting it.

40  
41 In terms of telemetry, because you can do a download  
42 every five minutes and one every week is sufficient to  
43 achieve the objective, we need to make sure that we are not  
44 increasing our capacity to manage data but not actually  
45 delivering any additional benefit. That is just on the  
46 telemetry costs.

47

1 The other thing that we would raise in terms of  
2 aquifer interference and the discrepancies that we are  
3 seeing in terms of interception of take water by mining and  
4 coal seam gas is that, effectively, they are being given,  
5 by the nature of their take, high security access, but they  
6 are only paying general security.  
7  
8 When a mine is actually licensed, they are required to  
9 purchase a groundwater licence to offset that impact. Say  
10 they have a 100 meg impact, when they do actually take that  
11 water, there is no capacity to put a commence to pump/cease  
12 to pump trigger like all other water users. The licenses  
13 that they purchase, particularly in alluvial sources which  
14 are all completely allocated, are actually general  
15 security, but they are, in effect, high security takers.  
16 If they exceed their predicted impact, they are actually  
17 having a high security take impact on all other users and  
18 that is not reflected in the costings.  
19  
20 We want government, and particularly DPI, to be  
21 mindful, as we go forward in seeing those prices, that there  
22 are some inequities in the current pricing structure that  
23 are not reflective of what is actually occurring in  
24 reality. Particularly as we go forward, there is a  
25 relative impact in the Namoi of a potential for 27 coal  
26 mines in the next 50 years.  
27  
28 When it was said in the Hunter 30 years ago that they  
29 would have the number of mines they do and the impact  
30 would be whatever the percentage is in terms of interception,  
31 that is what we are likely to be faced with now in the  
32 Namoi. We need to plan for that so that it is  
33 appropriately managed and that it is appropriately costed.  
34  
35 The other thing that I wanted to refer back to was  
36 Zara's comments on the need for a forum. We feel that the  
37 process here needs to have some change. We wish to see the  
38 detailed information before you actually make your  
39 determination. That is not going to occur now, but what we  
40 have suggested is that there needs to be a second forum  
41 because, effectively, what happens when you release your  
42 draft report, is that it is like a fait accompli. I know  
43 that you do take feedback back, but I don't think it is the  
44 level of feedback and the level of detail that we feel is  
45 necessary to get the best outcome in this pricing  
46 determination.  
47

1 I would strongly encourage that you do have another  
2 hearing or that the staff do come out and have a  
3 face-to-face meeting with people and get direct feedback.  
4 Thank you.  
5  
6 THE CHAIRMAN: Thank you, Jon-Maree. We will take those  
7 points on board. Next is David.  
8  
9 MR DUDDY: IPART, as I understand, is trying to get back  
10 costs that are associated with each valley and with each  
11 source. When we did volumetric conversion in 2006, the  
12 unreg conversion was based on 114,000 megalitres. That was  
13 our cap and that was what we were getting that the amount  
14 of \$2.60 started at.  
15  
16 We are now coming through where the entitlements are  
17 171,000, so there has been a huge increase in that  
18 entitlement, and we are now up at \$5.36. Not only are they  
19 picking up the IPART determination but they are also  
20 increasing the amount of entitlement and there are another  
21 24 licences still to be determined and there is floodplain  
22 harvesting as well. So they are picking up more than what  
23 you determined because they keep increasing the entitlement  
24 number and keep sending out the bills accordingly. No  
25 wonder we have little faith in what is happening.  
26  
27 THE CHAIRMAN: Thank you, David. David?  
28  
29 MR GOWING: I have suggested that regulated water usage is  
30 uneconomic. I think we have agreed that should licences be  
31 sold out of the area further downstream into other areas,  
32 that will have an effect on the licenses left. I would ask  
33 that IPART take into account the effect that that may have  
34 on price for those licences that are left. I would suggest  
35 that they do the figures on a 10 per cent level and then do  
36 another set of figures on a 50 per cent level to give them  
37 some idea of what might happen. Thank you.  
38  
39 THE CHAIRMAN: Thank you very much, David. Zara to  
40 wrap up.  
41  
42 MR LOWIEN: Don't put that responsibility on me, but  
43 basically there are just a couple of things to finish off  
44 the other points that we had.  
45  
46 For floodplain harvesting and the discussion about  
47 when that would be implemented, definitely our view is that

1 pricing at all valleys gets implemented at the same point  
2 in time. We feel it would be unfair that some valleys  
3 would start a pricing path before others, so we are hoping  
4 for a consistent implementation date, notwithstanding that  
5 the determination of licences is happening in a staggered  
6 way.

7  
8 The other point on that as well is the opportunity for  
9 user choice. We have not landed on a preferred position.  
10 We still are developing and monitoring a compliance  
11 strategy in consultation with DPI Water, but we do believe  
12 that there should be user choice. We are not sure whether  
13 that would come out to play as to whether we go to a  
14 two-part tariff opportunity rather than the way it is now.

15  
16 I believe there are two other issues that we have not  
17 covered probably but I am comfortable with. Back on  
18 forecasting, clearly Jon-Maree has raised a potential new  
19 user in the system which, in their case, is extractive  
20 industries.

21  
22 I do feel that there are other users that probably are  
23 not forecast and there is a difference in behavioural  
24 pattern. This is very important for the behaviour of the  
25 Commonwealth environmental water holder going forward  
26 and you can't use the historical behaviour pattern of  
27 irrigators when now a third of the water is owned and  
28 implemented by another user in the system.

29  
30 That leads to a final point, which is that there are  
31 other users that are not currently paying for water. In  
32 particular in our valley, we have quite a large  
33 environmental contingency allowance. I appreciate that the  
34 water sharing plan does not allow them to be charged, but  
35 I will struggle to find any other, I suppose, argument  
36 against the fact that there are costs incurred by both  
37 DPI Water and WaterNSW - although they are not particular  
38 for this forum - to help implement and manage that  
39 entitlement, and that goes for all the planned water.  
40 We do feel that water delivery is a 100 per cent user share  
41 and in some cases where valleys have a higher planned  
42 environmental water component, that is incorrect.

43  
44 CLOSING REMARKS

45  
46 THE CHAIRMAN: Thank you very much, Zara.

47

1 On behalf of IPART, I would like to thank all of you  
2 very much for your participation in today's proceedings.  
3 It has been of great benefit and interest for us to hear  
4 your views and we really do appreciate the efforts and  
5 contributions made by everyone here today.

6  
7 A transcript of today's proceedings will be available  
8 on our website in a few days. We will consider all  
9 that has been said today when we make our decisions for  
10 DPI Water to apply from 1 July 2016.

11  
12 As previously mentioned, we plan to release a draft  
13 report for public comment in March 2016. People will then  
14 have about four weeks to make further written submissions  
15 for consideration by IPART before we make our final  
16 decisions on DPI Water's prices.

17  
18 We will take on board the suggestion about further  
19 consultation, possibly staff meetings, at a later date.

20  
21 A final report and determination will be released  
22 in June 2016 and the maximum prices that we will set apply  
23 from 1 July 2016.

24  
25 I encourage you to monitor IPART's website for updates  
26 and further information on our timetable, including the  
27 release date for the draft report and the date by which  
28 submissions are due in response to that report.

29  
30 Finally, as I already mentioned, I note that we will  
31 hold two additional public forums on this price review - in  
32 Sydney next Monday, 23 November, then Griffith on  
33 30 November. The Sydney public hearing will also be  
34 webcast. Please refer to our website for information on  
35 how to register to view the webcast and/or attend these  
36 hearings.

37  
38 This obviously brings us to the close of the public  
39 hearing today. Please feel free to join us for lunch which  
40 will be provided outside.

41  
42 Once again I thank you for your participation. Have a  
43 good afternoon.

44  
45 AT 1.52PM, THE TRIBUNAL ADJOURNED ACCORDINGLY

46  
47