INDEPENDENT PRICING AND REGULATORY TRIBUNAL
REVIEW OF PRICES FOR DPI WATER

Tribunal Members

Ms Catherine Jones, Chair, and Mr Ed Willett, Member

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

At the Griffith Ex-Servicemen's Club,
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OPENING REMARKS

THE CHAIR: Good morning, everyone, we are going to get started now. I would like to welcome you to this public hearing. We are conducting a review to determine the maximum prices that DPI Water can charge for water management services it provides on behalf of the Water Administration Ministerial Corporation (WAMC) from 1 July 2016.

I am Catherine Jones and I am one of three tribunal members from the Independent Pricing and Regulatory Tribunal (IPART). I am joined today by one of my fellow tribunal members, Ed Willett. Assisting the tribunal today are members of the IPART secretariat: Hugo Harmstorf, who is IPART'S Chief Executive Officer, Matt Edgerton, John Madden and Alexandra Sidorenko.

I would like to begin by acknowledging the Wiradjuri people as the traditional owners of the land we are meeting on today.

I would also like to thank those of you who have provided a written submission in response to our Issues Paper for this review which was released in June. Our Issues Paper set out the key issues that we are considering as part of the review. DPI Water's pricing proposal was submitted to IPART on 11 September 2015.

DPI Water's pricing proposal, our Issues Paper and submissions to the Issues Paper are available to the public on our website.

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

We are holding three public hearings for this review. Today's public hearing is the last of these public hearings. We held a hearing in Tamworth on 16 November, which was followed by last week's hearing in Sydney on 23 November. The link to a video of the Sydney public hearing has been made available on our website to assist those who can't make any of the three public hearings in person.

Following this public hearing, we will release a draft determination and report for public comment in March 2016. People will then have about four weeks to make further written submissions for consideration by IPART before we make our final decision on DPI Water's prices.

A final report and determination will be released in June 2016, which will set maximum prices to apply from 1 July 2016.

In general terms, our price review will seek to determine:

What are DPI Water's efficient costs of providing its water management services;
What is the user share of these costs; and
How should the user share of costs be recovered through prices?

Before we commence proceedings today, I would like to say a few words about the process for the hearing.

We will commence today with a presentation by DPI Water of its pricing proposal. The hearing will then be divided into three sessions.

The first session will consider DPI Water's operating costs, capital costs and its approach to allocating costs between users and government, ie, the user share of costs. We will also discuss the length of the next price determination.

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

The third session will consider other prices and issues associated with the DPI Water price review, including the water take forecasts, floodplain harvesting, water take measurement - or metering - service prices, consent transaction prices and service levels and outputs. In the third session, we will also have an opportunity to hear your views on other issues you may wish to raise that are relevant to this review.

Within each session we will discuss several topics.

A member of the IPART secretariat will give a brief presentation introducing each topic. I will then invite participants at the table to provide comment on those topics. Following discussion by those around the table, I will invite comments from those in the general audience.

Today's hearing will be recorded and transcribed. Therefore, to assist the transcribers, I ask that on each occasion you speak, you please identify yourself and, where applicable, your organisation. I also ask that you speak clearly and loudly and into the microphone.

A copy of the transcript will be made available on our website.

We commence today with a presentation by DPI Water of its pricing proposal. I ask Gavin Hanlon, DPI Deputy Director General (Water) to please make your presentation on the DPI Water pricing proposal. Thank you, Gavin.

DPI WATER PRESENTATION

MR HANLON: Thank you. This is the third of these presentations that we have done around the countryside. This one has been adjusted a little bit to try to fit in a bit more with issues around this part of the world.

Importantly, up-front it is worth acknowledging that there are plenty of other things happening inside water at the moment. The Murray-Darling Basin Plan, in particular, is in a tight time frame for the next six months or so. We are heading into a fairly dry spell next year where there are likely to be zero allocations at the moment at the start and, in the middle of that, we want to talk about water pricing, so there is never a good time to do these sorts of things.

You will see through this presentation we have tried to put together a submission to IPART from the perspective of a customer. Whilst we have had to move some things around in terms of the structure of pricing, we have tried to work backwards from what the bill actually looks like and we can go through more details later on.

So what is our submission made up of? There are three key components. There are consent transactions, meter service and reading charges, and then water management

charges. Through the morning and a little bit of this afternoon, we will go through each of these sorts of components in a bit more detail and IPART will take you through each of those things and provide plenty of opportunity for discussion.

Importantly, in putting our proposal together, there are some guidelines we have to use. The National Water Initiative is one of the things we use in the background. The IPART guidelines are part of that, but then also, over the top of that, we have put an in-depth review of the way we actually do things to try to pull some costs out of the business to try to keep some prices down. You will see some of the efficiency mechanisms we have put in there and where we have saved some money where we can.

In terms of calculating fees for service, we have had to make some assumptions, if you like, getting close to guesses on what demand might be over the next three, four or five years. We can talk a little bit about that later on.

We have also been through an exercise of looking at what are some of the other charges by other water providers to make sure we are broadly consistent, at least in structure, where we can.

This year as well for us, we started from the bottom up. We pulled apart our budget processes and built up this exercise from the bottom up rather than trying to impose it from the top down. We went through looking at where we could make cost savings.

In some cases, we actually had people sitting beside staff timing them when they were going through, say, a transaction to see how much time they actually spent on an average transaction and built costs around it. Then we looked at ways we could actually do it better, easier and then faster, which ultimately resulted in bringing some costs down.

This slide relates to the challenging part for us. Out of the 22 separate systems inside New South Wales, there are a number that are not at cost recovery. They are not quite at 100 per cent cost recovery. Through this proposal, we will be proposing that, over time, they get back to 100 per cent. Murrumbidgee unregulated is one of those. I will not read out all the other names, but that is one of those that is not being fully cost recovered.

We are not proposing to recover costs in the first year. In fact, we are only proposing that, starting the year after next, we will look at a pathway that gets it back to 100 per cent over a number of years, but no more than a 2.5 per cent increase year-on-year, so we are not trying to do it all in one hit. Murrumbidgee is not on its own. As you can see, there are quite a few others there that are in the same sort of boat.

I think I have been through this slide in terms of the exercise we went through to build our costs from the bottom up, but we also looked at how we shared costs between government and with users as well, and we will talk about that in depth a little later on.

These are some of the key things for us. We are proposing a four-year determination. We can have a discussion about four years versus five years later on. There are a number of things we have incorporated here but, importantly as well, we have tried to get to 70 per cent fixed and 30 per cent variable. We can have a discussion about what that means later on as well.

Building the budget from the bottom up has actually meant that we have much more data and we can actually more cleanly allocate costs between services and regions. We can talk about why there are some movements between some of the traditional charges, which is basically because of the way it was built from the bottom up. We can also talk about the 2.5 per cent glide path for those who are below cost recovery.

These are some of the outcomes. We have built in some cost savings. We went through an exercise. Next year the Murray-Darling Basin contributions are proposed to be increased. Rather than put that through to customers, we propose to fund that through cost savings on our side of the business. On top of that, we have looked to provide a 1.5 per cent productivity dividend year-on-year.

I won't go through everything on this slide, but I guess one of the key things in trying to keep an average bill without too much change - and I can talk through

detail of that - is actually increasing the minimum annual charge quite substantially. We are proposing that that will go from $100 to $150 in the first year. That enables us to either keep some prices down or take the impact of putting prices up off at the other end.

I won't go through the detail of the second last one because there is a whole slide on that a bit further on.

Prices haven't changed in water I think for the last three years, is it, Nick, or two?

MR MILHAM: Two.

MR HANLON: Next year, we are not proposing any increase in bills either but we are proposing some changes in the way they are structured. We have worked backwards. There is no such thing as an average bill but we have worked through some assumptions to try and keep the bill impacts as minimal as possible for the year after, and then the price increases for the 2.5 per cent are required to start in the year after that.

With water consent transactions, nearly all those fees have reduced through the exercise we went through in looking for some savings. We propose to increase low frequency type transactions - we will talk about that a bit later - and, as you would expect, online applications will reduce in their costs.

For meter service charges, we have differentiated price there based on the size of the meter. Some people say, "Why is that", and we can talk a bit about that later on too. It is primarily around risk more than anything. I won't talk about the others you can see there because I think I have probably touched on them.

Meter reading and assessment charges - we have decreased them by 7 per cent through the process we went through and we can see what that means for each of the bills and I am happy to take any questions. I have some slides there. I was anticipating a much bigger crowd in Griffith. I know water pricing is --

MS BULLER: We're harvesting.

MR HANLON: I was going to say, driving up this morning through Berrigan, there were some trucks and chaser bins in paddocks, so I figured that was the case, but I have a few slides here on the Murray-Darling Basin Plan for later if we have time as well, so I'll leave it at that, if there are any questions.

THE CHAIR: Thank you, Gavin.

For the remainder of the session we will be discussing key elements of DPI Water's proposal you have just heard about. We will commence with a discussion on the length of the determination, followed by a discussion of the revenue requirements and costs of providing DPI Water's water management services and the share of these costs to be recovered from users through prices.

In order to assist these discussions, IPART's Secretariat will provide a brief introduction to each of these topics. I now call on John Madden from the IPART Secretariat to introduce the discussion, followed by Alexandra Sidorenko.

SESSION 1: LENGTH OF DETERMINATION & COSTS/EXPENDITURE

MR MADDEN: Thank you. Just a little bit of background. I will just go through some of the functions that we are actually looking at, the activities that we are determining the prices for.

Just to give an overview for the Water Administration Ministerial Corporation, or WAMC, that is the body that is responsible for water management in New South Wales. DPI Water delivers water planning and management services on behalf of that body. We set the maximum prices that they can charge for those government monopoly services.

Some of the roles and activities that we are looking at. DPI Water's role is to provide for the sustainable and integrated management of New South Wales water resources for the benefit of the community and the environment. Essentially, this involves protecting the water users' property rights and water entitlement system through water access licences. This is in conjunction with State Water, which is now WaterNSW and their charges that they actually apply for the management of the dams and infrastructure for delivery of water. That is a separate determination, so we are really looking at the management charges for DPI Water

here today.

The key activities undertaken by DPI Water include developing water sharing plans, determining volumes of water available for allocation and announcing those, management of registers and trading, monitoring water quality, quantity and environmental health and collecting data on water take.

The broad categories of prices - we set water management prices. They are generally based on the holding of entitlements for water and extracting water from regulated rivers, unregulated rivers and groundwater sources. They are three broad types of water sources that we are looking at.

We then have consent transaction prices which are for tasks or activities, such as issuing water access licences, works approvals and other transactions under the Water Management Act and the old Water Act from 1912 and also then water take measurement prices which are for maintaining and reading meters, and these are for the unregulated and groundwater users only, and WaterNSW is responsible for those in regulated systems.

Just as a bit of an overview, too, on our broad approach for setting the water management prices for DPI Water, that is provided there. Obviously, we have to look at the scope of government monopoly services as a starting point, establish the total efficient costs, which Alexandra will talk through in some detail. This involves us examining the proposal in detail and it also involves engaging consultants to look at the proposed expenditure put forward by DPI Water.

As mentioned, we then look at the user share, so that’s how much, using an impactor pays approach, that comes from irrigators as an impactor, versus other users of water and from the community in general. We allocate that user share of efficient costs then by water source to determine the prices. IPART under its Act also has to consider the impact of its pricing decision on DPI Water and users. One of the first issues that we deal with is the length of the determination.

Once the prices are established, how long our determination actually goes for. I think the last was three years but then there was two years where due to certain major circumstances, actually, a new determination was delayed. That is where Gavin mentioned that prices have been held constant in nominal terms. When there is a delay, those prices just carry forward, so it has actually been five years since the last determination.

DPI Water proposed a four-year determination and there is general stakeholder support from submissions for a four-year period. As part of our consideration one of the factors that we looked at was alignment of DPI Water's future determination with WaterNSW's rural operations, which was formerly State Water. Their determination under the ACCC rules, which we're now accredited for - but we also look at the coastal valleys - is beginning next year, so there was consideration of five years at our end to align those.

I will just hand over to Alexandra who will go through some details on the revenue and the costs put forward by DPI and some of our initial analysis.

MS SIDORENKO: Thank you, John. Thank you everyone for attending today's forum and helping us sort out the DPI Water pricing proposal.

Just for explanation, I will give you a brief description of how IPART sets DPI Water's maximum prices. The first step is establishing a notional revenue requirement which we calculated in terms of a building block approach. Basically, we have to establish the efficient operating costs. We establish the efficient and prudent capital expenditure that feeds into the regulatory asset base and then we give a return on and of assets as part of this building block.

We then also include the tax allowance and the working capital allowance and we determine the user share of costs using the impactor pays principle. This building block applies per valley and is split between a per valley and water source basis using the cost allocation model, but the notional revenue requirement is determined by the activity code which is a separate line in DPI Water's monopoly services, so I will talk about that a little bit later.

The user share of course is determined based on the impactor pays principle and again, we will cover it in more

detail a bit later. For those valleys and water sources which are below cost recovery at the moment, the prices will not be set at the level of full cost recovery but a transition path is proposed, a glide path to mitigate customer impacts.

In terms of notional revenue requirement proposed by DPI Water, the total notional revenue requirement is $62.5 million and this is the average over 2016-17 to 2019-20, so we will be talking about a four-year proposed new determination period and also the figures that I will be giving in this presentation are in 2015-16 dollars.

The proposed user share of the notional revenue requirement is an average $45.4 million per year. This is lower than the user share in the 2011 determination and if I can just add a little commentary here, in the 2011 determination when we talk about what is allowed under the current determination, that is only for the three years that we set prices for, which was 2011-12, 2012-13, 2013-14. For the two years of the deferral, which were 2014-15 and 2015-16, the prices are kept constant in nominal terms. Basically, the level of DPI Water's prices has not changed since 1 July 2013 in nominal terms.

For our allowed notional revenue requirement under the current determination, that is an average over three years, 2011-12 to 2013-14, the average was $47.2 million and that is higher than the proposed user share going forward. The proposed user share of notional revenue requirement is 72 per cent. Again, it is down from what was allowed in the 2011 determination, but our consultants are currently looking at and finalising their review of DPI Water's operating costs and capital expenditures and they are hoping to have the information on what the efficient costs would be, operating costs, capital expenditure, also the proposed cost allocation model and user share, of course, by activity code.

There has been a change in the cost allocation model that DPI Water put forward. That is partially due to the change or revision of activity codes and also tocost allocation model and cost drivers. To compare the average over the current determination, we are looking over three years where we have set prices, so that's the dark blue bar on the left. That is comparing the average over the current determination to the proposed average going forward, that's a four-year average from 2016-17 to 2020-21, the green bar, and the graph maps the user share of notional revenue requirement by water source, regulated rivers, unregulated streams and groundwater.

You can see that there has been a reallocation of notional revenue requirement from unregulated sources and groundwater to regulated rivers and we can talk about contributing factors a little bit later, but that is driven partially with the change of activity codes and cost drivers and allocation of costs to the water sources.

Recalling the composition of the notional revenue requirement, operating expenditure is one of the components of the building block where we look at the proposed operating expenditure. DPI Water has proposed an average of $51.1 million in opex per year. This is a reduction from 2015-16 to 2019-20 of 5.3 per cent, so there was a declining schedule of proposed opex. The reduction is due to a year on year, 2015-16 to 2016-17, efficiency saving in the amount of CPI estimated at 2.4 per cent and then ongoing efficiency savings of 1.5 per cent per year for the remaining years. The user share of opex is 75 per cent or $38.6 million on average.

This diagram maps the proposed user share of opex going forward against historical operating expenditure that IPART allowed in the 2011 determination. What IPART allowed is the dark blue bar and DPI Water's actual opex and forecast opex is the green bar. Basically, over the current determination period, some years were above what was allowed. 2013-14 was roughly at the level of what was allowed, then there was a spike, then there was a drop to the 2015-16 level and thereafter there has been this budgeted reduction in operating expenditure.

We can see that this is $38 million, going down to $37.4 million by 2020-21. DPI Water's proposed capital expenditure program amounts to $15.4 million in total over the four years 2016-17 to 2019-20 of which $13.6 million is user share of capex which is 88 per cent user share. The proposed capital expenditure program is higher than was allowed in the 2011 determination. Most proposed capital expenditure is in the groundwater monitoring network and the water access licensing system. Most of those activity codes have 100 per cent user share, so that brings about the high overall user share of capex resulting from this

capital expenditure program.

Our consultants are looking into the proposed capital expenditure program, its composition and activities, and they will assess the prudence and efficiency of the proposed capital expenditure program.

Again, the actual and proposed capital expenditure against what was allowed in the 2011 determination, the proposed capex obviously goes up, because of the recent increase in capital expenditure, from 2017-18. A separate line in DPI Water's notional revenue requirement is contributions to the Murray-Darling Basin Authority and the Border Rivers Commission. The proposed user share of contributions to the MDBA is $5.5 million per year over 2016-17 to 2020-21. It is higher than the allowance that was made in the 2011 determination. That was roughly $2 million per year in 2015-16 dollars. BRC costs are proposed to be about $0.3 million for the determination period.

We received submissions from stakeholders to our issues paper and the MDBA made a submission stating that there were certain expenditures that DPI Water has to contribute to as part of MDBA contributions that were not included in DPI Water's proposal, which means that potentially this amount can be higher. At the same time, we received stakeholder submissions questioning the efficiency of the MDBA and the share that is allocated to valleys, and raising other questions relating to the MDBA, so we are hoping to shed some light on these questions in this audience today and also hear DPI Water answering these questions.

That was the conclusion of the revenue requirements and costs section and I will move to the section in session 1 on the user shares, of course. For each activity that DPI Water reports on, and that is a government monopoly water management service that DPI Water provides on behalf of WAMC, we determine the user share of this cost using the impactor pays principle. An impactor is any individual, group of individuals or organisation whose activities generate costs, or a justifiable need to generate costs.

This user share can range from zero where clearly there are wider benefits, it's a policy related issue, or it's something that benefits the environment or the community at large and the impactor is not an irrigator per se; and 100 per cent user share is the other end of the spectrum where actually it is the irrigator, the user, who generates all of these costs and the need to incur these costs. These activities would have a user share of 100 per cent, because it is purely related to the impact created by water users who are licence holders.

In the case of DPI Water's monopoly water management services it is often that the impactor is a beneficiary as well, but the principle, based on the National Water Initiative pricing principles, we are using the impactor pays principle to determine the user share of costs.

In DPI Water's pricing submission there has been a revision of user share of costs and that was driven by a higher level change of activity codes. The 2011 determination was based on C codes, which was 11 groups and 36 activities which now has been condensed or amalgamated to 10 groups and 33 activities. The explanation for this change from old C codes to new W activity codes was to improve the definition, accountability, reporting and recording of water planning and management services. Basically, these new activity codes better reflect the operating environment of DPI Water's operations.

As a result, the user share of these activity codes has also been recalculated but the application of these new activity codes and new user shares resulted in 72 per cent of notional revenue requirement proposed to be recovered from users, which is a reduction from 75 per cent in 2013-14.

We received submissions from stakeholders. Some of the stakeholders raised concerns about costs being shifted from low user share activities to high user share activities and some stakeholders also raised concerns that perhaps new activity codes still failed to capture all users and all water management services.

Our consultants are reviewing the new activity codes and user share of these costs as well, so we are hoping to get more insights on that. As an example of these changes in the user share of costs, this is the list of W activities that were billed as an amalgamation of C coded activities. If you look at the first one, for example, it's WO2-02,

Groundwater Quality Monitoring. This is the aggregation of the old activity code Groundwater Quality Monitoring CO2-02 which had a user share of 100 per cent and part of the activity CO4-01 Water Quality Analysis which had a user share of 50 per cent. In this instance, the resulting user share of costs is 100 per cent. We don't have an answer yet that this 100 per cent is justified, the consultants are looking into that, and DPI Water informed us that there was an independent assessment by consultants on their behalf to examine the user share of costs.

This could be an example of stakeholder concerns that by amalgamating two activity codes with different user shares, the resulting activity code has a higher user share of costs.

In this session we are hoping to get some feedback and some views on the following questions. The first question is what should be the length of the determination period, whether we should stick with the four years proposed by DPI Water or what are the arguments for aligning with Water NSW's future price review, whether a five-year determination period should be considered.

The second question is are the DPI Water forecast operating costs efficient? Are the proposed efficiency gains sufficient? This is 2.4 per cent annual in 2016-17, and then 1.5 per cent going forward. We would like to have your views on DPI Water's proposed capital expenditure program, its prudence and efficiency.

We would like to hear about MDBA contributions and the user share of MDBA and BRC costs. We would like to have some views on whether the proposed scope of DPI Water's activities are adequate and the proposed user share. Thank you very much.

THE CHAIR: Thank you, Alexandra. We will start with around the table. Who would like to start. Jenny?

MS McLEOD: Jenny McLeod from Coleambally Irrigation. We have started week number three with Coleambally, so you have to excuse my lack of some of the detail. I think one of our key concerns with the determination is the reform that is currently occurring between DPI Water and WaterNSW. In looking at the length of the determination, consideration of that transition because we need to be assured that irrigators are only paying once for services, and I am not across the detail, I am not sure that there's that much public about what's actually occurring, but I think it is a major issue for some of the items that are important to irrigators in this pricing submission.

MS DAVEY: Perin Davey from Murray Irrigation. We share Coleambally's concerns about the agency reform, particularly given that no-one knows where it will all settle, as long as there is a mechanism for identification of the associated costs with an activity that might transfer between agencies and that it's only recovered from one source and the agencies work out how to transfer the costs so there's no double dipping.

We are also concerned that regulated users may be subsidising unregulated or users who don't pay certain charges, like basic landholder rights, environmental water deliveries, that is, planned not held environmental water. We would like IPART to have a close look at those, particularly in light of the slides that came up on the screen before, that I can't find in my slide pack, that showed that under the next determination or the proposed determination, regulated user shares would actually go up, whereas groundwater and unregulated would go down.

We would question that given in the last determination period it would appear that regulated users, the businesses servicing regulated users have been operating at a profit, which I covered in our submission, whereas groundwater and unregulated have come in as a negative, so we question why regulated users are subsidising other users.

THE CHAIR: Did you want to comment on that one, Gavin?

MR HANLON: The only thing I could say here is the reason this has come about is because, in our view, a cost allocation will become this bottom-line bill which is going to be a better picture of how costs are allocated, which has resulted in this sort of figure. We are not keen to have any sort of cross-subsidisation going on inside of the proposal. Maybe I should just leave it at that.

THE CHAIR: Yes, Gavin. Richard, did you want to say something?

MR STOTT: Richard Stott, Murrumbidgee Groundwater Inc. I

am always happy to see groundwater costs go down. I share the same thing as everybody else. We want to make sure in this determination that everybody is bearing their share of the cost and it has got to be very transparent and I think that's the main thing behind it. If we are working it out a different way we may come up with some different answers to what we've had in the past, but we have to make sure that nobody is paying more for their share than anyone else. I think that is just across the board and I am speaking for the New South Wales Irrigators' Council and across all valleys as well, not just a particular valley.

THE CHAIR: Iva?

MS QUARISA (Murrumbidgee Groundwater Inc): No.

MR MORTON: Jeremy Morton from the Ricegrowers' Association. I am not pushing to contradict Perin about unregulated and regulated, but in the Murray and the Murrumbidgee Valleys we actually have regulated and unregulated in the same system, effectively. I am particularly interested in the unregulated costs within the Murray and the Murrumbidgee Valleys.

Gavin said that the Murrumbidgee specifically is 66 per cent of full cost recovery, which is a little bit hard to understand, but if you look at the two-part tariff in the proposed water charges - and I will just use the Murray as an example - the Murray at $2.77 and Murray unregulated at $6.88, so I am wondering how there could possibly be a 250 per cent difference between those two.

THE CHAIR: In the next session after the break, we are going to go into pricing and price structures in more detail, which may answer your question.

Gavin, do you want to comment on that?

MR HANLON: Yes, I was going to go through my examples. We looked at the bill rather than the actual individual prices, so maybe we could deal with that in the next session.

THE CHAIR: Did anyone want to address any of the other questions we've got there about the length of the determination or efficiency gains?

MS McLEOD: I thought we were just asking that at point 1.

THE CHAIR: You can have another turn now.

MS McLEOD: The issue with forecast operating costs and efficiencies - and I am pleased you have a consultant looking at the prices - is that information accessible to irrigators in terms of detailed pricing? My question is, is that consultant's review going to be publicly released so that we can provide some input? We really have no view, from this submission, as to the costs that are detailed here so that we can comment on their efficiency online.

MR EDGERTON: Yes, Jenny, we will release our consultant's report. We are planning to release that in March alongside our draft report. The other thing we will do in our draft report is we will outline as much information as possible in terms of how costs are allocated and how prices are set. I guess with that type of report package, we are aiming to provide you with as much information as possible. Stakeholders will then have about four weeks to respond to our draft report.

THE CHAIR: Perin?

MS DAVEY: On the demand assumptions, I am just wondering how held environmental water is treated in the demand assumptions forecasts. Is that considered an extraction and then the price is based on the whole extractions for a valley or are they separate? If we are working on 20-year rolling averages, it may potentially change the pattern of use over time.

THE CHAIR: We will also talk further about this later on, but, Gavin, do you want to say anything now or --

MR HANLON: No, we will deal with it later, if you're happy with that.

MS DAVEY: I would also like to make a comment on the MDBA charges. We understand that the MDBA conducted their own efficiency review into themselves last year. We are very concerned that there was no transparency in the process. Users have had no opportunity to consider whether the MDBA charges are efficient and appropriate. I note that our user shares are likely to go up if the current proposal is accepted. But, we still have reservations as to whether

their costs are efficient costs.

I note in David Dreverman's submission to IPART, he indicates that the New South Wales contributions have to go up to very near what they were before New South Wales pulled funding previously, which indicates that there has not been much change at that level. We would again ask that IPART scrutinises that closely and applies the same rigour as they did in the last determination of those charges.

THE CHAIR: Thanks, Perin. We have a consultant taking a closer look at those costs and their efficiency, so we expect to put that in our draft report.

MR HANLON: May I comment on the MDBA stuff quickly?

THE CHAIR: Yes.

MR HANLON: New South Wales, in particular, drove the request for a few things with the MDBA. The first part of that was an efficiency review into the way they operate and that has been reported back to the Ministerial Council.

There were two other parts to it as well. The second part was how do you manage cost spikes? Because of the way the Basin agreement is set up, there are quite lumpy infrastructure requirements coming through the system and no mechanism for smoothing out the costs.

We asked, on behalf of the states, a consultant to look at how do you smooth that out so that the states' treasuries, in particular, and the customers don't have to deal with that. We have not received that final report yet. It is due towards the end of the year.

The third part of what New South Wales was pushing for was what is the best institutional arrangement to actually drive those efficiencies? The efficiency review is really only one of three things that had to be done inside the Basin - the joint venture operations.

I don't think the institutional arrangement stuff will get much legs until the Basin Plan is bedded down a bit. Until next year, I don't think they have enough time for that, but we will continue to push that if you need X institutional arrangements to get the ability to manage cost spikes, we need to keep pushing for that.

We have not committed yet to the MDBA's corporate plan and the cost shares for next year. That still has to go through our own budgetary processes. We have indicated we only have, I think it's $19.7 million confirmed at the moment through state and treasury, with the remainder subject to this process which still does not get us to the full amount they are requiring for next year.

We continue to argue that they have about $6 million underspend year to date. We would be asking that they manage that a bit cleverly into next year, if you like, instead of asking us for more money. However, like all good organisations, I am sure they will make it up and there won't be any money on 30 June, but we will keep pushing for that.

THE CHAIR: Thanks, Gavin.

MS McLEOD: Could I make a comment on the MDBA?

THE CHAIR; Yes, Jenny.

MS McLEOD: A number of the costs, on my understanding, are passed on as a user contribution including for Living Murray projects. Is it timely to look at whether or not the user share that is attributed to some of those projects is actually appropriate, because a lot of the outcomes of those projects result in the environment being a major beneficiary? I think somewhere in here, it refers to projects being funded through the Living Murray and then the money goes to the states. I think it is appropriate to look at whether or not irrigators should be paying as much for those projects or at all.

THE CHAIR: Gavin?

MR HANLON: Jenny, you have prompted a much bigger discussion for the next three or four years because all the MDBA offset projects which go into the hundreds of millions we are still negotiating - or arguing, whichever way you put it - on how the ongoing O&M and depreciation of those assets will be managed as well.

We would certainly be putting up the argument that if the environment is the beneficiary, they should be paying

for it. I think in this process if the question was just to be looked at as a contribution in the context of what exists, we should also start to think about what the next three or four years look like post the MDBA implementation because I think it will be three or fourfold bigger than on what it is now.

THE CHAIR: Thanks, Gavin. Are there any other comments or questions from the table? Would anyone from the audience like to say something? Just come to the microphone, please, and tell us who you are.

MS BULLER: Debbie Buller, Murray Valley Food and Fibre Association. It said on one of the slides that most of the capital expenditure is on groundwater monitoring. I was wondering where is most of that? In what areas is most of that groundwater monitoring and what industries?

THE CHAIR: Gavin?

MR HANLON: It might be best to make a general comment and take that on notice. I think the proposed capital expenditure is based on an asset assessment we had done a while ago on the conditions of our groundwater monitoring network. A number of them are starting to get close to the end of their life and, in some cases, they are actually failing. Generally this is spread out over the state, but in terms of the actual, I would be happy to come back with the details.

THE CHAIR: Thanks. Would anybody else from the audience like to comment? Matt has a few questions to ask, but, Richard, did you have anything to say?

MR STOTT: No, thank you.

MR EDGERTON: To pick up on what we were talking about and on what Jenny raised with regard to MDBA contributions, Gavin, I was wondering if you could tell us a little bit more about the activities that the proposed user shares will be funding over the next four years for the MDBA contributions?

MR HANLON: I'll talk in generalities, I think, in terms of the specifics. I have not checked this myself, but I am told the efficiency review is actually up on the MDBA's website somewhere. In terms of the types of things for the contribution funds, there are a number of joint assets that are held inside the Basin for joint operations, in particular along the Murray River or storages that are for the purposes of operating the joint ventures.

It also picks up salinity management where the states have all signed up to do this as a collective, so the costs incurred inside there are for those sorts of activities.

There are some things that we collectively as a state have agreed are important as well - things like monitoring the valuation inside of the Murray-Darling Freshwater Research Centre labs, which are now under a new company structure, but that's their old name that we used to use. Unfortunately, some of those projects that the states consider important are usually the first ones that drop off when you start looking at pushing for costs here and there. Generally it is on those assets that are shared or under joint ownership or joint operations primarily along the Murray and not so much on the Darling.

THE CHAIR: Perin?

MS DAVEY: According to the DPI Water submission, there are user shares attributed to a lot of the Living Murray, planning and monitoring - monitoring and planning for delivery, including for:

Planning Delivery Mouth Coorong Lower Lakes.
Planning Delivery Chowilla Lindsay Walpolla.

Why are New South Wales water users paying for planning and delivery for water to assets and icons outside of our state, as an example?

MR HANLON: Equally, Perin, the other states will argue about why are they paying for works and measures and things inside of New South Wales. With the Living Murray side of things, I think the point was made very well earlier about making sure it is followed up on, namely, is there a potential cross-subsidisation between a very large new holder of water and traditional holders of water and whether that is appropriate or not?

In terms of the things inside of the corporate

framework, what we are proposing there has come out of the joint venture proposal as it is. We have not signed up to next year's corporate plan yet, so some of those things may well change - next year's Murray-Darling Basin joint venture corporate plan, that is.

MS DAVEY: Noting that other states also recover their costs in different ways.

MR HANLON: It might be worth, at some point, actually spelling out the different ways of recovery between the states for the IPART Secretariat to have a look at to see the differences between the states inside the joint venture that operates it.

THE CHAIR: John, do you have some questions?

MR MADDEN: Just a quick follow-up. I do have another question, but just on that, what are the kind of broad contributions from the states to the Murray-Darling Basin Authority? Do you have any idea of the different share?

MR HANLON: So the cost shares between the states have been established for decades. It is just that New South Wales said, "Enough is enough." The cost shares have been agreed for a long time, although it is fair to say they have been stretched and have been challenged a lot over the last four years. They are available on the MDBA's website and our site.

MS McLEOD: Could I ask a follow-up question in relation to that?

THE CHAIR: Yes, Jenny.

MS McLEOD: With the impact of the Basin Plan, which will see reductions in diversions, what consideration is there for considering changes to those cost sharing arrangements? Sorry, I'll rephrase that - likely to see larger reduction in diversions.

MR HANLON: I guess it is fair to say New South Wales is still working through some of the policy implications of that for water charging. To date the approach has been in most states that the environment pays its fair way. Wherever the water has been purchased, the charges or the characteristics of that water go to the environmental water holder so they will pay whatever.

I am not sure we have quite got the planned water stuff right yet, particularly where it contributes to the Basin Plan side of things. What I am also not quite sure we have got right is the charges associated with the infrastructure we will be building all over the place in the next 10 years.

You are quite right; there will be less water going through meters, which arguably is less revenue to pay for more expenses through irrigation companies and irrigation users. We know in some cases the New South Wales environmental water holder, for example, does trade water to cover its charges. We will be actively advocating for the larger of the environmental water holders to do the same.

THE CHAIR: Matt?

MR EDGERTON: I have another question for DPI Water. For pricing purposes you build your costs up by assigning water management activities to cost codes. We have heard that you have changed those cost codes from what you termed C codes to W codes. Could you tell us a little bit more about why you have made those changes and also whether that affected the user share of any particular water management activities?

MR HANLON: So as part of the bottom-up build, it became quite apparent that the cost codes we had were not detailed enough for the purposes of clearer cost allocation. I won't say "clearest"; I'll say "clearer". It is a sort of step improvement, but it recognises there is still a way to go. That has resulted in some changes through our submission and we have clearer cost allocations and more detail to look at.

The other important thing here is the way we have put the proposal together enables, I guess, the "bolt in bolt out" terminology we have been using in the submission between us and WaterNSW if some sort of functional separation is approved by government in the near future.

Both Jenny and Perin made the point about making sure that there is no double dipping. What we will do, Perin, is take that on board and make sure the take-on audits, at

the point at which there is a transaction, are such that we can clearly and explicitly point to where that is. The codes also enable that little bit smoother "bolt in bolt out", but it has also resulted in a better understanding of cost allocation, which has resulted in some changes.

MR EDGERTON: We have heard that, overall, your proposed user share is going down slightly. In changing cost codes, are there any particular activities that spring to mind in terms of whether there has been a significant change to user share?

MR HANLON: Nothing springs to mind.

MR MORTON: May I say something?

THE CHAIR: Yes, Jeremy.

MR MORTON: If we can step back to the previous slide about the new water user and the take component of the water that they have, I want to clarify something. If they call on water to be delivered even though it might not go through a complying meter or anything, does that mean that they would still have to pay a take charge?

MR HANLON: They pay the networks charge, yes.

MR MORTON: So the works charge is, but the take charge, do they pay that?

MR HANLON: The water maintains the characteristics from wherever it was purchased. I think there was some argument - well, opportunity is probably a better way to put it - where the environment could probably better utilise existing infrastructure rather than create new infrastructure and pay for that is an area for further investigation over the coming six months or so.

THE CHAIR: John?

MR MADDEN: Just to get it on the record, I guess, and to follow on from Jeremy's question, not just through a regulator or from a meter but in terms of shepherding or delivery down to South Australia, is this volume included and billed back to through the Commonwealth environmental water holder as well?

MR HANLON: They pay the headworks charges. In terms of shepherding and piggy-backing, and all those terms, they have yet to be agreed. We have submitted a draft sort of policy, a prerequisite management policy - I think it is called something like that - about how we are proposing to manage shepherding of water through the system. It is probably more pertinent on the Darling than what it is on the Murray and there are still a lot of negotiations to happen yet.

MR MADDEN: You say headworks charges, which I assume are WaterNSW charges. What about DPI Water charges?

MR MILHAM: They would pay DPI Water charges to the extent that that water movement is licensed water. All licensed water, all entitlement water, both fixed and variable charges are paid by the holder of the entitlement whether they are environmental or other.

MR MADDEN: So that includes on the Darling unregulated, so under the shepherding policy there will be a take charge levied?

MR HANLON: We are not there yet. We are still negotiating that policy with Canberra and, importantly, the other states as well. There are implications on how they manage water both on the Darling and the Murray as it ends up in South Australia, so there is a bit more work. For the purpose of this submission, that has been pretty much left as it is. We have not incorporated or anticipated anything or made any assumptions about what might be with regard to shepherding.

MR MADDEN: Do we have any idea of indicative volumes?

MR HANLON: Volumes are subject to whether there are still offset projects, what they add up to and whether the efficiency projects get off the ground at all. There is 650GL tied up in offset projects and 450GL tied up in efficiency possibilities. I just think it is too early to really have a good understanding of particularly what the 450GL might mean in terms of the way that water is delivered through our systems. Remember that the 650GL of potential offset water is actually likely to keep water in production, I suppose, is the intent here.

THE CHAIR: Perin?

MS DAVEY: No, thank you.

THE CHAIR: Richard?

MR STOTT: Seeing shepherding is changing the characteristic of the water and it's hard to deliver, maybe the suggestion should be that we are unable to shepherd water.

MR HANLON: The way we have written our policy prerequisite paper is around we are not prepared to take the risk on shepherding water. The environmental water holder should be considering the time at which it wants to use it and where it wants to use it.

Recent experience in evaluating some flows in the Darling from Broken Hill absolutely almost needed people walking beside the flow on the way down. It is operationally and transactionally a nightmare.

Our proposal inside of that is that the environmental water holder takes the risk on the water. If they wanted X at a certain point in time, they should look at the best way to do that without impacting on irrigators or impacting on their reliability.

I think the Murray system is a bit different and we and Victoria will have to negotiate that. A bigger system, with more reliable flows and completely different delivery arrangements means the Murray will be a bit different from the Darling.

MR STOTT: I can understand that, but still changing the characteristics so that you can be paying more for changing the characteristics on that water delivery.

MR HANLON: This is a really ripe item for discussion, I think, in our next submission, Richard, because we are verging on getting close to differentiated water products. If the transformation piece happens between ourselves and WaterNSW, our role will become more in facilitating policy around what that looks like and the water deliverer can work through what differentiated water products might look like.

We should recognise that, in the past, when these things have been discussed, they are generally referred back to simplicity and instantly people start thinking of telephone plans and how complex they get. I am not sure anyone wants that in water, but there might be some opportunities for different products here and there to get better products and outcomes. I think that is really for the next submission. I don't think we are quite ready for that discussion. We are still not quite sure what the environment will end up holding either, so I think that should be the next submission in three, four or five years time.

THE CHAIR: Thanks, Gavin. Are there any other comments around the table on these questions?

We have had some comments at previous forums about the changes to user codes, et cetera, being quite difficult for people compared to previous determinations. We are well aware of that and we are doing a lot of work to try and make it clearer so that when our draft report comes around, we can show that that has occurred, and DPI Water is also helping us out with that.

John, do you have a question?

MR MADDEN: I wish to go back to one of the original points mentioned about the bulk water reforms and the potential transfer of functions from DPI Water to WaterNSW. You talked about "bolt in bolt out" kind of functions and looking at those. I am wondering if you could comment or make a suggestion on maybe how IPART could actually consider the efficiencies tagged to those reforms in terms of us setting prices and would we not be setting inefficient prices if that transfer occurs?

MR HANLON: There will always be a challenge with the timing on these things. In one of the previous hearings I said, in my view, any savings get passed straight to the customer and then got kicked under the table, with a reminder that our shareholders - treasury - might want a discussion about that where there are subsidies happening inside of a proposal.

I guess you don't do a big transaction like this without there being some sort of savings along the way. My suggestion would be to consider emphasising that a determination is the maximum that someone can price up to.

It doesn't mean they have to price up to that if they are operating on less than that. And we are subject to audit at the end of the determination period, so if we have over-recovered, there is an expectation that it will be passed back.

You would anticipate there would be some transactional costs in the first year of a big transformation, if it gets up. You would then hope that you would get a payback period within 12 months if there are any redundancies or any of those sorts of things as well and that they can be passed through appropriately with the appropriate share between customers and treasury. I think that's the safest way to answer that without getting myself into too much trouble.

THE CHAIR: Do we have anyone else from the audience who wants to raise an item? No?

We are running a little early so instead of having our tea break right now, we might begin the presentation for the next session and then have a break.

Session 2 is on water management prices and price structures. In the first session we have just discussed expenditure and user share of costs. We will now consider DPI Water's proposed price structures. Alexandra, from the IPART secretariat, will give a brief introduction to each of the topics we would like to discuss in this session and then we will get comments from the table and from the audience.

SESSION 2: PRICES AND STRUCTURES

MS SIDORENKO: Thank you, Catherine.

The proposed water management prices are set for each water source and valley and are determined by a number of factors. First, we look at the total user share of the notional revenue requirement. Then this notional revenue requirement is allocated to a water source and valley. Then we will take an estimate of the entitlements and water take within this water source or valley and allocate the notional revenue requirement. We will set the prices for one-part tariffs and two-part tariffs using the entitlements and water take for the water source and valley.

We want to stress here that, obviously, the higher the estimate of water take, the lower the price will be in terms of usage or water take price per megalitre of water. Also the level of prices will depend on the current level of cost recovery by water source and valley. So the further away the valley is in terms of cost recovery, the more different prices will be from the full cost recovery price. This is done to manage customer impacts.

In terms of proposed prices at the high level, we can say that the water take prices increase significantly, especially in groundwater and unregulated sources, and entitlement prices - $/ML of entitlement - go down in unregulated rivers and groundwater. That is explained partially by the revision of forecasts or the proposed different level of forecast water take in unregulated sources and groundwater compared to the forecast level used in this 2011 determination.

To give you a summary by water source, in regulated rivers, all prices pretty much go up. Everyone is on a two-part tariff in regulated sources so the entitlement price goes up in 8 out of 11 sources and water take charge goes up in 9 out of 11 sources.

The average increase in water take charge is 12.4 per cent in regulated rivers. For unregulated rivers, in general, entitlement prices go down, so in all sources for the two-part entitlement tariff the fixed or entitlement component is decreasing by 37.5 per cent on average, but that happens against the increase in proposed water take prices in most of the sources, seven out of eight sources by an average of 7.2 per cent.

The one-part entitlement tariff or one-part tariff is proposed to be, again, a sum of the two-part entitlement price plus water take price, so it is a linear combination of these two, and it may go up and down, depending on the magnitude of change in the particular valley, but in six out of eight sources it goes down. There was an average reduction of 13.8 per cent.

In groundwater, again, we will start from two-part tariffs, the entitlement price goes down in all sources, inland and coastal, an average 24.5 per cent reduction. At the same time the water take price

goes up a lot, on average a 7 to 7.8 per cent increase, and the one-part tariff, as a result, also goes up in two out of three sources.

Going through the likely contributing factors, we have not conducted an analysis of the drivers of this proposed price change. This will be done for our draft report and draft prices, but on preliminary analysis, to try to explain these proposed price movements, firstly, we have to look at what is happening with the notional revenue requirement and we have noticed that on aggregate it went down, but the cost allocation model resulted in reallocation of the notional revenue requirement. More of that goes to regulated rivers and less to unregulated and groundwater, so that reallocation of costs to regulated rivers drives the increase in prices in regulated rivers because, as we will see, both entitlement and water take prices go up in regulated rivers.

What happens in unregulated rivers and groundwater requires additional explanation. The major factor that changed this reallocation of costs is the use of forecast water take as a cost driver. That is a major change in the proposed cost allocation model.

In the 2011 determination entitlement rather than water take was used as the cost driver for a good chunk of DPI Water's proposed costs. This time around water take is driving I think about 20 per cent of costs all up, either directly or indirectly, and because the forecast water take is lower in the proposed determination than it was deemed to be in 2011, that drives the higher per unit prices in unregulated sources and groundwater.

Just again as a background, in the 2011 determination we made a decision to assume that the forecast water take in unregulated rivers and groundwater was 100 per cent of entitlement. That was because we did not take the proposed forecast to be a reliable estimate so, to the benefit of users, the decision was made that the forecast water take in unreg and groundwater was 100 per cent of entitlement. Obviously, the resulting price level per megalitre of water taken would have been lowered compared to the actual water activation rate it would have resulted in.

This time around the forecast water take is obviously less than 100 per cent of entitlement in unreg and groundwater, so by dividing by a lower number you necessarily get a higher price. That partially explains the higher per unit water take price in unregulated and groundwater sources that we can see in this proposal.

Again, the price level depends on whether the valley is at or below cost recovery and the proposed glide path to manage customer impacts has an influence on the actual price level. Again, there is a proposed change in the minimum annual charge. There is a proposed increase from $105 to $150 minimum annual charge. As a result, there were a higher number of customers that will be on the minimum charge so higher revenue is collected from minimum charges. That is taken on top of the notional revenue requirement that is assessed on how it impacts on prices and there may be other contributing factors that we will be looking at in more detail during our review.

To give you an illustration of actual proposed prices, this is regulated rivers and the colours are not very good in this picture, but the red shaded or darker shaded lines are the valleys where there is a proposed reduction in prices and the green shading is the valleys with increases in prices.

In the left column there is the fixed or two-part entitlement price, current price, then the next column is the proposed price in 2019-20 and a per cent increase from current price to 2019-20. You can see that in the four valleys - Macquarie, Lachlan, North Coast and South Coast - there was a proposed reduction in the fixed price and in Macquarie and Lachlan there was also a proposed reduction in the two-part water take price. In all other valleys there was a substantial increase in water take prices. The highest increase is in the South Coast, the North Coast, Peel and Murray, followed by Murrumbidgee and Hunter.

Again, the drop in overall prices in Macquarie and Lachlan are due to this cost allocation and can be explained, or one of the explanatory factors might be this cost allocation model and water take as a cost driver. It was actual water take and Macquarie and Lachlan were revised downwards.

In unregulated rivers, the second column, which is the2-part entitlement price, it is almost all in the red, apart from the South Coast, so everywhere there was a reduction

in the fixed price or fixed component of the two-part tariff, and the percentage reduction is high, you can see 60 per cent, 43 per cent, 54 per cent in the Central West. There has been a proposed geographic consolidation of four valleys in the North West and two valleys for the Central West. I will cover this a bit later.

At the same time there was the proposed increase in water take price and again the increase is substantial, especially for the North Coast, Murrumbidgee, Murray, and North West. The one-part entitlement price, which is the first column, goes down in most instances, apart from the Far West and South Coast. Groundwater - the middle column - two-part entitlement price, there is a reduction in fixed or entitlement price on the two-part tariff accompanied by an increase in the water take or variable price on a two-part tariff.

In coastal valleys it is doubling the usage or water take price in groundwater and for customers on a one-part tariff there is a slight decrease in coastal valleys and a slight increase in inland, and a significant increase in the Murrumbidgee.

To explain how these prices were managed to account for customer impacts DPI Water proposed to look at the average licence, so that would include determining the median entitlement per water source and valley and average water take activation or average water take for such a licence and then looking at this representative or average licence, the prices were set so that there was no increase in the bill from 2015-16 to 2016-17. This average customer, water user, is indifferent between today's and the 2016-17 new proposed prices.

Thereafter, in the valleys not at cost recovery, DPI Water proposes a glide path with a maximum 2.5 per cent annual increase in prices. We have received stakeholder comments about what the cumulative effect of this price change would be over the years of the future determination and we will be looking to undertake additional analysis of customer impacts.

Obviously, there will be customers who are not on average water take and there will be impacts on these customers resulting from the pricing proposal. There will be customers on water take only licences for whom there will be a significant impact due to increased water take prices, so we will try to consider all of these impacts as well.

In terms of price structures that are underlying the proposed prices, DPI Water has proposed to maintain the 70:30 fixed to variable ratio for two-part tariffs in all valleys and sources, apart from North Coast regulated rivers where the split was 92:8 fixed to variable in the current determination and DPI Water proposes to carry forward this ratio in the upcoming determination.

We received a number of comments from stakeholders in submissions and also during the public hearings. In general, irrigators prefer the existing split, so 70:30 for the two-part tariff fixed to variable ratio is appropriate. Smaller users however raised with us that they would like to see a higher reliance on variable components, so in times of low water availability, to manage their financial position, they would prefer to pay less when water is not available, so basically, they would prefer a higher weight on the variable component.

In terms of the geographic split of prices, regulated rivers are the same. In unregulated sources, DPI Water proposed to consolidate four northern valleys into one region, the next two valleys into another region and the rest of the valleys are the same. In the 2011 determination we actually set the prices in the Far West and Central West - I may have to have some help here from DPI Water - at the same level. So definitely, in terms of pricing, we have allowed for the aggregation already in the 2011 determination, but we would like to hear more about whether the proposed aggregation is appropriate or whether there is any benefit in continuing to report and set prices on a valley basis in unregulated water as well.

In groundwater there was an aggregation to inland and coastal, with a separate treatment for Murrumbidgee, and we have also received proposals or stakeholder views that perhaps it is worth going back to valley-based pricing for groundwater as well, so we would like to hear your views on this.

Some organisations generally supported valley-based pricing, but smaller valleys, for example, the Peel Valley, support a wider spread of costs and in fact there were some

strong suggestions that statewide charging would be beneficial. Of course, we have to balance the equity issues with the cost reflectiveness and of course cross-subsidisation should not become a basis to set prices.

Basically, we would like to hear whether some disaggregation in groundwater would be preferred or whether we should continue pricing based on inland and coastal and also on potential implications of the unregulated sources along the lines suggested by DPI Water.

The last item for the prices and structures session is minimum annual charges. As I have already mentioned, DPI Water proposed to increase the minimum annual charge from $105 to $150 for 2016-17. In fact, DPI Water put in their proposal that the actual amount to recover licence administration costs would be $235 per year, so $150 may not, in fact, reflect the efficient costs of handling this minimum annual charge.

With the proposed $150 level of minimum annual charge the number of customers on minimum bills would go from 15,000 to 21,000 in 2016-17 and that would result in 57 per cent of licences being on the minimum annual charge in 2016-17 and also about 7 per cent of user share of notional revenue requirement is proposed to be recovered through the minimum annual charge which is an increase from the current 4 per cent.

During the previous public hearings we received, in general, support for the increase to minimum annual charges and some users actually suggested that if $235 better reflects the costs of administering that minimum charge then perhaps we should be looking at an even higher minimum annual charge, so we would like to hear your comments on this too.

That is just a diagram that reports the number of customers and minimum bills as allowed in the 2011 determination and over the current determination period and the proposed determination period. This graph between the modelled number of customers and minimum bill and the actual was partially due to the domestic and stock licence holders not being charged over the current determination period, but DPI Water proposes to charge domestic and stock licence holders from 2016 on.

That leaves us with the questions for session 2. We would like to hear what you think about the proposed water take and entitlement prices by water source, whether they are reasonable. We would like to hear whether you think we should maintain the current 70:30 fixed to variable ratio for two-part tariffs. Should we maintain water source and valley-based pricing or should we go with the suggested aggregation in unregulated versus groundwater? Is DPI Water's proposed increase to the minimum charge cost reflective and reasonable? Are the proposed measures to manage customer impacts appropriate? Thank you very much.

THE CHAIR: Thank you, Alexandra. Given that we are running ahead of time we have brought forward the morning tea, so you will be pleased to know that we are going to have morning tea now. We will leave the questions up here for you to reflect on and we can have a discussion in detail when we come back. We will start again at 11.30.

SHORT ADJOURNMENT

THE CHAIR: Welcome back, everyone. Now we will continue on with session 2 and the questions that are up behind me. We might take these questions one by one. The first question is:

Are DPI Water's proposed water take and entitlement prices reasonable?

Who from around the table wants to start this one off?

MR MORTON: I'll go if you like.

THE CHAIR: Thank you, Jeremy.

MR MORTON: We touched on or I touched on this before. I think it was a little bit about user share as well, but I am particularly interested in the costs for unregulated water in the Murray and the Murrumbidgee, not necessarily the rest of the state, given that they operate so that basically you have regulated and unregulated systems in the same valley.

Just as an example, let's separate out C01, which is around surface water monitoring and this might be the wrong way to do it, but we will work it out. The costs that

I have are the three-year historical water management costs which were supplied by DPI Water. When the cost is divided by the number of entitlements, that surface water monitoring comes out at $18 a megalitre of entitlement for Murray unregulated. Again I will focus on the Murray rather than taking both of them. Doing the same maths, if we look at regulated water, that is $1.26 per megalitre of entitlement. I suppose my questions are trying to understand why the costs attributed to Murray and Murrumbidgee unregulated are so high.

THE CHAIR: Nick?

MR MILHAM: We might have to take the question on notice in relation to the detail of that. Just to make a general comment, the cost allocation is consistent across all the water sources in terms of the way the allocations are dealt with. So there are costs that are allocated or that have not been allocated differently between the Murray and the Murrumbidgee, for example. I can't comment on the specifics of those two numbers - because I don't have them in front of me, I can't tell you what the basis of them is - other than to say, as I said, that the cost allocation has been done consistently across all the water sources in the state, and not just those two, and if that's where they landed that's where they landed would be the general comment.

THE CHAIR: Maybe, Nick, you could just explain that cost allocation build-up and how you did it for the different sources to help give a better understanding.

MR MILHAM: Yes, certainly. I'll go back a step. The services that DPI Water deliver, we don't deliver them on a water source by water source basis. Almost always state-wide is the way we are actually administratively set up to deliver them and we do our administrative and cost allocation at that level. In order to allocate costs back to a water source to get valley-based pricing, we then need a cost driver, as has been mentioned before - I think Alexandra went through that in a bit of detail - in order to allocate costs back from a state level down to a water source.

The way we did that is we went through and we reviewed each of the defined government monopoly services - there are 33 of those in 22 different water sources. We went back to each of those and did a comprehensive review to say "What is the actual basis? What is the key factor that would most appropriately determine the distribution of the costs of the delivery of this particular service and of each particular service across water sources?" We have described where we landed for each of those in the pricing submission.

As Alexandra mentioned again, in large part that is water take, but it is not only water take. For example, in surface water monitoring it is hydrometric stations and how many of those there are in a particular water source, et cetera. We actually went and looked at each of them individually, in order to then distribute the state-wide costs to a water source. Then it is simple mathematics. Once we actually have the costs that are allocated to a water source, we then apply the appropriate cost share to get what component or what part of that cost should be allocated back to water users and that is then divided across the entitlement.

That is the process we went through. We went through that for every single activity and then brought it back down to each water source. That approach was applied consistently across the state.

I can't comment specifically on those two numbers that you have worked out, but that's how we would have arrived at them, so if that's where they landed, then that's where they landed.

THE CHAIR: Nick, IPART's understanding is that, in doing that, you are able to be more cost reflective of what's actually happening in the various valleys. I guess from a stakeholders' perspective, it is a little confusing because it is different from how you did it last time so it is not easy for stakeholders to see the link between them.

MR MILHAM: In response to the first part of your comment, yes, we are trying to be more cost reflective, but in response to the second part of that comment, it is exactly the same. It is the same approach that we applied last time in the last submission - the cost driver approach. What has changed is some of the cost drivers.

As I said, we did a thorough review to determine whether or not the cost drivers that would have applied

last time around still warranted being continued or whether they should change and we suggested some of those should change to be more cost reflective.

The other thing that changed was the costs that had been allocated, so some of those costs went up, but overall our costs went down. That doesn't mean that, in a particular water source, costs went down, but the overarching costs of that went down. What that then might mean for an individual valley or water source depended on how the cost driver suggested that those costs should be allocated to a particular water source.

MR EDGERTON: Just to clarify or add to Nick's comments, my understanding is that, under this methodology, prices can vary across water sources for several reasons. One might be that more costs in aggregate are allocated to different water sources based on the methodology Nick has mentioned, but then once you determine the cost to be allocated to each water source, essentially, to determine prices, you are dividing that cost by the number of entitlements and forecast water take - so the number of entitlements for the fixed entitlement charge and water take for the usage charge - the fixed and the usage charge. The lower those entitlement volumes or the lower those usage forecasts, the higher the per unit price. Obviously that is another big driver of why prices can vary across a valley.

MR MILHAM: If I could provide another overarching comment, it was because there were so many of these little types of changes that we saw as being appropriate to be more cost reflective, that in the submission we moved our focus. In previous submissions we focused on impact on prices, but we thought it was actually going to be more meaningful to focus on impact on bills because prices are, in actual fact, moving all over the place. Many of them are going up, some of them are going down and that depends on whether you are one-part or two-part and the change in the minimum annual charges, et cetera. There are all those changes.

Hence our focus on maintaining an overarching principle was that, in the first year of the new price determination period, our intent was that there would be no change in the typical bill, so we were looking to have basically a minimal bill impact in that first year. But then in order for individual entitlement holders to be able to work out what that meant for them - as has been said before, who is typical? - we generated the bill estimator that we put on the website so that any individual entitlement holder would be able to put in the proposed prices and see what it meant for them as an individual farmer or organisation.

That was a bit of our communications strategy in recognition that prices are moving a lot in many cases and that some of the changes are substantial, substantially up or substantially down depending on whether it's the water take charge or the entitlement charge, so I just wanted to make those comments.

As I said, our overarching strategy was that, in the first year, there would be no change in that typical bill. What that means is that, across the state, our proposition would move us from eight water sources being under-recovered in the first year to 10 water sources being under-recovered. In effect, the state government is prepared to take a hit in that first year and then apply their price glide path from then on.

MR MORTON: I am not sure if I have missed it or not, but if I look at the Murray again specifically for CO1 surface water monitoring, for regulated water $2,349,000 is apportioned to regulated users and then to the Murray unregulated it is $998,000. There's about 1.85 million entitlements for general security - I think that's right - and there is about 54,000 megalitres of unregulated entitlement in the Murray. I am still trying to understand when you come to apportion a certain amount of costs to a certain group of entitlement holders in the same valley, how do you actually do that? I'm not sure if I missed that in your answer.

MR MILHAM: Do you mean between reg users and unreg users?

MR MORTON: I am just wondering why $998,000 has been apportioned to Murray unreg and $2.349 million to regulated, and that is just pulling out one line item. It is consistent across most of them.

MR MILHAM: The reason for that, without seeking to explain the specifics of that actual number, would be that in relation to the delivery of the services in the relevant parts of DPI Water, with the particular rate of services

and the proportion of costs of those services that are being delivered to a regulated user versus an unreg user there has been a distinction made in regard to that and a judgment made as to what the proportion should be. As I said, simple mathematics are applied to then bring it down to what it actually works out to being on a per meg basis in the different water sources.

Costs associated with metering in the reg system are only applied in a reg system. It is seeking to ensure that there is no cross-subsidisation of services that are delivered to groundwater users versus unreg users versus reg users. We are clearly separating out those costs and sheeting them home to the particular user group.

As I said, I can't, off the cuff, describe to you why that ended up with $2.3 million for unreg users and $998,000 for reg. However, we have that information, but I can't give it to you here off the cuff.

MR MORTON: I probably have a number of questions around that. It might be best to perhaps take them on notice and I can provide those questions rather than trying to dig down into that detail with you right now.

MR MILHAM: Yes.

THE CHAIR: Thanks, Jeremy. Jenny?

MS McLEOD: I have a question in relation to the Murrumbidgee. Can you explain about the drivers. My understanding from your presentation is that Murrumbidgee regulated was at full cost recovery in the last determination. If you look at the actual operating costs versus the operating costs allowed for in the determination, the operating costs were $3 million less than what was allowed for, which was 9 per cent. If you look at the proposed price increases and the variation between valleys, it seems that the Murrumbidgee previously has been recovering its costs, but in comparison with other valleys, the proposed price increase is actually higher in the Murrumbidgee. What is causing that? What is driving that change?

MR MILHAM: Neither the Murrumbidgee unreg nor the Murrumbidgee groundwater are anywhere near cost recovery.

MS McLEOD: Sorry, I am only talking about the regulated Murrumbidgee. I think it is similar in the case of the Murray as well, in the regulated Murray.

MR MILHAM: So the major cause of increased costs in terms of cost allocation to reg systems in the basin west of the mountains is Murray-Darling Basin costs.

MS DAVEY: But I thought Murray-Darling Basin costs were to be met by the Commonwealth.

MS McLEOD: Correct.

MR MILHAM: Murray-Darling Basin Plan costs are, yes, but the Murray-Darling Basin joint program activities that Gavin was talking about are not. They are the standard costs. That is the New South Wales contribution to the joint programs, which is part administered in New South Wales by WaterNSW and part by DPI Water and they are shareable costs. In New South Wales, I can't remember exactly what the percentage is but it is about 50 per cent allocated to the users and that is detailed in the submission.

MS McLEOD: So with regard to the driver here, I think it was $2 million was allowed for in the last determination and you have now increased that to $5 million.

MR MILHAM: It was 1.8 and we are proposing 5.5.

MS McLEOD: So $5 million attributed essentially on an entitlement basis --

MR MILHAM: Across the basin.

MS McLEOD: -- is the reason for the way these prices have come out?

MR MILHAM: Yes.

MR HANLON: Across the Basin.

MR MILHAM: Across the Basin.

MR MADDEN: It is not entitlement across the Basin, because there is a weighting to the Murray and Murrumbidgee in those costs?

MR MILHAM: Yes.

MR MADDEN: Because some of the programs are allocated directly to those valleys not across the lot. We have done some analysis which shows Murray and Murrumbidgee I think about 65 per cent.

MR MILHAM: That's purely because of the high level of entitlement. It is not actually regionally allocated.

MR MADDEN: Okay.

MR MILHAM: Their cost share using - sorry, perhaps I'll go back a step again. The way we have handled the Murray-Darling Basin joint programs is that we took the individual elements of the program. Now, I am only talking about the DPI Water component of the Murray-Darling Basin joint projects not the WaterNSW component.

We took the individual projects and allocated them or assigned them to an equivalent monopoly service activity in New South Wales. We used our new W code system. We then allocated the MDBA programs back to an equivalent W code and applied the cost share that we were recommending should apply to that type of activity in order to arrive at a user share and a government share of the MDBA overall contribution.

That cost share was then distributed across all entitlements in the Basin part of New South Wales - so effectively west of the mountains. So a heavy weighting in terms of distribution of those costs in the southern valleys would purely be because of the very high levels of entitlement in the Murray and Murrumbidgee

MR MADDEN: So that's groundwater and unreg as well?

MR MILHAM: All sources of water.

MS McLEOD: That question then relates back to the former question that I raised about the appropriateness of the cost shares of some of those elements.

MR MILHAM: Yes.

MS McLEOD: I have another question and Kaye Dalton has asked me to raise this on behalf of Murrumbidgee Irrigation as well. It relates to how the Lowbidgee licence estimated take that has been now made available has been taken into account in this pricing determination.

MR MILHAM: I am sorry I didn't hear that question. My apologies.

MS McLEOD: With regard to the Lowbidgee, I understand the estimated take is in the order of 173,000 megalitres. How has that been taken into account in this determination for the Murrumbidgee estimated take?

MR MILHAM: Again I can't comment on the specific number, but we have done water take modelling for each of the water sources back within the agency in order to provide what we thought was the best estimate of take. I would need to query with our water modellers as to whether or not that particular number has been taken account of. It might be something to look at, that it would be. Then once we factor in the water take, that simply becomes an overarching number or divider in terms of working out the cost distribution between fixed and variable charges again to be factored into the water take.

THE CHAIR: Is your question on it whether it is separated from the Murrumbidgee take, the Lowbidgee?

MS McLEOD: Well, has it been included in the estimates of the Murrumbidgee take? Perhaps that could be taken on notice and you can get back to us.

MR MILHAM: Okay

MR STOTT: That's the entire amount, is it?

MS McLEOD: Yes, because it may impact on the forecast volumes that can be charged for.

MS DAVEY: They are new entitlements. They were not entitlements at the time of the last determination, so --

MR HANLON: Yes, we will take that on notice.

MR MILHAM: Yes.

THE CHAIR: Perin?

MS DAVEY: I had exactly the same question as Jenny, but talking about the Murray. It would appear that our proposed prices are going up. Under the last determination, according to the DPI Water submission on page 100, overspending in the Murray was - well, we were operating at 19 per cent, so that shows that they recovered more than it actually cost to operate; yet our prices are looking to go up. If that is due to the MDBA costs, then again I would just stress the need for a close scrutiny on those MDBA costs and whether they are truly efficient.

THE CHAIR: Richard, did you want to comment on question 1 up there?

MR STOTT: I want to comment on groundwater. I have a question here "Why?" Nick has answered that groundwater is under-recovered in the Bidgee. There are a couple of things I want to know. Groundwater costs are under-recovered in the Bidgee and in the Murray from what you are saying.

MR MILHAM: Only in the Murrumbidgee

MR STOTT: Only in the Murrumbidgee?

MR MILHAM: Yes

MR STOTT: By how much? With the changes that were shown in the previous slides that we have had shown to us, will the price go up or will the price go down? There are arrows in both directions and it is unclear where we are headed to with that.

MR MILHAM: The current situation leading into the next determination period is that in the Murrumbidgee component of the inland groundwater system, cost recovery is meant to be at 87 per cent, so there is about 13 per cent of the user share that is not being recovered. The proposal is for prices to increase in the Murrumbidgee groundwater source. I think Alexandra went through some of those, but I have numbers here if you want to talk about the specifics of those. They are on page 350 of the submission - that is, proposed prices in the Murrumbidgee groundwater source.

They are going to increase but, as I mentioned before, the overarching principal in the submission is that while prices will increase, they will increase in a way that an actual average or particular bill does not increase in the first year.

MR STOTT: Or any more than 2.5 per cent.

MR MILHAM: In the first year not at all, but then it will not increase by more than 2.5 per cent per year year-on-year from then on.

MR HANLON: If I may, Chair?

THE CHAIR: Yes, Gavin.

MR HANLON: Just to give you an example here, if you are on a two-part tariff system in groundwater and you are an inland user with an entitlement of about 188 megs, which is an average or a median entitlement, and you use 52 per cent of your entitlement inland, your current bill is about $1,100. If you are in the Murrumbidgee, it is $570, so there is quite a big difference between those two.

We were talking earlier about full cost recovery. I think one of the reasons we carved out Murrumbidgee was because it is so much further down and we wanted to put it on a glide path without impacting the other customers.

MR STOTT: Gavin says it with a smile on his face. If I was a racehorse in the Murrumbidgee and I was called "Murrumbidgee Groundwater", I'm going to fail for sure because you're about to give him a flogging. Is this covering the costs of new metering as well in that?

MR MILHAM: Those costs, as Alexandra outlined at the beginning, include an allowance on the proposed capital program which in the majority of the proposal over the future determination period is in expansion for the groundwater network. That is where most of the costs are in the groundwater program, most of the capital.

MR STOTT: In expansion of it?

MR MILHAM: And other capital upgrades, et cetera, in that program.

MR STOTT: So metering and realtime monitoring. Is that in metering and realtime monitoring?

MR MILHAM: Some of it would be, yes.

MR STOTT: It can't be in anything else because all the extraction points are owned by the farmers. Where else is the cost going to be?

MR HANLON: We have also got our own monitoring network: it's just the customers' groundwatering points.

MR STOTT: Is the overall monitoring of the state still valley by valley?

MR MILHAM: Yes. The groundwater monitoring costs are worked out again at a state level. The capital program covers our state level investment in groundwater monitoring and then that gets allocated. The cost driver for groundwater monitoring is the number of monitoring sites in each pricing water source, so that then gets distributed statewide on that basis. It doesn't necessarily mean that there are new monitoring points in a particular water source in the new capital program because the costs get allocated from a state level then down to a water source level, if that's what you're getting at with your question. I may not have answered your actual question.

MR STOTT: No, we're nearly there. I am looking at the size. Lower Murrumbidgee is the largest groundwater source and probably the most reliable groundwater source and I am just wondering if it is the largest and the most reliable, why is it behind or why is it under-recovered, because it is one of the more secure ones.

MR MILHAM: My understanding is that it relates actually to an historical under-recovery. In fact, in more recent times prices in the Murrumbidgee have been set on a glide path towards cost recovery but it is actually starting from a very low base. Why that may have been historically I can't provide an answer to, but that was the situation.

MR STOTT: I think I can answer that, that it would be the ASGE program achieving sustainable groundwater entitlements where half the entitlement was taken away in 2004, so that's why we would be under-recovered.

THE CHAIR: Thank you, Richard. We might move on to the next question. Should we maintain the current 70:30 that is the fixed to variable ratio for two-part tariffs? Does anyone want to comment on that?

MS DAVEY: Yes. Murray Irrigation supports maintaining the fixed to variable ratio. We just note that 70:30 is different from WaterNSW and perhaps there needs to be better communication of the fact that there are two different tariff structures between the two different organisations.

THE CHAIR: Jenny?

MS McLEOD: Coleambally doesn't have strong views on this issue.

THE CHAIR: Jeremy?

MR MORTON: No.

THE CHAIR: Richard, do you want to comment on this one?

MR STOTT: No.

THE CHAIR: Does anyone from the floor want to comment on the ratio? No? Question 3:

Should we maintain water source and valley-based pricing.

MS DAVEY: On behalf of the Murray, yes.

MS McLEOD: Yes.

MS QUARISA: Yes.

THE CHAIR: You are all in agreement there. Question 4:

Is DPI Water's proposed increase to the minimum charge cost reflective and reasonable?

That is going from $105 to $150 and DPI has mentioned that they've calculated it at $235, but they're just going to sit at $150 for impact reasons. We are having a look at that but could we get your feedback on that?

MS McLEOD: I don't understand, apart from the letters you

might get, why you would increase it to the $150, especially when you look at the proportion of licences that are a very large number of new customers in that category, so you've got most of your costs being funded by, according to these figures, less than half of the customers.

THE CHAIR: Gavin?

MR HANLON: One thing at a time, Jenny. I think we decided a 50 per cent increase was a fair whack, recognising and signalling at the same time that it will be our intention over the next regulatory periods to make it full cost recovery. We have heard loud and clear from other groups, in both the submissions, I think, that both see that there is not enough to go to the full amount and I am sure IPART will take that on board when they're doing the final determination.

MS DAVEY: I think this just brings me back to the point that I have made in our submission about the cross-subsidisation and the need for all water users to be paying their fair share.

THE CHAIR: Jeremy?

MR MORTON: No.

THE CHAIR: Iva?

MS QUARISA: Would the $235 then be all water users across the state?

MR HANLON: No, it's a minimum charge, full stop.

THE CHAIR: Does anyone from the audience want to comment on that?

MR MORTON: Could I just clarify that? You're bringing in those with BLR rights as well under that or not?

MR MILHAM: No. Actually, the submission specifically comments on basic landholder rights and there is no proposition to charge for them. In actual fact, our assessment at this point in time is that the legality of charging for basic landholder rights is seriously under question, so no. The way basic landholder rights would be dealt with is really a water take measurement and a billing issue primarily, but certainly there is no charge for water taken for BLR.

THE CHAIR: We will move on to question 5:

Are the proposed measures to manage customer impacts appropriate, for example, the glide path to take water sources to full cost recovery?

Does anyone from the audience want to comment on that one?

MS BULLER: I would like a bit of clarification on just how you define a typical bill and average irrigator with this one where you're talking about managing customer impacts, what the actual definition is of a typical bill and an average irrigator.

MR HANLON: This is one of the reasons why we stuck up a calculator on our web page so that people could work that out for themselves. For our purposes, if it is a two-part tariff, we took the median entitlement held, so the midpoint, and then the average use from the year before which gave us a sort of an indication of roughly what a midpoint was or an average might be.

I totally recognise that there is no such thing as an average customer, but to use it as a reference point, in the absence of any other definition, we used that as a type of proxy for an average sort of bill. We have got that for every system. Where it is a one-part tariff we have used the midpoint of all entitlements held as the average, as the proxy.

THE CHAIR: Does anybody have any other questions related to price structure? Matt does.

MR EDGERTON: DPI Water has proposed some aggregation of its prices for unregulated rivers to aggregate what was valley-based pricing to cover the North West charge for unregulated rivers. Could I just confirm around the table whether there seems to be general support of maintenance of valley-based pricing? Is that support of maintenance of the status quo or support of what DPI Water is proposing, or you don't see too much difference between the two?

MS DAVEY: Just to clarify from Murray Irrigation's

perspective, when we talk about support for valley-based pricing for surface water, we don't have groundwater so we don't really focus on that as an area.

MR EDGERTON: But there has been some proposed aggregation of unregulated rivers.

MS DAVEY: Yes. Again, I am only talking about regulated rivers for the Murray.

MR MORTON: When you talk about irrigation, you mean statewide?

MR HANLON: We are not advocating state pricing by any means. Where the level of service and the cost structures are pretty much the same and the price is pretty close together, one of the ways of generating efficiencies internally is by getting the prices to be the same and therefore, it looks like it gets aggregated ultimately. We are not advocating for it holus-bolus and we are certainly not supporting state wide pricing, but there are more than a couple of examples where they're so close, for transactional efficiency it seemed easy to group them up.

MR MILHAM: To add to that, the two aggregations that are in our pricing submission were, in fact, priced exactly the same in the previous period.

MS DAVEY: Which two systems is that?

MR MILHAM: We describe them as North West and Central West, I think is the terminology we came up with, so they're both north of here.

MR MORTON: Before we move on, could I make one observation on your comments around the bill from the previous determination period and how it looks into this new proposed structure? I don't know that that is a good way to judge it, whether it is right or not, because that actually assumes that the determinations in the previous period were a true reflection of the costs that have been borne by all users in that period and in the Murray and the Murrumbidgee unreg the previous determination periods of those costings have been well above what they should have been.

THE CHAIR: One of the things that IPART does when we move into a new determination is to look carefully at how the money was spent in the last determination just to see whether it was efficient and if it was in the right places, so we take that into consideration.

MR HANLON: In an ideal world - and this is what we would like to move to, subject to doing this - we'd ask the customer groups or the community to tell us what is a small, median and large user and then we'd use that as the basis for determining customer impacts of any changes. We are not as sophisticated as that just yet.

MR MILHAM: One further comment is that aggregation or disaggregation of water sources does not in any way affect any of the other water sources, so the fact that unregulated systems north of here may have been aggregated does not in fact change the allocation of costs or prices in any other water source, only within those water sources.

MR MORTON: Given your comment, Gavin, that in the Murray-Murrumbidgee Valleys with unregulated water there is little representation, that's probably ownership.

MR HANLON: There are plenty of people that tell us they represent it, but yes, that is one of the challenges we have.

SESSION 3: OTHER ISSUES

THE CHAIR: The purpose of this third session is to discuss other issues related to this price review and other prices we set for DPI Water, such as water take measurement prices which were previously called metering prices and consent transactions prices. We would also like to hear your views on any other issues that you think are relevant to this review of DPI Water's prices.

Our Issues Paper identified a range of questions that we were seeking views on. We can't cover all these issues in detail today. However, we have identified some key issues for discussion. They include water take forecasts and floodplain harvesting licences. I will now call on John Madden from the Secretariat to introduce discussion on other prices and issues. Thank you, John.

MR MADDEN: Thank you, Catherine. We have a bit of a grab-bag of issues to finish off. Some of these we may

have mentioned along the way and some relate more to the north. Just on forecast water take, DPI Water for regulated rivers uses a 20-year historical average for its water take. For unregulated rivers a water take model has been developed with limited data in some cases and for groundwater it is based on water take measurements available since 2006.

For regulated rivers the 20-year historical average was used last time. It was also used for WaterNSW in its determination. For unreg and groundwater there was actually a change since the last determination in that they are trying to use better estimates of water take as opposed to just an assumption of entitlement as usage.

We will just go through quickly a couple of graphs which show the estimated water take used in the 2011 determination. They are in the first three years. We see the water take assumed going forward and forecasts for the regulated water take, which is about 4.4 million megalitres. We will just go through for unreg. You will see that there it is about 0.9 in terms of the forecast water take, coming down from 1.4 from the 2011 determination, which has the impact of increasing prices for the water take charge because of that lower figure and the same for groundwater as we move to estimates of water take, basically from 1.9 down to 0.8 million megalitres for groundwater.

We will move on to the next issue which is probably more related to the north but we'll cover it very quickly. The floodplain harvesting licence has been introduced in a number of valleys in the north. The policy is actually not in place yet and would have to be approved by the Minister for these floodplain harvesting licences to be issued and then priced under the DPI Water proposal. You may see in the proposal there are actually two sets of prices in five valleys, five water sources, one with floodplain harvesting and one without.

Stakeholders in the north were worried about the implementation there of floodplain harvesting but also some uncertainty around water take forecasts.

Moving on to water take measurement charges, DPI Water is developing a water take measurement strategy and in their proposal they maintain the current approach of recovering costs through separate charges for water take measurement, and just to note, this is focused on groundwater and unregulated rivers.

They have a service pricing structure based on meter size to harmonise with WaterNSW metering charges set by the ACCC and they are proposing two charging schedules based on a method used for meter reading, so whether the agency reads or there is a system where the customer reads and reports the meter read.

There was the general comment from stakeholders regarding the metering strategy that benefits must outweigh costs and another was that access to two-part tariffs was important for people without the high cost of meters. This is really people wanting the option to move to a two-part tariff where their water take is lower than their entitlement.

Moving to consent transaction charges, DPI Water proposed substantial reductions in the majority of the consent transaction fees. The largest reductions include in water access licence dealings and unreg rivers and groundwater amended approvals and some new works and use approvals. There are increases in transaction fees associated with some of the processes that were charged at lower levels. Examples include the new basic bore rights approvals and extensions of approvals and water allocation assignments in unreg and groundwater. There is also a proposed discount for online lodgment.

Lastly, just moving to service levels and outputs, there is a report on performance against service targets set in the 2011 determination and DPI Water has proposed future output measures and performance indicators in its proposal. There was some stakeholder comment through the submission process that DPI Water had not met targets or service levels or that service provision was inefficient. There was some focus on water sharing plans and water sharing plan reviews in this area and obviously we will go through a process as part of our expenditure review. They will also look at this issue and we would be looking at this issue in some detail after the comment from the last two public hearings in Tamworth and Sydney looking at what is an appropriate set of output measures.

Just moving on to the questions for this session, are the proposed water take forecasts appropriate? We may

leave the floodplain harvesting question there for you to read given that it is mainly a focus in the north. Question 3. Are the proposed water take measurement prices and price structures appropriate? Are the proposed consent transaction prices appropriate? Are the proposed output measures and performance indicators appropriate?

THE CHAIR: Thank you, John. Starting with the water take forecasts, who would like to comment on that?

MS McLEOD: We are members of the Irrigators' Council and I think the irrigators' position was that we should have a longer-term view rather than a 20-year average. That is the New South Wales Irrigators' Council position.

THE CHAIR: Do you agree with that, Perin?

MS DAVEY: Yes.

THE CHAIR: Richard?

MR STOTT: I have to agree with that.

THE CHAIR: Jeremy?

MR MORTON: Our organisation is also a member of the New South Wales Irrigators' Council.

THE CHAIR: It's good to see that you're all in agreement.

MS DAVEY: Unified for once.

MR STOTT: This is the first gathering.

MR MILHAM: I'm writing it down.

MR EDGERTON: My understanding is that the question of the 20-year average versus a longer time period mainly relates to regulated river forecasts.

MS McLEOD: Yes.

MR EDGERTON: Could DPI Water just talk us through how you forecast water take for unreg and groundwater services?

MR HANLON: Could I make a general comment about the

20 years versus the 100 years? I think for me it's pick a number. If we're too low on this estimate we'll collect too much money and have to give it back. If we're too high, we're wearing a substantial risk and may, depending on what the thresholds are, seek to recover that back. For me it becomes a tolerance of the risk or how much revenue do you want to put at risk, subject to what sort of forecasts are on demand.

If we can get this stuff right, given the market that hangs off it, if we could predict markets we would probably all be rich, but sort of pick a number that's reasonable. From a business perspective, it doesn't hurt to be a little bit conservative, so 20 years is probably more conservative than 100 years, given the drought we've had. Whether it is too conservative or not, who knows. As for the specifics, I might throw to Nick on that detail.

MR MILHAM: In relation to unreg, the situation has essentially improved since the previous pricing submission when we really didn't have very good data at all on unreg actual water take. It is still admittedly quite patchy but our unreg experts estimate that we do have measurement of probably between 60 and 70 per cent of water take and that of course varies across systems, but that's their overall estimate. That is the level of data that we have used to estimate, so it is based on actual take to the extent that we know it. That is the basis of unreg.

In relation to groundwater, again, there's a high level of confidence in the level of take that has been measured over the last five or six years, so it is a reasonably short period, and once again, admittedly, that's simply the data we have to hand and that's what we use as the basis for the groundwater forecasts.

MR MADDEN: If we just get the graph up on groundwater, obviously, on groundwater there we have actual take figures which, in essence, are all higher than your forecast take. I am wondering what the drivers then of that forecast take estimate are on groundwater, given that it's pretty well license based and not totally weather dependent.

MR STOTT: Since achieving sustainable groundwater entitlements where there was a lot of carryover in the system and there was also supplementary licensing and that was in the six main valleys which were the first ones to

have a water sharing plan and were part of that achieving sustainable groundwater entitlements, which was a Federal and State Government initiative, and the constituents, the farmers, all put $55 million in and that reduced probably to less than half of the original entitlements, but in the water sharing plans there was enough room for them to be able to extract most of that carryover water so that no individual actually lost any water attached to their entitlement, and that will now come down and level out to where the supplementary licences are finished and carryover is pretty much finished, so it will level back to a known number because the number wasn't really known before. That is the best I can answer it. Do you want to have another go, Gavin?

MR HANLON: I couldn't have done it better.

MR MADDEN: Where do we find the timing of those supplementary licences? Are they in the water sharing plans?

MR STOTT: Yes, and we are just rolling into the next iteration of water sharing plans.

MR HANLON: I was just going to say be a bit careful with the statement "Groundwater is not necessarily weather dependent". You see all sorts of different things driven by weather with groundwater. Equally, if groundwater is used for cropping and it's raining, it's going to be in demand, or if it's dry it becomes even more in demand, so it certainly fluctuates with weather as well.

MR MADDEN: Forecasting.

MR HANLON: Again, you can't predict weather.

THE CHAIR: Jeremy?

MR MORTON: Just on the forecast take for the Murray and Murrumbidgee unregulated, I've got no idea about forecasts, whether they're accurate or not, but just something to crosscheck your numbers - and I am not talking about costs associated with this group of entitlement holders - you'd want to look at your take and divide that into your costs and I think you'll have a really scary sort of number.

MR HANLON: Yes, I am happy to take that on board. It relates to your earlier comment as well.

MR MILHAM: It may be a hard message but really all that does is change the price. It doesn't actually change the level of cost allocation to a region and therefore, the cost to be recovered. If the water take forecast varies substantially, that does not affect the overall revenue need.

MR MORTON: Yes. No, I understand that.

THE CHAIR: The second question was on floodplain harvesting which does relate more to the north. Does anyone want to comment on that? We will go to question 3. Are the proposed water take measurement prices - previously metering prices - and price structures appropriate?

MS DAVEY: While not directly relevant to Murray Irrigation, I would just note that the water take measurement strategy is not yet finalised. Are you confident that the prices you've proposed in this determination process will be reflective once that strategy and associated policies are finalised?

MR MILHAM: The answer is probably yes and no. Effectively, the situation we are in is that there were so many uncertainties around a roll-out of the strategy and then the uptake of two-part tariff that, in the end, we resolved that the best way to deal with it was to assume that's not going to happen within the next pricing period.

To do any sort of estimates of when it might be rolled out across particular water sources and the impact it might have on uptake of two-part tariffs would have just been pure guesses. As we say in the submission, we simply noted the upcoming roll-out of the strategy, the desirability of having it, and the fact that it will be rolled out, but we did not take account of it in prices.

MR HANLON: It is probably a much bigger issue for the north than the south. There is a draft sitting with me for consideration about timing. I would anticipate a final consideration period sometime next year. I am conscious of priorities right now and in terms of confusing communities, and this probably is not a priority. I think we would rather bed down on the other things first given we have flagged here we are not anticipating it having

a huge impact, so I think we will focus on consultation and we will focus on the main stuff; otherwise, I think it will just get crowded and confused - more crowded and confused.

MR MILHAM: It is probably worth noting that the major risk associated with the water take measurement strategy actually being rolled out and a significant uptake of two-part tariffs within the next determination period will actually be borne by DPI Water and not by users.

THE CHAIR: Iva?

MS QUARISA: Could I ask this: those metering charges, calling them what they were before, would that include or was it taken into account that it is likely that the life of these meters is 15 to 20 years and there will be, across the state, a large proportion of meters that will need replacing? Who will bear that cost or are you collecting money in the current charges to finance that in 15 to 20 years time?

MR HANLON: It depends on who paid for them originally. They will be treated as a gifted asset, ie, they will fund it. It won't be reflecting replacement cost, if you like, but O&M charges definitely. When they come down to replace that again if whoever is doing it will have to borrow to replace it, the cost of the capital will be incorporated into the next proposal. But across the state there is a whole mix - some gifted and some not, so the general principle --

MS QUARISA: So the groundwater ones that are being rolled out at the moment, are they termed gifted or are they --

MR HANLON: I'm not sure off the top of my head.

MR MILHAM: We have different things happening across the state. Can you be a bit more specific?

MS QUARISA: So Murrumbidgee groundwater and also the pilot for the surface and in the Murray - so surface, Murray and Murrumbidgee.

MR HANLON: If that is a program that is being rolled out by WaterNSW, then they would be considered as gifted assets, I'm pretty sure. Perhaps our IPART colleagues could comment.

MR EDGERTON: Our approach when setting prices is that any assets of a third party - say, WaterNSW or the Commonwealth - should not be included in the regulatory asset base and should not be recovered through prices.

Just to clarify your question, is it a question about to what extent meters that are used for billing customers are included in the proposed regulatory asset base as opposed to general groundwater monitoring stations?

MS QUARISA: Yes

MR EDGERTON: I guess we'd obviously refer to DPI Water on that.

MR HANLON: I am sorry, I was distracted by something else.

MR STOTT: If the meters are a gifted asset, why would you be setting a metering charge? Why would it not be on the owner of the gifted asset?

MR HANLON: It still has to be read. The bill still has to be processed. We are proposing and have flagged the potential in some cases for self-reading, which would be factored in as well. Even if they are gifted assets, in some cases, they still incur a cost in the operating of the whole system if that makes sense.

THE CHAIR: We will move on to question 4, which is:

Are the proposed consent transactions prices appropriate?

Perin?

MS DAVEY: We thank DPI Water for looking for efficiencies in this area. We are pleased to see prices going down. We would also encourage any improvements in timeliness of processing applications to be done, which, however, is outside of IPART's purview. We think that it is a good thing that they have found efficiencies and would like to see that activity continue.

MR HANLON: Very briefly, there are efficiencies in the process of how we do this, but from a customer perspective

wouldn't it be great if we could get the water trading like the concept of trading in general, there are costs of entitlement tied up with these things, such as checks the banks don't have any ownership over them. They are not excuses; they are things we can work through. I know some other jurisdictions do it much faster than we do. I think there is a genuine desire to tidy this stuff up over the next 12 months and put a little bit of money aside in the budget to start that process.

MS DAVEY: Sorry, I will note on that that this is one area that is still up in the air as to which agency it will reside with in the longer term, and therefore where the costs go to.

MR HANLON: I guess for me the transactional side, the water register side of it, will always have to sit with government. As to who their agents are to operate that system, whether it's WaterNSW or Service NSW, for that matter, almost becomes a little bit irrelevant. It is about how government will also have to have a role in maintaining and owning the water register per se, but its operations are something that can be better delivered by somebody else. The transactional side would become a customer interface thing and again any agent of government could do that sort of thing, and that is what we are working through at the moment about how do we speed this right up.

THE CHAIR: Does anyone else have comments on this question? No? So question 5:

Are the proposed output measures and performance indicators appropriate?

MR MADDEN: I wonder if it would be worth asking DPI to give a quick overview of its approach.

THE CHAIR: Yes please, DPI.

MR MILHAM: I will make a few comments perhaps to start with. As IPART is aware, we have to report on performance over the previous period and there are also suggestions made about ways that performance should be improved. IPART makes those suggestions.

In coming up with the performance indicators for the future determination period, we went back and reviewed the existing performance standards - those things that we were reporting on for the previous period. We reviewed those again on an activity-by-activity basis with our activity experts in order to come up with the propositions that are detailed in the submission.

Some of those performance requirements, of course, are external requirements, for example, to do with the water sharing plan development evaluation and such like. Others will be dependent upon things like the roll-out of the water take measurement strategy - there are considerations around that - and floodplain harvesting, et cetera.

Again this was an activity-by-activity review process that we followed. In relation to any specifics on any one of the particular 33 sub-activities I would be happy to have a go at it if someone asks a question about it, but it is probably not worthwhile trying to run through them all.

MR HANLON: Yes, there is a lot of detail.

MR MORTON: Yes, and it comes up on the first one, surface water monitoring. I am aware that there are a number of new water monitoring stations that will be brought in in the southern valleys and they will be used for getting information on water level flows, environmental outcomes and things like that. I suppose I am wondering who will be paying for those?

MR MILHAM: With all of our water monitoring, particularly our surface water monitoring sites, both those that are in existence now and those that are proposed, we went through a very thorough site-by-site review process in relation to the purpose of monitoring that particular site. Only the costs of those sites that were - in the terminology we have used in the submission - deemed to be mandatory for water management purposes have been included in the water management charges. The costs of the other sites, whether they may in part be required for that purpose or in their entirety not be required for that purpose, and then those costs or part costs, were excluded.

We actually manage a network of over 922 sites and only about 450 are actually included in the water management price. That principle has been applied to existing sites and it will be applied on future sites.

Just out of interest specifically in relation to Murrumbidgee, there were a few sites that had previously been costed into unreg - the unreg system. On review, it was evident that while they were not physically located on a reg river, they were there for reg purposes and the costs have been shifted. We have actually moved them from unreg to the reg system in order to appropriately reflect costs.

Just to expand on the issue of that sort of site-by-site review, the analysis that we did, the site-by-site analysis, has been provided to IPART's expenditure review consultants.

THE CHAIR: That comes to the end of our prepared questions, but now is a good opportunity for you to raise any other issues that you would like to cover before we close the session today, and that includes the audience if anyone wants to raise anything.

MS DAVEY: I have a final question on the performance indicators. Given water sharing plans was an indicator under the last determination, as far as I am aware, not one of the water sharing plans that were meant to be written following the 2014 review have been finalised. Do we get a refund on that or how are we dealing with it? I made a note of it in our submission. We didn't want to see more costs recovered for the finalisation of a process that was meant to have occurred in the last determination.

MR HANLON: We are proposing to have those completed by the time - by 30 June next year - that we have in front of us. As for a refund or not, I think that's for IPART.

MR EDGERTON: That is obviously a very good question. We are asking our expenditure consultants to review DPI Water's expenditure over the current determination period as well as the forecast period. One of the things they obviously look at will be any deviations between planned forecast expenditure and any deviations between that and activities completed.

THE CHAIR: Does anyone else have any general issues from the floor? Yes, thanks.

COUNCILLOR DAL BROI: John Dal Broi, Mayor of Griffith City. Thank you to the panel for coming across to

Griffith. I am disappointed, like everyone else, to see there were only two farmers in the audience, and they are gone. It's only you and me, Richard, that are here as farmers.

MR STOTT: And Jeremy

COUNCILLOR DAL BROI: Yes, sorry, Jeremy. As mayor of the city, we utilise about 7,000 megalitres for our town on an annual basis. We certainly would not like to see an increase; in fact, we would welcome any decreases because we encourage town water users and our townspeople to water their gardens and to keep things nice and green. There is a policy of discounts that we have had now for about 30 or 40 years. We live so far out west that we don't want to see our homes as dry areas with no lawns or trees. So we encourage water users, which is contrary to a lot of the issues going around at the moment.

As an irrigator, obviously I don't want to see any increases in water pricing. Even though I'm a high security water user, it is difficult enough to make ends meet with all the other costs, without having an increase in water costs.

I must say that, sitting here this morning and watching how this has eventuated, at the risk of showing my age, I can recall when water prices were political and there were meetings of 500 to 600 farmers. They were pretty excited and ready to take matters into their own hands, and that usually happened just before an election. We now know that the way water prices are determined is much more professional and technical.

I do ask the panel to consider that the irrigation areas are under a lot of pressure. One reason I suspect the irrigators are not here this morning is the cost of the water that we have been discussing here this morning in comparison to what they are paying for temporary water transfers is not great.

Most farmers that I come across in our area, because we are a small council with small properties, just want water to farm. At the moment, they have only a very limited allocation and so that is their main concern. Plus, as Debbie said earlier on, they are all harvesting and very busy on their farms.

Again thank you for coming across to Griffith.

THE CHAIR: Thank you very much. Does anyone else from the audience want to raise anything or make a comment? Last chance around the table.

MS McLEOD: I have one general question. My understanding is you have different factors that influence how you set your prices. Let's take, for example, a water sharing plan in a valley with lots of entitlements versus a water sharing plan for a valley that has fewer entitlements. We have cost reflective prices, but we really haven't - we have corporate pricing and then it is distributed down to the valleys based on the description in here and it does vary depending on the product.

My question really is about some of the core fundamentals that are important to irrigators. Are there differences between valleys on what it costs to do a water sharing plan?

MR HANLON: While Nick is working through the detail, it is a good balancing act for us where we want to get the efficiencies of scale by having one submission but we want - localism is not quite the right word - the reflectivity of each of the communities at a Basin scale so you have 22 different areas. The cost of producing 22 separate price submissions would be very large transactionally.

For us, my experience - and I'll let Nick talk about the detail in a minute - is that it depends on the complexity of the water sharing plans and how many times we have to revisit things. There is one at the moment north of here that I know has been going around in circles for a little while, and we probably let them do that, but it is the same type of issue they are trying to get their head around, and there are others that sail straight through. So no two plans are exactly the same, but I would imagine there is an unders and overs type situation.

MR MILHAM: The answer to your question is that there is actually an attempt made to allocate costs depending on the complexity of the plan and the estimate of the resources that it will take to complete the review or establish a plan, whatever the activity is, and that is proposed to continue in the next determination period.

MS McLEOD: That would then reflect back to the individual valleys?

MR MILHAM: That's right. So the costs borne in an individual valley or a particular water source will be reflective of the actual costs of the water sharing planning processes in that water source.

MS McLEOD: Thank you. I am pleased to hear that because some of what I was hearing previously suggested that some of the more corporate costs will go to the two valleys with the most water entitlements just because they have more entitlements and --

MR MILHAM: So the proposed cost driver for that particular activity, which is W06-01 under the new structure, actually relates back to the costs of the individual plan.

MS McLEOD: Good.

THE CHAIR: Does anybody else wish to make a final comment or ask a question?

CLOSING REMARKS

THE CHAIR: On behalf of IPART, I would like to thank you all very much for attending today. It has been of great benefit to us to hear your views. We really appreciate all the efforts and contributions made by everyone.

A transcript of today's proceedings will be available on our website in a few days and we will consider what is being said when we make our decisions on the Water Administration Ministerial Corporation's prices for DPI Water to apply from 1 July 2016.

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

A final report and determination will be released in June 2016 and the maximum prices that we determine will

apply from 1 July 2016.

I encourage you to monitor IPART's website for updates and further information on our timetable including the release date for the draft report and the date for when submissions will be due.

This brings to a close our public hearing. I would like to, once again, thank you all for participating, and we have lunch for you outside.

AT 12.50PM THE TRIBUNAL ADJOURNED ACCORDINGLY