INDEPENDENT PRICING AND REGULATORY TRIBUNAL
REVIEW OF WAMC'S PRICES FOR DPI WATER

Tribunal Members

Dr Peter Boxall AO, Chairman

Mr Ed Willett and
Ms Catherine Jones, Members

Members of the Secretariat

Mr Hugo Harmstorf CEO; Mr Matt Edgerton,
Mr John Madden and Ms Alexandra Sidorenko

At

Corinthian Room, Sydney Masonic
Centre, 66 Goulburn Street, Sydney NSW

On Monday, 23 November 2015, at 9.30am

OPENING REMARKS:

ADDRESS BY THE CHAIRMAN: 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 Peter Boxall and I am the Chair of the Independent Pricing and Regulatory Tribunal, IPART. I am joined today by my fellow Tribunal members, Ed Willett, and Catherine Jones will be here shortly.

Assisting the Tribunal today are members of the IPART Secretariat, Hugo Harmstorf, who is IPART's Chief Executive Officer, Matt Edgerton, and Alexandra Sidorenko.

I would like to begin by acknowledging that we are meeting on the Gadigal land of the Eora people and wish to pay my respect to the traditional land owners both past and present.

Also, I would like to thank those who 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 will be considered as part of the review. DPI Water's pricing proposal was submitted to IPART on 11 September 2015, and DPI Water's pricing proposal, our Issues Paper and submissions to our 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 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 second of the three. We held a hearing in Tamworth on 16 November, and we will hold a further hearing in Griffith on 30 November.

Today's public hearing will be webcast and questions may be submitted through the web. The link to a video for today's public hearing is available on our website to assist those who cannot make the 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 4 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, which will set the maximum prices to apply from 1 July 2016.

In general terms, our price review will be seeking 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 this hearing.

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 then invite comments from those on the floor.

We commence today with a presentation by DPI Water of its pricing proposal. I will ask Gavin Hanlon from DPI Water to present the pricing proposal.

MR HANLON: Morning everyone. So I am Gavin Hanlon, Deputy Director General of Water in the DPI. I am going to provide a general overview of the submission we have put together and some of the high level items then Nick and myself can answer any detailed questions as we need to.

So a bit about our process, and how we put this thing together. There are some guiding principles that we used here. The National Water Initiative provides guiding principles on how these things should be put together. Our proposals and IPART provide their own guidelines for how these things should come together.

Overall there's three key components to our proposal: transaction charges, meter service and reading charges and water management charges. I will go through a little bit about each of them in a minute.

In terms of the fee for service, we've had a review of forecast demand, transaction efficiency and system costs, and then we also did some benchmarking and made sure it was consistent where we needed to across the broader water industry.

In terms of calculating water planning and management prices, we estimated the efficient costs, and a lot of that was actually done by having people sit down next to staff, time them against different things to do, and then look at whether we can't do it more efficiently, and then put an estimated cost against it.

We also went through a process of allocating user shares to the costs, and this will come up a bit later on in some of the tables we might talk through. Out of the 22 water sources, I think importantly there's eight of them that aren't at full cost recovery, and I'll talk a little bit about how we intend to deal with those eight that aren't fully recovered a bit further on. There's a whole range of different systems there that vary in their cost recovery across our system.

We're proposing a four year determination period which we will discuss later. No key changes to the pricing factors. We're proposing a 70/30 fixed-variable component. We've been through an exercise internally, a bit different to last time we did this, with the bottom up build of our complete budget. I guess we came from a perspective of what it meant for customers' pricing as opposed to total costs, so we've been through an exercise of building up the budget from the bottom up and looking at where we can't save money, and you'll see some more of that a bit later on.

In particular we've looked at where those systems aren't fully cost recovered, about what's a reasonable glide pathway to actually get to 100% recovery over a period of time, and we're proposing that to be 2.5%.

We're also proposing within that a 1.5% productivity dividend, so that means every year on year our costs will be reduced by 1.5%. Why 1.5? It could have been 1%, it could have been 3%, it could have been 2%. We chose 1.5%. I know in Victoria it's a 1% productivity dividend. We've increased it to 1.5% here.

We've increased substantially the minimum annual charge, so you'll see the impacts of that flow through when we get into a bit more detail about customer impacts a bit further on. And I guess we've placed a bit more of an emphasis on water take and usage charges as well.

In terms of our water consent transactions, the fees have been substantially reduced, and that again was a part of an exercise we went through internally about process mapping, timing, and looking at where we can't streamline processes. Where it's online we've reduced application fees as you'd expect.

The meter charges, we've proposed differentiated fees based on the meter size. We've aligned with WaterNSW charges where we can, and charges increase, but the glide path's been again reduced, so we're not inducing any price shocks into the system.

Meter reading and assessment charges, we've decreased them by 7%. What we're proposing is that there's no change to an average bill in 2016/2017 in the first year. I'm sure someone will ask later on "What's an average bill?" We'll go through that when we get asked questions from specific valleys about "Well, what does it mean to us?", and we'll talk through our assumptions of how we arrived at an average bill. Usually it's based on a percentage of entitlement from previous years, an allocation, and we can go through what that means a bit later on.

Last time Nick we looked at what's the median entitlement size, what was the average take from the year before, and then worked out what the impact on an average customer might be, knowing that it's difficult to define that.

These are the systems that we will apply the 2.5% glide path to. And looking around the room, I think there's one or two people from inside the system in here, inside those valleys within here, and on our webpage we've put up a calculator so that people can punch in their circumstances and work out what it means for them.

I'll leave it at that, Mr Chairman, a high level overview, and I'm sure we'll get into detail soon enough.

CHAIRMAN: Thank you very much Gavin.

For the remainder of this session, we will discuss some key elements of DPI Water's proposal. We will commence with a discussion on length of determination, followed by 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.

The IPART Secretariat will provide a brief introduction to each of these topics. I'll call on Matt Edgerton from IPART to introduce the discussion for the first session, followed by Alexandra Sidorenko.

SESSION ONE: LENGTH OF DETERMINATION AND COSTS/ EXPENDITURE

MR EDGERTON: Good morning. As Peter mentioned, I'll just touch upon the first issue today, which is the question of what should the length of the determination be, that is how long should we set DPI Water's prices for?

Just to commence though, I'll also provide a brief overview of the Water Administration Ministerial Corporation's functions, the role of DPI Water in performing those functions, and the types of charges that we regulate, and the types of charges that we're looking at today.

The Water Administration Ministerial Corporation (WAMC) is the statutory body under the *Water Management Act* that is responsible for water management in New South Wales. DPI Water delivers water management and planning services on behalf of WAMC. We set maximum prices that WAMC can charge for its government monopoly services.

DPI Water's role is to sustainably manage water resources in New South Wales for the benefit of the community and the environment. This involves protecting water users' property rights; that is the entitlement system through water access licences.

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

We set the following prices for WAMC. Firstly, water management prices. These are based on holding entitlements for water, and extracting water from regulated rivers, unregulated rivers and groundwater sources.

We also determine the maximum amounts that WAMC can charge for consent transaction charges. These are transaction based charges for issuing water access licences, works approvals and other consent transactions under the *Water Management Act* and the *Water Act*.

And finally, water take measurement prices, or water meter charges. These charges are levied for maintaining and reading meters for unregulated river and groundwater users only.

This is just an overview of our approach to setting WAMC's water management prices. Firstly, we define the scope of government monopoly services provided by DPI Water on behalf of WAMC. We then establish the total efficient costs of DPI Water's government monopoly services, and what's the efficient cost of delivering these services.

Using the impactor pays principle; we established a water user share of these total efficient costs. We allocate this user share of efficient costs to user categories by water source and valley. We determine prices to recover that user share of efficient cost from user categories by water source or valley. After we've determined those water management charges by water source and valley, we then conduct an assessment of the potential impacts of those decisions on both DPI Water and also water users.

So the first specific issue we'd like to discuss today is the length of the determination period. DPI Water proposed a four year determination period, and there was general stakeholder support for a four year period.

We note however that a five year period would align DPI Water's future determination with the 2021 WaterNSW (rural) price determination, which is the old State Water determination.

Following accreditation by the ACCC, IPART will set prices for WaterNSW (rural) operations to apply from 1 July 2017. We'll be conducting that price review next year. The length of that determination at this stage is likely to be four years.

Given that the next year's WaterNSW determination will be four years, we're interested in seeking stakeholder views on a four year determination period, but also a five year determination period, which would align the two price determinations.

I'll now hand over to Alexandra who will talk about the issue of revenue requirement and costs.

MS SIDORENKO: We will look into DPI Water's proposed revenue requirement. Just as a brief exposition, we'll give a picture of how we actually establish the notional revenue requirement for pricing purposes.

We use the building block approach to set the notional revenue requirement, we establish the efficient level of operating expenditure, we establish the efficient return on and off assets. To do that, we establish the regulatory asset base. We also calculate the tax allowance and working capital allowance for the agency.

We then apply the impactor pays principle and determine the user share of these efficient costs, which will be recovered through prices from water users. Sometimes these prices will be set at levels lower than full cost recovery. This is for those instances where we are currently below cost recovery.

The notional revenue requirement proposed by DPI Water is $62.5 million on average, over the four years forward - 2016/17 through to 2019/20. In all these presentations we'll be using constant 2015/16 dollars to report any figures.

The user share of this notional revenue requirement is $45.4 million, and that constitutes 72% of the notional revenue requirement. You will notice that the proposed user share is lower than that allowed in the 2011 determination. So that user share in constant dollars was $47.2 million per year on average.

Our consultants are currently conducting the expenditure review to establish efficient costs and verify or give recommendations as for the notional revenue requirement put forward in DPI Water's pricing proposal.

The review will include examining the operating expenditure, capital expenditure, cost allocation model, and user shares by activity code, so we are hoping to have a profound review completed on the proposed costs.

This diagram represents the allocation of the user share of notional revenue requirement across water sources. Here we have very broad aggregates on regulated rivers, unregulated rivers or stream sources, and groundwater.

We are comparing the average notional revenue requirement from the current determination with the proposed. This diagram illustrates that there has been a relative increase in the share of notional revenue requirement to be recovered from regulated rivers, compared to unregulated and groundwater.

If we look at DPI Water's proposed operating expenditure, the total OPEX is on average $51.1 million per year. It is a reduction from 2015/16 to 2019/20 of $2.7 million, more than 5%. The reduction is achieved through a combination of efficiency savings of 2.4% in the amount of CPI for the change from 2015/16 to 2016/17, so the nominal operating expenditure requirement is constant, going from 2015/16 to 2016/17. There is a proposed 1.5% efficiency dividend from 2017/18 to 19/20 as DPI Water informed us in their presentation. The user share of OPEX is on average $38.6 million per year, which is a 75% user share.

This is the diagram on how the historical actuals compare with expenditure going forward. The dark blue bar is the allowed operating expenditure in 2011 determination, and if I can remind you we did set prices from 1 July 2011 to apply for three years, and then the new review was deferred for two years. So we only have an allowed amount for the years 2011/12 to 13/14. Because of the deferral of the review the prices were kept constant in nominal terms, and we do not report on this graph an allowed OPEX for these two years.

We do have actuals reported by DPI Water, and we can see that the 2014/15 actual was higher than the amount allowed in 2013/14, and then there was a significant budgeted drop from 2014/15 to 15/16, and then there was this decrease, 2.4% applied in the first year, and then ongoing 1.5% thereafter.

Now we will turn to the capital expenditure program. DPI Water proposed $15.4 million total CAPEX over the four year future determination period, of which user share is $13.6 million. That gives about $3.4 million per year on average, which is higher than $1.6 million in the current determination in 2015/16 dollars.

There is a large proposed capital expenditure program. Most of it is in the groundwater monitoring networks, and in the water access licence system. Both these activity codes have a user share of 100%, which brings about the total user share of the proposed CAPEX program to 88%. Most of the return on and of this future capital expenditure will be recovered from users based on this proposal.

This is the diagram of the historical capital expenditure, and the forecast or proposed CAPEX program. The dark blue bar is the allowed CAPEX in the 2011 determination. We can see that there is a proposed significant increase in capital expenditure going forward.

Another line in the notional revenue requirement and in expenditure that we need to assess is the contributions to the Murray-Darling Basin Authority, and the Dumaresq-Barwon Border Rivers Commission, that DPI Water makes on behalf of the New South Wales government.

The proposed inclusion of MDBA and BRC contributions to the notional revenue requirement includes both components, and the MDBA component's proposed user share is $5.5 million per year.

This is significantly higher than the amount that we allowed in the 2011 determination, so we need to be looking at efficiency of the MDBA costs to determine the user share to be passed through in prices. The proposed BRC costs (the user share of BRC costs) is $0.3 million on average from 2015/16.

In submissions to our Issues Paper, stakeholders commented that we need to look into the efficiency of MDBA costs and user shares. We also received a submission from the MDBA that identified costs that were not included in the proposed expenditure on MDBA related activities by DPI Water. We can see there are two sides of the submissions, and we will be looking into the outcomes of that.

So far we talked about user share of costs and of other expenditure items, and capital costs. There were some changes in the DPI Water pricing proposal in relation to activities, the monopoly services that DPI Water delivers, water management services, and also in applicable user shares of this cost.

As a background, we have been establishing the user share of costs using the impactor pays principle. Based on this principle, an impactor is an individual, group of individuals, or organisation, whose activities generate costs or a justifiable need to incur this cost.

In the instance of irrigators quite often the impactor is a beneficiary as well, but when the beneficiary is the wider community or environment or other wider groups, then the user share of course for such activities is zero. When the impactor is clearly an irrigator, the user share of costs is 100%.

The user share of costs has been established in our previous reviews and in the review prior, so that's been an ongoing discussion of user share of costs. The changes from 2011 to the current submission have been such that when the new groups of codes are generated, the new user share of cost is calculated. Where there was no change in activity per se, the same user share has been applied.

The change that happened since the 2011 determination pertains to the codes for the DPI Water monopoly services. In our 2011 determination we and DPI Water used the 'C' codes, and to reflect the changed operating structure to improve the definition, accountability, recording and reporting of water planning and management services, DPI Water has moved from the old 'C' codes into new 'W' activity codes.

There was a reduction from 11 groups of activity and 36 types of activities to 10 groups and 33 new 'W' activities, and this consolidation and rearrangement of the codes resulted in the need to recalculate the user share of costs.

Where there was a simple mapping, one-to-one, of old 'C' code into 'W' code, the user share remained the same. Where there was an aggregation of some different 'C' codes with different user shares into a new 'W' code, DPI Water proposed a new user share of costs.

As a result of this new 'W' coding structure and a new cost allocation model, the proposed notional revenue requirement to be recovered from users is 72% compared to 75% in the current determination.

We did receive comments from stakeholders questioning that in this agglomeration of codes, codes with low user shares when merged with codes with high user shares, resulting in overall high user shares and a higher share to be recovered. Some users also questioned whether all water management services have been captured in these new activity codes.

We are expecting our consultant report on the adequacy of these new activity codes and user share of costs for these codes.

This is an illustration of the applicable user share of costs when the aggregate 'W' code is comprised of several old 'C' codes. In the right column here, these are old activity codes, in brackets there is a corresponding user share. In the left column there is a new 'W' activity code, and the resulting user shares.

Just to take the first line as an example, so the new 'W02-02' activity 'groundwater quality monitoring' is the aggregation of the old 'C' activity groundwater quality monitoring, and a little bit of activity 'C04-01' on water quality analysis. So in this instance, two activities with different user shares, 100% and 50%, were merged into one activity with 100% user share. To justify that this new user share is applicable and correct, our consultants will be looking at that, and we will be looking into that as well.

We will conclude this session one with questions, and open for discussion. The questions would be those covered in our first session on the length of determination. Just to recap, we mentioned that the four year determination period was put forward by DPI Water, but to align with the WaterNSW future pricing determination we would have to look at a five year determination period. We would like to have your comments on whether five years would be appropriate, or what length of determination period should be appropriate.

We would like to have your views on whether DPI Water's forecast operating costs are efficient, whether the proposed efficiency gains are sufficient and adequate, and whether DPI Water's capital costs are prudent and efficient. Are user shares of MDBA and BRC costs appropriate? Is the proposed scope of DPI Water's activities adequate, which means these new 'W' codes, whether they fully reflect the government monopoly services that WAMC should be providing. And are the proposed user shares of costs reasonable?

CHAIRMAN: Thank you very much Alexandra. I'll now call for questions and comments from people at the table. Would anybody like to start off? Stefanie, thank you.

MS SCHULTE: Thank you very much for giving us the opportunity to be here today. I might go chronologically first, and stop halfway for others to have a few questions along the way.

In terms of the first question, a four year determination period, we supported that four year determination period. However one of the things that we feel is important to raise is that for stakeholders like the New South Wales Irrigators' Council and our members, some of which are here today, to align the two determination periods between WaterNSW and DPI Water in one year is very onerous.

This is DPI Water's and IPART's Issues Paper that we went through over the last couple of months, and the same applies to WaterNSW going forward. The time and resources needed to be able to adequately respond to two pricing determinations in one year is going to be challenging, and it will be important that stakeholders will be given sufficient time to address all of those issues. Otherwise we wouldn't necessarily have an issue with a four year determination period.

In terms of the forecast operating costs, whether or not they are efficient, we certainly applaud DPI Water for taking the initiative of engaging early with stakeholders in this pricing review. We had a number of consultation sessions with DPI Water on the pricing review.

It is quite challenging for us to look at the historical costs and the old cost codes and understand if they were efficient the last time around, if now we have instead of 11 codes, 10 codes, 33 categories, 23 new cost drivers, and eight new activities. To compare historical cost and current cost is very challenging.

In terms of a general question that we do have for DPI Water is in the pricing determination there are references to new customer engagement activities, and new pricing arrangements, that's pages 113 and 114. We would really like to know what those new activities are, and then how far any of the new activities relate to the Federal Water Reform process, have they got environmental or cultural benefits, or are they basically activities that relate to mining and coal seam gas activities in the state.

CHAIRMAN: DPI Water, would you like to address that issue?

MR HANLON: With regard to the new customer engagement activities, as much as anything I guess it's a continuation of what we've tried to do over the last six to nine months, which is actually quite a cultural shift in the organisation to be more engaging in general.

In terms of the other activities like indigenous engagement and requirements to review development applications, a lot of those things are not included in what we're proposing here, particularly the development side of things.

I'll go back to the indigenous engagement side of things. There is a requirement in the Basin Plan that we at the moment, which is being reviewed in the *Commonwealth Water Act*, that we take those things into consideration. We're the only state that has an Indigenous Engagement Unit inside our business; it's totally externally funded at the moment, but the funding runs out soon. We'll be pursuing external funding again for that.

There will come a point in time where I think that should be embedded inside of the business, but maybe not to the full extent that it's currently funded externally, but I would be proposing at some point in time we have a discussion about how that actually should be part of the way we do business in general. I think that was the main question.

CHAIRMAN: Good, thanks very much Gavin. Christopher?

MR MAGNER: Chris Magner, I'm Chairman of the Richmond and Wilson Water Users Association up on the far north coast. I'd like to ask a couple of questions relating to the formula that you used, Gavin. You've got some of them listed here in the chart, in number 23.

Our people are telling me the biggest issue up there is the fact that everybody believes that we're being overcharged for what we're getting, when they compare the north coast price to the Hunter, or even the south coast in the unregulated prices. Then we look at the regulated prices against the Hunter again. We're about three times as much as the Hunter Valley.

The question is why, and we start to look at what's used as a general calculator across the whole of the state. It appears to us that there's a number of things that are pushing up the north coast in putting them out of balance with their counterparts.

We're looking at the amount of river gauges that have been weighted against us, because the north coast is an amalgamation of rivers. Just take the Richmond, which I'm on, the Richmond itself has the most licences in the north coast. The main arm of the Richmond that's got nearly all of those licences on it has got the least amount of gauges.

We've got all these gauges that are sitting there, and they're used mainly, because they're telemetric gauges, they're used for flood monitoring, they're used for a number of other purposes, and when we look at the amount of times that irrigation is used on the coast, it will be lucky to be one in five years that people actually use their licence, a lot of them are one in 10. The very small volume of water that we're actually taking out of those river systems, because we're on high rainfalls, is only about 3% of the license. When we go to the actual usage, it's very, very small.

The concern is, Gavin, how do we relate that pricing, that it's higher on the north coast than it is in the Hunter, and what's the main driver, is it the sheer number of small licences, and what's the real cost of administering those small licences, because we've got a mass of them as well.

MR HANLON: Yes, there's a lot in that, Chris. I'll start by the way we built the proposal in the first place. We took a bottom up approach, looked at costs, looked at whether we can do it efficiently, and then what capital needs we might need, and then what prices fall out of that.

We also had a look at things like what would a change in the minimum annual charge do to overall prices as well, and that's why we recommended quite a large increase in that component of it.

When we look at the north coast in particular, the biggest hit there is not a large number of users and a very large number of small users. This means that the pricing is very hard to compare against other valleys.

The other thing we're saying is that north coast isn't on its own with that either, there are a few other valleys that pay a little bit more and probably suffer the same sort of impacts of having a small customer base.

If we look at the way we've tried to build the pricing altogether, from a customer's point of view, there hasn't been any changes in prices for the last three years, if I understand correctly, and we've tried to make sure that where those valleys are under-recovered that it's only a 2.5% glide pathway.

When you look at what that might mean for the north coast system, where there's a small number of entitlement in the unregulated systems it will mean a price decrease over the period.

I'll give you an example here. The north coast entitlement of 45 megalitres, in an unregulated system, sorry, an average use of 40% of their entitlement, means over the forward projected regulatory term we're proposing it's about a 17% reduction, or a $64 decrease in their actual bill.

Each valley's going to be different there depending on the amount of entitlement, the average use, all those sort of things. What we've tried to do is use last year's data and said "Well, what would it mean to an average", I'm being very careful about using the term 'average' here, but "What would it mean if we use that as an example?"

We tried to build the budget bottom up. We recognise that your system has a small number of users which distorts, I won't say distorts, it means that prices generally are higher than some of the other valleys, and that same thing flows through unregulated, and that was a two part example I gave then as well, as well as in the regulated.

In fact if I go through just the regulated one, it might be worth showing you at the moment. If we went through the median entitlement in the regulated source, it said it was 120 megs, with only a 6% usage rate, which is your point earlier; there's water up there and we don't actually use much of the entitlement, the current bill is about $708, and over the period we're looking at, if this gets approved, about an 18% reduction, or $124 reduction over the period.

That's a combination of 1) cost reductions inside the business, but also a change in that lower end of an increase in the minimum annual charge can offset what it does at the other end as well.

CHAIRMAN: We will be doing prices in more detail in the second session, so that's like a little forerunner.

MS EWING: Mary Ewing, Lachlan Valley Water.

I'll comment on the first two points, endorse what Stefanie said about the workload on organisations in responding to two large pricing submissions in one year.

A question for Gavin; is the structural reform that DPI Water is undergoing and further changes, will they have an impact on the pricing? I recognise what you said about the plug in/plug out nature, but perhaps you could comment on that as a reason for keeping it at a four year determination rather than a five year one.

Secondly on the efficiency, I found it very difficult to assess the efficiency of DPI Water's costs based on the information in their submission. In advance of the consultant's report that is delving into it deeply, I looked at outcomes, and in terms of some of the outcomes DPI Water has achieved over the last five years, I don't believe their operation has been efficient.

Water sharing plans is a key indicator. There's been significant underperformance in terms of completing plans; so a second question to Gavin, is part of the revenue sought in this next determination to complete planning processes that licence holders have already paid for in their charges over the current period that's ending?

MR HANLON: The Minister and us collectively identified that there is a duplication and overlap in parts of the way we manage water across the state. It does create confusion sometimes, and we believe it can be better managed. The Minister has announced that ourselves and Water New South Wales will go through an exercise to look at focusing government on what government should be, which is planning policies, strategy, regulation, and that operations where appropriate would go through a process of transferring over to Water New South Wales.

The timing side of things, there's a discussion to be had through this process about ensuring what is the easiest, most efficient way to transfer those things in the context of pricing, and there's more work to be done in that space.

I think it's safe to say you'd only go through an exercise like this if you were anticipating some savings, if you were removing duplication from these sort of things. In my last job I used to get accused of having out at a field site four utes and only three people there, so people certainly keep an eye on making sure we're as efficient as we can be in those sort of things.

With regard to the historic costs, and Stefanie raised this point earlier, and I missed this one, I guess I also found it quite difficult to look back and determine whether costs had been efficient over the last four or five years as well, and that's for a whole range of reasons, so I won't get into them, or offer them as excuses, it's just the way it is.

That's why we went through the exercise of recoding things and starting from the bottom up, and internally put our own prudency processes over the top of them to make sure they're as efficient as they can be.

Where we do find efficiencies, these should be passed back to the customer. In our case, if it's with us who are not a SOC, we are required to obtain permission from the Treasurer to do that. We'd like to think through the process we're going through with WaterNSW that they'd be identified pretty early and be fed into the next regulatory cycles after that.

So that's the timing and reform. With regard to the water planning, we're proposing to have the water planning items that we'd promised to do in this regulatory period finished, as close to finished as we can within this timeframe, so that the customers aren't paying for it twice. I'm sure if that was the case the regulator would make sure we couldn't charge for it twice, if it ended up being that way when we do our final audits and wrap up around June.

MR GARNER: Ken Garner, I'm the Bega Cheese representative on the Bega Valley Water Users' Association. I agree with the other comments on the length of the determination period and staggering it, that makes sense in terms of resourcing.

In terms of the operating costs, are they efficient, I specifically wanted to understand how are costs allocated to regions. Is it based on an FTE, or how do you allocate, is it based on megalitres in each of those valleys?

MR MILHAM: We sought to explain this in the pricing submission, costs are allocated to regions based on different cost drivers. We've actually internally reviewed each of the 33 sub-activities within the 10 categories of monopoly service activity to reach an assessment of what is it that actually drives the costs that the agency incurs in relation to delivery of that particular service.

So in relation to groundwater monitoring, a pretty obvious one is the costs relate to how many hydrometric sites we have. We would look at how many hydrometric sites there are in each water source, and allocate costs based on the number of hydrometric sites.

We went through each activity individually to determine what we believe to be the appropriate cost driver, and that's detailed in the submissions. I won't go through them all here, there's a detailed discussion of those in the submission as to why we believe those cost drivers that we've nominated are relevant to each of the particular activities.

The reason we need to do that, the whole principle of cost drivers, is because we don't actually administer our monopoly, DPI Water doesn't administer its monopoly services on a water source by water source basis. Primarily we do it on a state-wide basis, so in order to allocate costs back to a particular water source, we need a measure to do that with.

We've developed the cost driver approach, which was used in the last determination. What we've done in relation to this submission is to review those cost drivers that were used last time around to determine from our perspective whether or not they were still most relevant, and our assessment has been that some of them were, but others warranted change.

CHAIRMAN: We will be having our consultants look at this issue, amongst others.

MR MILHAM: We had our proposed cost drivers independently reviewed as well.

MR REYNOLDS: Andrew Reynolds from the Murray-Darling Basin Authority. From the perspective of the submission, I'd like to just say we thought it was a very well put together submission.

In regards to the MDBA costs that are captured in it, you've proposed to base them on the current 2015/16 year costs of the program. Now, in 2011/12 New South Wales significantly reduced its contribution to the River Murray Operations Program, or the joint programs of the MDBA. As a result of that the programs were cut quite significantly.

The other states that also contribute to that, at the time determined to continue to fund it at the level that it was at the time, so effectively a cross-subsidisation. Since that time the program has been progressively reviewed a number of times, including an independent consultant commissioned by the state governments to look at our costs in the same way that IPART is looking at DPI and Water New South Wales' costs, and assessing the program for its efficiency and prudency.

The result of that was an indication that the MDBA program should be in the order of $28 to $30 million contribution from New South Wales. Their current contribution is $24.5 million, and that's the 2015/16 basis that the program has looked at going forward.

Our concern is that it would appear that governments are progressively moving back towards a sustainable level of funding, and that would require New South Wales' contribution to be a little bit higher than the 2015/16 amount. At the moment, that's the basis for the program.

We're concerned I guess about how that would be managed if governments collectively agree to a slightly higher program.

CHAIRMAN: Is that consultant's report available to IPART for example?

MR REYNOLDS: Yes, it would be, it's published on our website.

MR HANLON: Treasury has approved $17.9 million for next year's contribution to the MDBA, and we've asked for an additional amount of money through this IPART period. There's a Ministerial Council meeting this Friday where this will be discussed.

Whilst there's been efficiency reviews completed on behalf of the states, the second part to that is a review of institutional arrangements to also look at how we manage cost spikes into the future.

In any infrastructure business there's lumpy requirements, particularly one like the MDBA, and WaterNSW is no different, those big lumpy requirements for infrastructure over a time and period. The current funding models basically upfront by the states and our continued position is that it's unlikely Treasury will cough up big chunks of money in the clunky nature it is, and that we also need to first look at efficiency, secondly look at ways of smoothing the cost spikes, and then thirdly looking at whether the institutional arrangements enable us to actually do that in a way that makes sense.

The third part of that review process hasn't been completed yet. I'm not sure when it's due, I think it might be the next Basin officials' meeting, which is in a few weeks' time. We've only got approved $17.9 million, is all that we can confirm for the MDBA next year, and the rest is subject to this process. And as for whether New South Wales chases additional money through internal processes to make the difference up to the $28 million we will wait and see what the corporate plan looks like and we'll go from there.

MR LUCAS: Yes, Daniel Lucas from WaterNSW. In relation to the length of the determination we're quite comfortable with the four years.

Linking that into the transaction Gavin just referred to that we're jointly and collaboratively working on, we're really both looking at that very much through customers' and communities' eyes, and trying to develop whatever we do develop with the benefits to the customers and communities.

Particularly trying to create one interface for customers who are dealing with water, to deal with one entity rather than the multiple touch points, I think from a users' perspective will be of great benefit.

Very aligned in what we see DPI in the future really dealing, as Gavin said, with that policy planning, market regulation et cetera, and we really focusing on the bulk water asset strategy and delivery, bulk water system operations, and those customer transactions and the interface with the customers, as well as obviously the program delivery.

So in doing that, what we're really trying to do is develop a business that operates efficiently, effectively, has timely service, and also I think very relevant service as well, that we're not doing things that we think are good for customers, but we've got an approach that engages with customers and communities so that what we are delivering is actually what customers and communities want delivered, rather than what we think is good for them.

MS SCHULTE: Going on to question number four about capital costs, as far as I understand as part of the pricing submission, there was about $15 million in capital invested over the last determination period in total, of which $13.8 million was funded by third parties.

From a users' perspective we are quite interested if that $15 million will go into a regulated asset base on which ultimately users do pay a rate of return of and on, and plus on top of that the additional capital expenditure for next year going forward.

We would like to see, given the $7.1 million that IPART allowed for capital expenditure from DPI Water last period, the actual capital expenditure being $15 million, the users don't necessarily know the efficiency of those $15 million in costs, however we will be asked ultimately to pay the price on rate of returns of this capital going forwards.

And the second question, which is about question number five, the user share of the MDBA and Border Rivers Commission cost, reading the DPI Water submission, I was very much reminded of what I was reading about two years ago as part of the WaterNSW, or back then State Water, submission.

I would urge the Tribunal to assess what has been asked for as part of the State Water submission for what costs were needed, or revenue was needed as part of State Water's submission, because a lot of these sounded very similar, and we are quite concerned that there are costs recovered from users that we have already effectively paid for. So more transparency around what we pay for MDBA and BRC charges from DPI Water and Water New South Wales would be very helpful for stakeholders to understand.

CHAIRMAN: On the issue about how so-called free assets, or assets that are funded by other parties are incorporated into the regulatory asset base, I'll just ask Matt to make a comment.

MR EDGERTON: Basically it's only user funded assets that are included in the regulatory asset base. So if they are funded by a third party, they won't go into the RAB, and there won't be a return on and of.

MR HANLON: Just one quick comment about the capital expenditure side of things. Most of our proposed capital is in groundwater monitoring sites.

The question for us about efficiency, are they the right sites to be putting things in, and there's a whole lot of work that's gone in around a monitoring strategy for those sort of things, as for whether it will be prudent, efficient, we're just going to test the market. Once we've decided they are the right spots, and I think that's where the question of engagement needs to happen with groups like yours, once we've got that bit right, then it's test the market, so that's as efficient as it can get in terms of the costs of actually delivering.

MS EWING: Mary Ewing, Lachlan Valley Water. A follow up one on the groundwater. It wasn't explicit in your submission Gavin, but you talked about 28 groundwater pipes commissioned for coal basin areas. Is that the majority of your groundwater monitoring capital expenditure, or not?

And if it is, the question is if that is to address community concern, why are the general population of licence holders paying for that CAPEX?

MR HANLON: The government announced quite a large funding program for monitoring last year. They will be treated as gifted assets, they won't go to a regulatory asset base.

The monitoring, we're going through a gateway process at the moment for extending the groundwater monitoring network as it relates to the coal or mining basins, and yes, they'll be treated as gifted assets.

MR MAGNER: Just on number seven, the user share component, one of the big things in the north coast is the environmental regard for the area. It's an extremely hot issue up in the north coast. The vast majority of people are very environmentally aware. We've just seen the coal seam gas industry take a hiding from the community, to the extent that I don't think there will ever be coal seam gas up there ever again, with the attitude that's there, and a lot of other industries won't be up there, the timber industry's copped a hiding over the years.

The concern that I've got is that the valuing or percentages that you're using to allocate against the water users, or the licence holders, I believe are out of proportion with the community's demand for having a pristine and visually aesthetic community, and that means that they want to see water everywhere, they want to see rivers flowing, they want to see everything nice and green, and they still want the lifestyle of everything that they can buy in Woolworths.

So the concern that I've got is I don't believe that that percentage is right on the north coast.

MR HANLON: I'm sure the south coast would say the same thing.

MR MAGNER: I can only speak for the north coast.

MR HANLON: Maybe even the Lachlan. I guess we're applying the National Water Initiative principles and the IPART principles around putting the bit together. We haven't allowed for any, I guess you'd almost call it like an amenity charged to broader consumers, if you like, we haven't done any of that. We're just going to stick to the National Water Initiative and look for cost recovery from there, the direct users if you like, rather than the third party users. Rightly or wrongly, Chris.

MR MAGNER: Can I just have a comment on the wording in the front of your brief here, have I got the right piece of paper. The impactor or the user pays. Now, the impactor, to me, on the coast is not necessarily the licence holder. The impactor is the community, is the environmental lobbyists, the impactor is the lifestyle that's sought up there. And where it's got the words 'impactor or the user', I think we've also got to put a considerable amount of weight on who is the impactor.

MR HANLON: Yes, it's a tough one, isn't it Chris? I mean, for years, the managing storages, and I'm sure WaterNSW has the same problem, and Menindee at the moment's a very good example. Who are the primary beneficiaries of having water there for amenity value and do they pay for it, when in fact the water in the storage is the licence holders'.

I'll go back to the original comment there around principles for putting together a submission, it says 'user or impactor'. In this case we've applied user. Near impossible to work out a way to get it from impactors, if we were to define them to be all the groups that you've just mentioned there as well.

We've even thought about, and I'm sure this happened somewhere, how do you charge for boat ramps, can you collect it there, caravan parks, if you've got caravan parks and these things, entry gates, all these things have been discussed and tried over the years as ways of trying to do these sort of things, or even through general rates.

We're not proposing any of that, we're just going to keep it to users for now, and recognise there's probably a broader discussion to happen over time about how do you, and National Parks have a similar issue here, how do you actually look at a full user pays system if you include all those other groups you've mentioned.

CHAIRMAN: That issue's clearly on the agenda, Chris, and we have looked at that sort of issue before and will continue to do so when we get the consultant's report on the user shares.

MR CLIFT: Yes, Dave Clift, I'm part of Chris' mob, Richmond River Water Users crowd. My question, I know my wife reckons I'm going deaf, that's probably a female thing, but I think I might have misheard you Gavin when you said there'd been no real increases in licence charges up in our area.

I've got water bills that have had 100%, or almost 100% increases in each of the last three years. That's my river licences. So yes, I think if you're presenting your case, you want to present it right.

The total flows in the system, we are licensed to use 3%, yet the river height gauges, which you used to determine your cost recovery basis, we as the irrigators fund around about 70% of the total cost to those river height gauges.

We don't use those for cease to pump controls. I think there might be one catchment, or one sub-catchment on the whole of the river system up there that uses that system. The rest of us are on cease to pumps on visible flow or salinity gauges.

So if you like, I'm proposing you can pull all your river gauges out and throw them away, because for irrigation purposes they are not required. But the general community, Chris talked about the environmental side, if you take them out, you'll get such a backlash from the general community, because every time there's a flood comes down, which is a lot more often than we irrigate, that general community's going to wonder what happened to those river height gauges.

We believe that a lot of those river height gauges should be handed over to the Bureau of Met if you're looking for a suggestion of the cost recovery, or a far greater percentage of them going to what is seen as a community warning system. I'm not saying an assessment thing, but if you take them out, you place a lot of communities at risk.

What's happening up there now are river licences being handed in at the rate of knots. You'd be well aware of that. So your proposed user share can only go up for the remaining irrigators under the way you continue to do it. If you don't find a way of changing your system, you'll put all the irrigators out, and then I don't know what the hell you're going to do to find a cost recovery system to keep those gauges there.

So I guess we're a little bit cheesed off with the fact that we've got the highest unregulated charges pretty much of the whole, I'd suggest the whole of Australia. And we can no longer afford it. There are proposals, I've handed in quite a bit of water, surrendered it, I don't get paid for it, and there's a lot of other people that are doing the same thing.

So I just bring that up because I really needed to correct a situation that Gavin's I don't believe been well informed on. Thanks Mr Chairman.

Yes

MR HANLON: With regard to your water bill, I'm happy to take it up offline. From where we are the only reason there should have been a change over the last few years should have been with the corresponding change in usage, so happy to have a chat about your individual circumstances offline, if you like.

Always happy to look for other agencies to take on lazy assets that aren't being paid for, if you like. I haven't had the discussion with the Bureau of Meteorology about those sort of things, and I'd imagine there's some sort of agreement between us and them, but I'll take that comment on board.

Your last comment about high prices within New South Wales, I'll just take it as a comment. There are a number of small systems around that share the same sort of pain. In a lot of cases being divided up into lifestyle blocks, so the agricultural land's slowly disappearing, people are handing back their licence, meaning those that are irrigating end up paying more.

I'd imagine over this period we actually do need to have a think about how we deal with those things better. Otherwise you're quite right, a number of those smaller systems and maybe even a couple of the larger ones, it will get to the point where you've got to question affordability for the enterprise that's actually using it. I'm not sure we're quite there yet. But I hear your point around we're not far away.

MR MILHAM: Just to pick up on the issue of who's actually paying for the hydrometric stations and gauging, as part of this review process putting together a submission, we actually did a thorough review of all of the hydrometric stations and gauging stations that we manage, in order to determine whether the subset of the full suite of those assets is actually required for water sharing plan and available water determinations et cetera, and only those that are required for those purposes are included in the costs that we've put forward in relation to water management charges.

So any of those that are not required specifically for those purposes we've dropped out of that cost base.

MR EDGERTON: Just to confirm, in response to the point about price changes, DPI Water's price review has now been deferred for a couple of years, so all prices, all unit prices should have been kept constant in nominal terms from 1 July 2013. That's obviously not to say your bill might not change though, because if you're changing your entitlement volumes or your usage volumes, then your bill may change. The actual unit prices should have been held constant since 1 July 2013.

CHAIRMAN: On the issue of small systems with few irrigators, or less and less irrigators the point that Dave was making, and Chris, that is on our radar, and thanks for raising that issue here again. And we will be taking a close look at it.

MR GARNER: I'm glad to hear that that is on your radar, because I think over time I think we're going to come to a position where those valleys, it's not financially viable to continue irrigating as we continue to work down the path of the price glide to full cost recovery.

I'm glad to hear that you are looking at that, but I think we need to have a look at a new paradigm, and look at it in a new way in terms of how we can price water in those valleys which are probably never going to achieve full cost recovery. And I think we've just got to look outside of the square in terms of how we might achieve that.

MRS PATMORE: Shirley, Shirley Patmore, we're on the Barrington River. Maybe I misheard Gavin just then, but it appeared to me that when he's saying that we have to "question the affordability for our business", it seems to me that perhaps you're thinking that the lifestyle people are more important than the farmers.

We need water for agriculture, and I think that is a top priority, and the costs should bear that in mind. The people, lifestyle people, everybody in New South Wales drinks water. And if everybody in New South Wales wants water to drink, clean, fresh water, they should be sharing some of these costs. Thank you.

MR HANLON: Sorry Shirley, I certainly didn't intend to come across that way. In fact the reason water's inside of DPI inside of industry is because it's considered part of the economic portfolio.

From our perspective within DPI we exist for increasing productive use of water, that's why it sits inside of the agency it does at the moment. One of the ways we were looking at trying to offset that impact by increasing the minimum annual charge, which picks up a lot of those smaller users and comes down the other way, if you like, or offsets. So sorry, I didn't mean for it to come across that way, that certainly wasn't the intent.

MS MADDEN: Susan Madden with Macquarie River Food and Fibre. We're here basically in full support of the New South Wales Irrigators' Council submission. In terms of length of the determination period, we're also very comfortable with that being staggered. One year apart I think in the scheme of things is still fairly closely aligned for the determination of Water New South Wales and DPI Water's prices, but would also help enormously with the regions in resourcing, given we're often operating on one full time equivalent for many of the valley based organisations.

In terms of the operating cost efficiency, I'd really support Mary Ewing's comments there from Lachlan Valley Water. Although I appreciate the enormous effort that Gavin's team have gone to, to try and improve the level of engagement and transparency and accountability of the submission, it was still very difficult to gauge that at a valley based level.

It's very hard to add a whole lot there other than to look back at the level of service that's been provided, and I think going back 10 years or so, water charges have doubled, tripled in some cases in real terms, yet the level of engagement and service with DPI Water has often deteriorated over that time, and the water sharing planning is probably one very good example of that.

And we've seen lengthy delays in delivery of those plans in terms of reviews and monitoring, that is really imperative I think for water users and their property right, essentially.

In terms of that is maybe one more for IPART. Given that we are operating in a four year determination period and the previous determination that was two years delayed, have you given any thought to what you might do to perhaps strengthen the performance monitoring and reporting framework within the determination period really to increase the surety for customers that they're going to have delivered the services for which they're paying?

CHAIRMAN: Yes, we have, and this issue came up at the public forum in Tamworth, so it's well and truly on the record, and thanks for raising it again. And we will be looking at that quite seriously, thank you.

MR EDGERTON: I've just got a question, I suppose initially to DPI Water, but it also may relate to Andrew from the MDBA.

We heard from Stefanie about some concerns relating to the transparency of the user share of MDBA costs, including how they relate to costs already recovered from Water New South Wales' customers. Could you just tell us a little bit about what the user share of the MDBA costs will contribute to in terms of water management services and activities?

MR MILHAM: From the outset it's useful to draw a distinction between the water management and planning activities under the MDBA joint program which are in New South Wales and managed through DPI Water, and river management operations which are managed through Water New South Wales.

The New South Wales contribution to the MDBA joint programs is split into two parts, and we deal with just the water management part of that.

The way we worked out what we thought to be the relevant user share in relation to the water management component of the MDBA joint programs was that we took all of the program elements in the MDBA corporate plan, and allocated them across our defined water management activities in New South Wales.

So as has been explained, we've got 10 activities divided into 33 sub-activities, and we disaggregated the MDBA corporate plan across those 33 activities, and then applied the relevant user share to each of those components in order to then aggregate it back up to the user share that we arrived at that is referred to in the price submission.

The overall New South Wales contribution in relation to water management is a bit over $10 million, and of that we have, applying those relevant cost shares, arrived at about $5.5 million in a user contribution.

MR MILHAM: Gavin just made the point to me that the proposed increase in the MDBA contribution, the user share of that, we didn't increase the overall cost base at the same time.

So we've in effect found the difference between the user share in the current determination, which is about from memory about $1.8 million a year. The increase from $1.8 million to $5.5 million through internal savings.

MR REYNOLDS: I'd just add in our understanding of the proposal, the split of our programs between what's been covered in the DPI Water submission and the Water New South Wales submission would be appropriate and correct, and we don't see any double dipping in that, with programs being recovered enough in both places. The crux of the question, and we don't see any evidence that there's duplication in recovery.

MS SCHULTE: Could I just have a follow up question to Nick? When you're saying that you disintegrated it into the different cost codes and then aggregated it up to find the full cost, does that include then that the coastal valleys through the cost codes are asked to bear some of that proportion of the cost?

MR MILHAM: No. The sharing of the MDBA program costs is only in the inland valleys, in the inland water sources.

MR EDGERTON: Another question to DPI Water. We obviously have your expenditure proposal in front of us for the next four to five years. You mentioned potential transfer of functions between DPI Water and Water New South Wales, and there's scope for efficiency savings there. What impact does that have on the forecast figures that we have in front of us?

MR HANLON: I guess the dilemma we've got at the moment is we're not quite sure what they look like until we finish working out the design of a future state.

Whilst we're still working through absolute future state and process mapping, we'd anticipate there to be savings, but until that's finished and also has to be approved by cabinet and a Water New South Wales Board, it's a bit hard to actually talk about what they might be.

Our preference is to wait until we've finished, and correct me if I'm wrong Daniel, finished some of the planning phases. We actually have to build a full business case for this that shows what those savings would be. We're anticipating that to be done around March. There's a lot of things happening in March. At that point or as soon as we get information it would be worth us making sure we're presenting that to you as it comes to hand.

MR LUCAS: Probably just to finish, I think the important thing to your question is agreeing the appropriate mechanism for customers to receive whatever the benefits are of those efficiency opportunities. We've floated some ideas, and as Gavin said earlier, we've got some more work to do to work out what the right regulatory approach is. We do need to make sure that those benefits can be appropriately passed on to communities and customers.

CHAIRMAN: The question about the MDBA and its costs, and you mentioned they weren't allocated to the coastal areas because they're not in the Murray-Darling Basin. But how do you cover just the general overhead and administration costs?

MR GARNER: It alludes to my original question, which I didn't ask very well. It's generally how do you allocate those general administration costs of managing things like the MDBA when you go back down to a per valley basis? How do you allocate that out?

MR MILHAM: DPI Water is part of the broader Department of Industry, and within that structure an overhead cost is applied to us, which is based on an FTE, an hourly rate. That overhead allocation is provided for in our cost basis, that's in the pricing submission.

We don't distinguish between the delivery of any particular activity or any pricing water source in relation to the allocation of that overhead allowance. It simply applies more broadly across our cost base, and then gets allocated according to the FTEs that relate to each activity. Did you understand?

MR GARNER: Oh, yes, I understand.

MR MILHAM: So it's an FTE based charge that DPI Water bears as part of being the broader department, and it gets allocated across the monopoly service activities on the basis of the FTEs that are allocated in the delivery of each service.

MR GARNER: You've got an FTE that's allocated to the delivery of a service in a valley, then you've got an FTE that provides general services across all valleys.

MR MILHAM: No, we do not have any FTEs that are allocated to particular water sources. We do not administer on the basis of water sources, which is why as I explained earlier we use the cost driver approach to allocate costs across water sources.

MR HANLON: I think there's a balancing act here between us trying to provide as much information we can on a valley system, and not preparing 22 IPART submissions. The transactional costs of the 22 will far outweigh the benefit of trying to get it down, and we try and realise efficiencies by grouping up where we can.

Our systems are improving, time sheeting's improving for example, booking time against different activities is improving and that stuff is getting better and better all the time to show that. But it's a balancing act between not having 22 IPART submissions, and getting the efficiencies of having one.

MR GARNER: Yes, I suppose I'm driven by I saw a price increase in the south coast as compared to most of the other valleys, and I was just trying to understand that. And what was driving those things. I know we're doing pricing after.

CHAIRMAN: Yes, we can do, yes.

MR EDGERTON: Just to follow on from Ken's question. I understand how you basically categorise your water management services by activity code, and then you use cost drivers to allocate those activity codes across water sources. I think the question from Ken was getting at you've obviously got corporate overheads, how are they allocated across water sources?

MR MILHAM: Sorry, I attempted to answer that, I obviously didn't do it very well. They are allocated by FTE, so the costs come back not to a water source initially, they come back to an activity. So there's 150 FTEs that are allocated to groundwater monitoring, or whatever it may be.

CHAIRMAN: So the overheads are embedded in the cluster of the activity, and then are distributed.

MR MILHAM: The overheads are embedded in that, and then are distributed according to the cost share, and then to the water source.

CHAIRMAN: We're ahead of schedule, so we will move into session two.

SESSION 2: PRICES AND STRUCTURES

CHAIRMAN: Alexandra?

MS SIDORENKO: This is session two on prices and price structures, as per DPI Water's proposal, and many of these issues have already been at least touched on in session one in the questions from the panel and responses by DPI Water, but basically to set prices on the water source and valley basis we need to determine the user share of notional revenue requirement. Then we have to allocate the user share of notional revenue requirement to water source and valley and that's done using cost drivers that Nick just discussed in the earlier session. After you allocate a certain amount of costs to be recovered from a water source and valley you set prices and the prices will be based on the entitlements and water take in this water source and valley. Here it is also important to bear in mind that algebraically the higher the number you are dividing by, the lower the price you are getting as a result. So if the figure, the number for a forecast water take, for example, is lower in these new proposed prices, you will have a higher per unit water take price and we will see that some of these changes in prices can be explained with this change of your denominator.

The level of prices will ultimately depend on the level of cost recovery that we currently observe in the current pricing determination. For the valleys and water sources that are below cost recovery, they may have to be gradually brought up to the price level that will achieve cost recovery and this is done to manage customer impacts and there will be this glide path that DPI Water proposed in its pricing submission.

In summary, in the proposed prices, we observed a significant increase in water take price per unit - per megalitre of water taken so that's generally happening in unregulated sources and in groundwater. At the same time, entitlement prices per unit of entitlement are largely decreasing in the same sources.

To illustrate the proposed changes, for regulated rivers it's across the board proposed increases in both entitlement prices and water take prices. In most of the sources there is a proposed increase in unit prices. For unregulated rivers two part entitlement price – two part entitlement price or fixed price goes down in all water sources, but that is offset by a significant increase in water take prices in seven out of eight water sources. The one part entitlement tariff is set as the sum of the two part entitlement fixed, plus two part entitlement variable, so it can go up or down depending on the movement of the fixed and variable prices in the two part tariff, but in six out of eight sources for unregulated rivers the one part tariff goes down.

For groundwater the story is for the two part tariff, the fixed component or entitlement price goes down in all sources. At the same time the variable component or water take price goes up a lot in all sources, the resulting one part tariff goes up in two out of three sources.

We haven't finalised the analysis of the contributing factors and at this stage we are just presenting and discussing the DPI pricing proposal. So we do have some preliminary thoughts about the contributing factors for what we observe as the explanatory factors for price changes.

Firstly, there is the proposed change in notional revenue requirement, but in fact it does go down overall. However, it gets distributed a little bit differently between regulated rivers, unregulated and groundwater, but the notional revenue requirement, in general, goes down overall and user share is also down to 72 per cent. The reallocation of costs across water sources has happened due to the revised cost drivers in the DPI Water cost allocation model and probably one of the most important changes in cost drivers is the switch from using entitlements as a cost driver to water take as a cost driver. In our 2011 determination we had to make a decision about the forecast water take in unregulated rivers and groundwater and we couldn't satisfy ourselves that the forecasts that were brought forward were accurate enough for us to use them, but for the benefit of water users the decision was made that the forecast water use equals 100 per cent of entitlement. By dividing by this higher number we ended up with a lower per unit megalitre price.

In the proposed cost allocation model this time around the forecast water take is deemed to be less than 100 per cent entitlement and indeed there was an improvement in metering and better data available as for actual levels of water take by valley, by water source and costs are now proposed to be allocated based on the actual water take. There is the fundamental understanding that impact is driven by actual water take. If you are not taking water, then it's probably less fair to allocate this cost to a user that is not taking water, but is entitled to take water. So on this premises the forecast water take as the basis to allocate cost makes sense and we are considering that some of these price swings are partially explained by the first change of cost allocation, which effectively reallocated cost to regulated rivers from groundwater and unregulated sources and also to actual levels of prices when we take into account the forecast water take at less than 100 per cent entitlement.

The level of prices is also dependent on the glide path that DPI Water proposed to manage customer impacts so there was an average or typical bill that was calculated by water source and valley using the median entitlement and average water take, I believe. So for this typical licence the prices were set so that there was no jump in this bill from 2015/16 to 16/17, but thereafter the annual increase in unit price was capped at 2.5 per cent for valleys which were below cost recovery. So that's the proposed glide path to mitigate customer impacts, and the actual level of cost recovery obviously some valleys are already at 100 per cent cost recovery, so for them this glide path would not be applicable.

The next slide brings up the proposed prices in regulated rivers. In regulated rivers all the users are on two part tariffs. There was the shading which doesn't quite come up nicely in this slide, but the darker shading, refers to price decreases and the lighter shade shows us the valleys where the prices have increased. You can see that in this slide and the landing prices in this slide are 2019/20 and the price levels are in constant dollars 2015/16. In all valleys but four, there is an increase in fixed price or in entitlement price per megalitre of entitlement and in all valleys but two, there is an increase in water take price as well. The two valleys that experience decreases in their per unit fixed and variable prices, so entitlement price and water take price, are Macquarie and Lachlan.

North coast and south coast have a decrease in the fixed component of the two part tariff. North coast is the most prominent decrease here, 19.7 per cent decrease in the entitlement price on the two part tariff, however there is a 19.9 per cent in the case of the north coast increase in the water take price and there are significant increases in price, for example, in the south coast. The proposed water take price goes up 39.6 per cent to 2019/20 and, indeed, this is the highest level in per megalitre terms by 2019/20 of the 11 valleys here.

In unregulated – we call them rivers, but we have been pointed out that some of these rivers are small creeks and other water sources that don't warrant the name 'rivers', and we appreciate that, but it's still unregulated rivers on this slide – so basically, again, the darker shaded area is the regions or valleys where there has been a decrease in price and if you look at the second column on the fixed or entitlement price of the two part tariff there is a decrease in the fixed price everywhere, apart from a slight increase in the south coast, but the south coast is further out from cost recovery in this instance. We can see that it's not decreasing along with other valleys, but there is a substantial increase in per megalitre variable water take price in most of the sources.

The exception is Hunter where there is a decrease in both entitlement and water take prices on unregulated sources.

The one part entitlement price lands depending on the movement of the fixed and variable components of the two part tariff. It decreases in most of the water sources and valleys. The only increases are in the far west and south coast, so people on a one part tariff, unregulated rivers and south coast are facing an 11.2 per cent increase in their one part entitlement price from 2015/16 to 2019/20.

This slide brings about the proposed prices for groundwater. The second column, probably easier to start with it, depicts that in all sources the fixed price goes down per megalitre of entitlement or the entitlement price on the two part tariff and there is a corresponding increase in the water take price for all valleys. The highest percentage increase is in the coastal valleys. The one part tariff was set up as the sum of the two part entitlement price and two part water take price and it lands at increases in the

Murrumbidgee and inland and decreases in coastal areas.

As that slide on explanatory factors or likely factors tries to explain this movement of prices is partially driven by revision of the forecast water take as the denominator to set these prices compared to the 2011 determination.

Just to repeat again on customer impacts, the DPI Water submission proposed to set the prices for 16/17 so that there is no increase in the typical bill, then there is a large change in the proposed prices from 15/16 to 16/17 and thereafter it's a smooth, light path for the valleys below cost recovery with a maximum 2.5 per cent annual price increase. Stakeholders have expressed their concerns about the cumulative effect, especially on regulated rivers when both water management charges and Water NSW charges together are considered. We will be looking at the impacts and we will undertake additional analysis of customer impacts.

This section was recapping or revisiting the price structures that were put forward by DPI Water and the pricing proposal and, in fact, there wasn't a major change. The largest change was in the cost allocation model. So the first change was in the schedule of monopoly activities, this movement from 'C' Codes to 'W' Codes and recalculation of user shares. We talked about that in the first session. Then the second large change was on cost drivers so there were new cost drivers to allocate costs and the major shift in those was using water take instead of entitlement as a cost driver and there were other changes as well, so I think that it is 28 cost drivers that we changed as a result of the proposal.

In terms of price structures, there wasn't a proposed major change so, basically, DPI Water proposed to maintain the existing 70/30 split for two part tariffs. So 70 per cent revenue on two part tariffs is collected through fixed or per unit of entitlement charges and 30 per cent from variable charges, from megalitre of water take prices. This is for all valleys apart from north coast regulated rivers. There the fixed to variable ratio is proposed to stay at 92 to 8 as in the prior pricing determinations and that's to avoid major price jumps.

Stakeholders' views, we received submissions on these issues and basically irrigators, in general, prefer the existing 70/30 split. We did receive submissions from councils who were discussing that from their revenue viewpoint, they're subject to a different split. They are, as regulated by DPI Water, they are required to keep a 25/75 fixed to variable ratio and they were asking why DPI Water allows themselves a 70/30 split in their revenue structure as opposed to Councils being asked 25/75. So we did have these submissions that are available on our website.

Smaller users in general favour a higher reliance on usage charges rather than fixed charges and in the Tamworth public hearing we heard from users that they may prefer to have a fixed administrative type fee or minimum licence fee as the fixed component and then have a usage only price on water taken. There are various stakeholder comments on the issue of fixed or variable ratio and we would like to hear more of your comments and views on the applicable fixed or variable split.

In terms of geographic splits, also there were no surprises in the DPI Water proposal. For regulated rivers the geographic split is the same. For unregulated sources there was a consolidation of four rivers into the north west, then there was the south west, two rivers and the rest were as per previous determination. In 2011, the determination we already set the price levels for these valleys within the new proposed regions at the same value. Effectively there isn't a new approach in the proposed geographic aggregation. We have already allowed for the same level of price happening in the new proposed geographic region.

The stakeholder comments we received so far on the Issues Paper were in general support of the valley based pricing. We have heard from several stakeholders that they would prefer to see groundwater prices disaggregated again and reported on a valley basis. In our 2011 determination we made a decision to move towards the inland, coastal groundwater prices and Murrumbidgee is kept at the separate price level due to historical reasons and the level of cost recovery. During this round of consultation in Tamworth, for example, we did hear that stakeholders may want to see valley based groundwater prices again. That may require us to look at the data collection for the following determination period for the – this price review, it may already be not possible to incorporate valley based groundwater prices just due to data limitations. We have not collected this data on a valley basis, but going forward from the next review after 2016, which may be the 2020/21 review, only then this proposal could be taken onboard.

Peel Valley users raised the preference for postage stamp or state-wide pricing and I'm sure we will hear more in the Q&A session today on the Peel Valley users' position on that.

I will talk about minimum charges which is also part of the prices and price structure session. DPI Water proposed an increase in the minimum annual charge from $105 to $150 from 2016/17, however DPI Water tell us in its pricing submission that the actual cost to administer this minimum bill licence is (around $235) per annum, so obviously there is some middle ground between DPI Water's proposal and the licence specific cost. Our consultants will be looking at whether the proposed $150 represents the efficient cost and the proposal to increase the minimum charge will result, would result in more customers actually landing on the minimum bill, so that would be an increase from 15,000 customers on a minimum bill in 2014/15 to about 21,000 in 16/17, or from 42 per cent of licences to 57 per cent of licences and a corresponding share of notional revenue requirement to be recovered from minimum bills also will go up from 4 per cent to 7 per cent.

Submissions we have received so far, in general, favour the increase in minimum bill and we haven't heard any small irrigators or water users opposing the increase from 105 to 150, so we would like to have comments on this today.

That's a diagram of historical and forecast number of customers on a minimum bill. The dark blue bars are the numbers that were part of the model used in the 2011 determination. You can see that they are much higher than the actual number of customers on a minimum bill. Partially that's due to domestic and stock licence holders not being charged. Back then we understand that that could explain the difference in the number we used in our model to set prices and the DPI actual models.

But going forward, from 14/15 to 15/16 and then 16/17 there is a significant increase in customers on a minimum bill because of the threshold prices and more people are caught into this higher minimum bill number.

This leads us to questions for session two. We would like to hear your comments on whether you think that the proposed prices for water take and entitlement are reasonable, whether the 70/30 fixed or variable ratio of two part tariffs is reasonable? Should we maintain water source and valley based pricing that DPI Water proposes? What are your views on the proposed increase to the minimum charge? Is it cost reflective and reasonable, and also we would like to have your comments on the proposed measures to manage customer impacts on the glide path. Thank you.

CHAIRMAN: We will break now.

RESUMED

CHAIRMAIN: Welcome back. Let's move into discussion on session two, which is the price structures, pricing, and the minimum annual charge. We've got the list of questions up on the screen, so who would like to start around the table? Stefanie, thank you.

MS SCHULTE: First of all the Council overall in terms of question number three, we have always supported valley based pricing and we continue to do so as part of the Council. We were also one of the individuals who asked for groundwater valley specific pricing as well because we believe there's greater transparency of having valley based prices rather than a postage stamp pricing approach.

Without labouring the points that were made in session number one, one of the questions we do have is how the move from entitlement to activation rates will impact customers going forward and, in particular, what DPI Water envisions if there is years of very low water take? So whether or not there's something, as we've had with Water NSW, they sort of catch up year to year as in overs and unders, or a catch up at the end of the determination period. I guess, it's a question that we have going forward.

MR HANLON: On the first one with valley based pricing, we certainly acknowledge the views of that. Also acknowledge there are a couple of other views around the state on that sort of thing, but when the prices and the costs and levels of service are so different between the valleys, we're going to keep recommending valley based pricing. At such a point that the service levels and/or the costs of operating start to get very close, we might have a discussion around whether the transaction cost of managing the two separately means it might be smarter to have one, but in most cases we're nowhere near that discussion and probably won't be for a very long time.

With regard to who wears the risk if we get our demand forecasts wrong I think is another way of sort of phrasing what I think you said, yes? We are wearing the risks. We won't be operating under a revenue cap or not proposing to operate under a revenue cap where we've been looking to recoup extra in the following year and operate under the cap. That means you get fluctuating pricing and it creates uncertainty and unpredictability in prices for customers. We're proposing that we'll take on that risk.

MR GARNER: We agree with the NSW Irrigators' Council on almost everything, except point three. I mentioned before in terms of a new paradigm in terms of pricing for valleys that we think are just never going to be able achieve full cost recovery and postage stamp pricing is maybe a new paradigm, but there may be others and I think we need to look outside the square in terms of how we deal with those valleys. South coast is what I'm referring to. We differ on that one, yes We're not necessarily saying postage stamp, but some other methodology we need to have a look at.

Number two, should we maintain the 70/30? Yes, we haven't got a major problem with that. My understanding was the south coast was 60/40 and we've moved to 70/30, I could be wrong. You did mention there wasn't a change, but I thought we were 60/40, so if you could just check that out for me, I would appreciate that.

Number four, the minimum charge. One of the questions we have is we note that the actual cost is 235. I think, 235 in the paper in terms of what the actual cost to the business of the minimum charge is, but you've picked the number of 150 and I don't understand the logic of where that 150 came from. We would prefer you'd actually charge the actual cost and CPI'd it each year. So some commentary on that would be appreciated as to where that 150 actually came from.

Number five are the proposed measures to manage customer impacts appropriate. Well, yes and no. We appreciate the 2.5 per cent does cap it each year, so we do appreciate that. We did note the anomaly in the paper where you looked at the cost of bills on farm operations and you'd excluded the coast in that and I thought was a major oversight when the coast was the biggest area of impact. I suppose we're disappointed that the area that had the biggest cost increases wasn't included when you looked at the impact on business, which was disappointing.

And number one, are the prices reasonable? That one is hard for us to answer. In terms of when you look at the average – and we're looking at average price increases, so when you look at an average bill and an average price increase, the south coast on the unregulated system went up 7 per cent and on average all the other valleys went down minus 28 per cent. Is that reasonable? I'm not sure because we couldn't really determine how those costs were divvied up to give us why that south coast region went up and everyone else went down. On the one part tariff, it's 11 per cent increase to the south coast and the average reduction across the others was minus 16 per cent.

It's either cost savings were found in other regions and they weren't found in the south coast, or there was extra costs added. We also note that at all levels of the two part water price take activation on the price increases, the only way to avoid the increase is to cease irrigating. We think this needs to be further investigated as to why there is such a discrimination in pricing across the unregulated rivers.

For the regulated system, when you look at the total price per megalitre compared to the New South Wales average at full cost recovery, the south coast is $6 a megalitre and that's the second highest and six times higher than the weighted average price and, again, our concern is when you add that to WaterNSW's price and move towards full cost recovery, the accumulative result is well beyond the ability of agriculture to afford and in our region there doesn't appear to be any other alternative in terms of water use. It is, certainly in our valley, it's dairy and basically nothing else and if that industry didn't take it then I'm not sure what industry would and I'd just go back to my previous comment about what a new paradigm in terms of pricing might be to handle these valleys that at full cost recovery are probably going to be priced out of the water market. Thank you.

MR HANLON: Just one question back. I'm not sure, I hear the message around a new paradigm, but is there a recommendation you're making there on what that might look like?

MR GARNER: No, but I think we should go around the table and tease it out.

MR GARNER: We have had initial discussions with the NSW Irrigators' Council. I would have liked to have had this discussion prior, you know, to this determination. We'll have to wait another four years if we don't do something for this determination, but time is possibly against us, but we do need to have that conversation.

MR MILHAM: There are a number of issues there so hopefully I've picked up all of them. The logic of the $150 for the minimum annual charge, we did look at this issue quite extensively and the way we worked it was that we went back to the building block approach as to, well, what are the costs associated with maintaining a licence and sort of apart from costs that happen on a variable sort of basis, that is a cost that we simply have to wear in relation to the administration of that property right and as we've sought to explain in the submission, and there's a bit of a discussion there on pages 215, 216, we identified sort of five different areas of our operation in relation to the defined monopoly services that relate to simply having a licence.

The $235 is a compilation of 100 per cent of each of those five identified – the costs per licence of each of those five activities, but we recognise that 100 per cent of those wouldn't actually apply to every licence. To come back to $150 was a bit of a judgment, but we certainly didn't think it was appropriate to go all the way to the $235, but we certainly, as we put in the submission, considered that leaving the minimum charge at $105 also wasn't appropriate, so we made a bit of a judgment. The judgment was to land on $150 and another consideration there was the issue of a price shock. That's a large percentage increase, but we thought that sort of in an absolute dollars term, it wasn't a substantial increase and that would be reasonable. So that was sort of the thinking and the analysis that went into arriving at the $150 for the revised minimum charge.

Why was the coast excluded from the bill impact assessment? Well, we didn't actually exclude it. What we didn't have readily to hand and would have required substantial additional work was actually information on the marginal value of irrigation in key commodity production on the coast. That was basically an information gap for us. We had it for the major irrigated crops, but we didn't have it for coastal operations. It was simply an information gap for us, so we didn't deliberately exclude it, we simply weren't able to include it.

South coast costs, why are they increasing? In large part, the increase in costs in the south coast region is to do with requirements for us to undertake broader regional water management planning. So there is a significant increase in costs for us in relation to delivering that activity and that's the major element in the increasing costs on the south coast.

MR GARNER: So that was regional?

MR MILHAM: Regional water management planning. I note the issue that you've raised in relation to an increased focus on variable charges does place more pressure on those who are actually irrigating, but the counter to that is that those who are actually extracting water are putting the most pressure on the system as well, so it's a bit of a balancing consideration. But also we were seeking to maintain the existing 70/30 split so within that constraint that's in effect that’s simply the way the prices worked out.

MR GARNER: We're happy with the 70/30 split, but I just thought we were 60/40.

MR MILHAM: Yes, I'll check into that. My understanding is that it was 70/30, but I'll check into that as well. And it's probably worth making the point here that in all of our analysis and, as Alexandra pointed out, the focus that we've had in presenting the bill impacts has been on bills, on the impact on bills because there were so many changing variables in relation to prices and an additional variable that Alexandra didn't mention was that in some water sources there's been change in entitlement as well. When you're bringing in changing entitlement levels, the change in the estimate of water take, change in the allocation of costs, both the costs themselves, but also the cost drivers, it was somewhat meaningless. Our focus is a bill impact of actual prices which is why we've focussed on this typical, average bill and the impact on that. We thought that was more meaningful, but at the same time recognised who is average, for which individual licence holders is that going to be meaningful, and not the counter, but in conjunction with that median or average bill impact assessment we also produced a bill estimator so that each individual licence holder would actually be able to see for themselves by putting in their own information what the impact of the proposed prices in the submission would be for them. That's giving some background as to why we focussed on the bills rather than prices and also what we did to try and ensure that individual licence holders could actually see what it meant for them.

MS EWING: Certainly we support the 70/30 fixed, we support the increase to the minimum charge. A comment about point one, as Alexandra pointed out, the water take price is directly relevant to the estimated take and I see that that's coming up in point three, so whether or not those estimates are reasonable, but I'll just note at this stage that for regulated rivers, including the drought period from 2002 to 2010, will have lowered the average take and that will follow through for several years, that will stay in the estimation. Potentially we could have a situation where in fact actual take is considerably above the estimated figure that the prices are based on so a question to IPART is if there is a consistent overachievement of take compared to the take that the price is based on, are you considering some type of adjustment mid-period?

MR EDGERTON: We can't make any adjustments mid-period, however one thing that we do consider in each price review is whether or not we should include any measures around revenue volatility. Revenue volatility can work two ways. If forecasts are off it can result in the service provider under-recovering or over-recovering. For example, what we've noted in price reviews for utilities, such as Sydney Water and Hunter Water and so on, is that if the utility significantly under or over-recovers in a price path because of a deviation between forecasts and its actual sales, at the next determination period IPART will consider making a revenue adjustment to the utility depending on the materiality of that under and over-recovery and also the reasons why. We can't make an adjustment for the current price path, but we could potentially look at adjusting revenue at the next price path.

MS EWING: With regard to water source and valley based pricing, we are strongly supportive of valley based pricing and in terms of groundwater, we are strongly dissatisfied with the agglomeration into an inland and coastal and we think that there's a clear lack of transparency in terms of outcomes for the pricing, certainly in the Lachlan's case, and a question to Gavin or Nick is that when I actually look at the activity codes it seems that the code is responsible for about two-thirds of the water management services for groundwater are actually ones that you could allocate the costs on a valley basis. That's groundwater pipes monitored, it's total water take, it's compliance risk, profile number of licences, so the question is how difficult is it for you to go through the groundwater costs and look at applying those cost drivers to be able to have more just aggregated groundwater costs?

MR HANLON: You've seen the groundwater both in the two part and one part proposals we've got. We have separated out Murrumbidgee, primarily because they do have quite a different and larger cost base to recover from and we didn't want to induce subsidies by having just inland and coastal. For the remainder of the inland, the reason we've done it as such is that point earlier that there does come a point where the levels of service and the cost of managing the transactional cost with splitting it into the different systems start to add up a little bit.

We could go back through and revise the best we can to look at those sort of things and make that information available, but I think the reason we've done it is that we think it's actually more efficient and cheaper to do it the way we've done it, particularly when you see Murrumbidgee being that much higher. By the look on Mary's face we'd better take that as a comment.

MR MAGNER: The coast has got a number of issues and I think there's a valid argument to investigate whether it be a full merger of the coast or whether it be some other assessment, but there's got to be something done with the way that the coastal areas are assessed. I think the investigation has to be done on where the coast goes and how it is priced because I know what the Irrigators' Council's policy is and that's fine, but for the coastal issues there's a huge dilemma for the north coast. We've got the problem up there with Toonumbar Dam as a possibility of closing down. There's just the lack of people using the water is an absolute disaster because they're being priced out of being able to actually utilise it anymore. With the time we had both the two lots of charges together, that water is just too, too dear. We'd have to look at the proposal. Now, I'm confused. We were just told there a while ago the ratio of 92 to 8 for north coast.

MS SIDORENKO: That is regulated.

MR EDGERTON: Regulated.

MR MAGNER: Yes, that's for the regulated. Yes, for Toonumbar. It doesn't say that in the figures I've got on the pricing on any of the documents. I can't see where you get a 92 to 8 ratio.

MR EDGERTON: Just to confirm, that's the ratio of forecast revenue recovered from the fixed charge relative to the usage charge so it's not necessarily a ratio-----

MR MAGNER: That explains it because that basically spells my argument out. Eight per cent, is that's what's being used? Is that right?

MR EDGERTON: Eight per cent is the forecast revenue that would be recovered from the water take price.

MR MAGNER: Yes. That's right.

MR EDGERTON: Water usage price.

MR MAGNER: Yes.

MR EDGERTON: So it's not simply the ratio of the two unit charges, it's the forecast revenue to be recovered from the usage price.

MR MAGNER: With the prices that are in your document, they're also a little bit confusing the way that this document that's on the table here it's put together in a different format to the others. They do both read the same. I thought they were different to start with, but they're not. The ratios that I think we should be looking at should be much more lenient towards the user and I think we should be looking at the fixed charge set at 40, both for regulated and unregulated on the north coast to try and compensate, especially in the unregulated, for the dilemma that we've had, especially in this last IPART determination period. We were told at the last IPART hearing that we could have access to the two part tariff and our people investigated it and were told by our local Office of Water staff that we could, yes, you could have it at the ratio of 70/30. You would have to put on the approved meters. Now, the cost of approved meters, if you've got two or three or four pump sites for the small usage that we do put them all out of the question altogether. Therefore we now have nobody that I know of on the north coast unregulated that has a meter, so they're all paying 100 per cent. We've been desperately working with the Office of Water staff to try and get a system that works on a surrogate system of measuring and we're telling our local staff – we only had a meeting at David's place the other day – and when I told them, "Look, Toonumbar has been on these electricity meters for years, why can't we have them," and the jaw dropped. They didn't know about them, so there's a communication breakdown somewhere down the level within the department, but for the last six years, because we've been on now since the last determination, 100 per cent payments. We're proposing that if we can get these surrogate systems of measuring and we can get access to the two part tariff, we believe that we should get some form of benefit like having a lower fixed charge to compensate for the full payment that we've been making for six years. We think we've been mistreated in that manner for the last payment period.

So, if we look at the ratios, I think they should be 40/60 or even better. Should we maintain valley based pricing, look, I think we should be looking into it really seriously. The minimum charge, the figure that was put up there a while ago of $235 I think, we had a meeting last week with our water users and it was fully supported that we support a $200 minimum charge. I'd even stretch my neck out and say we would support a full charge of the $235 because our people saw it as not a huge cost to those minimum charge people, but it would make a humongous difference to the rest of the irrigators and the proposed measures on customers, I'd just like to leave that one for the minute.

MR HANLON: There's a lot in that, Chris. I think importantly upfront I'll just acknowledge there sounds like there has been some communication issues in your part of the world with the two part tariff stuff and happy to have a discussion offline about working that out and technology is improving all the time with meters as well, so we'll follow up on that one later and maybe that needs to be noted here somewhere in terms of our performance in that space.

With regard to the $235 full cost recovery for the minimum charge, we felt $150 was quite a large percentage increase price shock, but happy to take the feedback and I'm sure I've heard it very loud today that there's a preference there to move that as high as we can and bring down charges at the other end, if appropriate, so we've heard that loud and clear as well and the third dot point there was around the fixed variable split.

This is a bit of a challenging one for utility businesses in that you'd like to try and line your fixed costs up with your fixed pricing if you lower your fixed prices and it doesn't always work that way because you generally get the exact opposite to what we're trying to achieve here and I think that's a discussion for us to have with our colleagues in Water NSW if we move to the reforms we're talking about to think about whether there's other ways in dealing with those sort of things in terms of revenue caps with upper and lower bounds to deal with some of the variability. If you're going to move to a higher variable amount it means someone is going to take a huge amount of risk on revenue volatility inside a government, so that's a discussion that needs to be well thought out over a bit of time, so I think for the purpose of this one we will just say thanks for the comment and make sure it's noted.

MS SCHULTE: I do have a follow up question. I guess coming back to the point that Ken made and the point that Chris made, I think we just wanted to put on record as well that as part of our submission to the Issues Paper as well as the pricing applications we did encourage IPART to look at potentially a different charging system for the coastal valleys recognising the differences that do exist between inland valleys and coastal valleys and we would be more than happy to work with IPART and of course DPI Water on what might be possible and what might not be possible in that regard.

In terms of another question Chris brought up about the two part tariffs, we've been encouraging DPI Water on developing the water take measurement strategy and we're very glad that this is underway. I guess as part of the pricing submission, we're interested in how far the water take measurement strategy will feed in with the pricing application and also recognising that in terms of floodplain harvesting has been priced into the pricing application, however the water take measurement strategy was not, as far as I understand, incorporated into the pricing submission. So what was the rationale for including one, but not including the other?

MR HANLON: Quite simply, the floodplain harvesting work is a little bit more progressed than the meter take stuff.

MR HANLON: I have seen some drafts that we have presented to some targeted stakeholders. I'd like to do a lot more targeted stakeholder consultation. In terms of how it would impact on this submission, I'm not sure it actually would. It's more around compliance with where you have meters inside of a system rather than how you charge for them and I don't see the numbers we're projecting in here changing morally to induce, I guess, a reason for us to come back to IPART and say we need an adjustment, but I'll throw to Nick on the detail.

MS SCHULTE: In light of Chris' comment, it was more that we are hoping that the water take measurement strategy would allow especially individuals on the coast to take up a two part pricing structure and, as such, we're just wanting to understand the impacts that would have on prices that are currently put forward for the coast.

MR HANLON: So, that's great. We'll go away and do some modelling on that. We've done some initial modelling about at what point do you get some broad compliance with NWI stuff. As for how that relates and what it means for specific valleys, there's some work there we've still got to do. Yes.

MR MILHAM: There are a couple of separate considerations in relation to how we're able to realistically take account of the roll-out of floodplain harvesting versus the way we're in effect really not able to realistically predict what the roll-out of water take measurement and the uptake of two part tariffs may be. In relation to floodplain harvesting, we're actually able to put forward a concrete proposal that when floodplain harvesting is actually approved, all the negotiations are in place and it's ready to roll for an entire water source, then it will be introduced for that water source and then a price change would take effect after that. So while we don't actually know when that may take place, what we do know is that it will take place and it will take place for an entire water source and therefore, in principle, a new set of prices could apply from when that happens.

With water take measurement there is both the rollout of the strategy and when that may happen which is uncertain but then there's also uncertainty around uptake which is an individual choice matter and we put considerable effort and as we know, we talked a little bit about that with users in the forums that we did consultation in, and we simply arrived at a conclusion that there was so much uncertainty there that we couldn't realistically try to estimate either the rollout of the strategy or the uptake of 2-part tariff in a way that we could actually realistically argue should be considered in the price regime.

MS SCHULTE: I would like to throw that over to Susan. It was our understanding that there is still also a little bit of uncertainty around some of the finer details around the flood plain harvesting especially around monitoring and compliance in the framework, so I guess having seen pricing there in the application set with the rollout from flood plain harvesting, I guess we were just wondering whether or not how final these figures will be, going forward, given that we understand there is still a little bit of work to be done on some of those cost components.

MS MADDEN: The Macquarie Valley is one valley to have the flood plain harvesting licences, there is a clear business case around that and it has progressed quite a way. We are still a long way off determining what the final entitlement volume and average take might be, so I guess the question then would be how did you estimate the volumes that are in the pricing submission? And some policy work to be ironed out such as the monitoring and measurement strategy which will have considerable cost implications, I guess.

MR HANLON: We've offered a couple of scenarios here about what might happen and the Gwydir is by far the most advanced in this spacing and the Macquarie are really only just kicking off. We've made some pretty general assumptions here. If it's within a reasonably close to what we're proposing here as a scenario, great. If it's wildly outside that we can't take it forward. In saying that I think the flood plains have been bogged down for quite a while but it's seen a pretty rapid acceleration I think in the way these things happen over the last probably 4, 5 months. The monitoring strategy is there ready to start consultation with, in fact we would like to think we can have it out pretty soon, it's just a timing thing. Anything I release from here on in it's that period, you're just doing it just before Christmas, not a good time to be going out with those sort of things but I think we will start some really targeted stuff pretty much straight away.

MR CLIFT: The pricing structures that DPI Water proposed are based on a regulated system, an unregulated system, ground water and flood plain harvesting. Besides having a river licence I've also got a farm dam that's licensed. Under the current structure this has got to be grouped with surface water. The dam which was built prior to the Water Act 2000 has a fixed capacity and it is subject to different rules of extraction to the normal surface water, river licence I've got. We pay all the maintenance costs on that dam. That's the wall, the by-wash. We pay council rates on all the land underwater, we also pay LLS rates as well. When we constructed it we put Habitat zones in it so it's got islands in it, and it's now on the bird watching tour for our area. DPI Water charges us on that at the full rate, the same as what the river is. If you look at those charges they are more than double pretty much all the water released from any of the storages on the Murray Darling at this point in time. The farm dam situation was not addressed at the last IPART hearing. We are worried that it's going to be swept under the table because we've seen nothing in any of the drafts at this point in time from DPI that has a category associated with farm dams. There's got to be a different way of doing this. I would personally think it would come under a minimum license fee, something in the order of 250 bucks a year. We have now got an application in for 2-part tariff on that dam which is pretty ridiculous considering the fact that it's got a fixed storage anyway and the department knows the storage capacity. Once we pump it out, that's it. It's over and done with. We do use that dam when the salinity levels in the river get a dry time and the salt water comes back up. We have to rely on that dam for our irrigation. I wonder whether DPI Water is going to have something in a submission that covers farm dams because I'm not unique on the north coast in having a farm dam.

MR HANLON: I haven't heard this one before come to me, so there's a general principle also if this water is treated the same and clearly that's having some perverse outcomes in some parts of the state. I think it would be worth us having a look at how that's been charged and maybe we've got a little bit more work to do on that subject feedback we get from IPART as well. If it was to go to the minimum charge versus the licensing charge, I guess we would have to do a hell of a lot more work really quickly to see how that flowed through the whole pricing stuff, but all the models are set up to do that, so I'm not sure it's that big a piece of work all the same so we will just take it as a comment on notice, Dave, that we need to do some more work in that space.

MR GARNER: We did raise it last determination, which is a fair few years ago now. Farm dams as an issue. The current system for WaterNSW as well, as DPI Water disincentivises people to put off-river storage in and I think that's a perverse outcome.

MR MAGNER: On the coast we're not allowed to have the flood plain harvesting, we've never been allowed to have the flood plain harvesting. Yet we've got all this massive amount of runoff water. Dave gave an example down on the tidal pool and I'm not far away from David, it's relevant down there, it's also relevant up in the upper reaches of the streams where the cease to pump rules and that's really the big thing that we work on is the cease to pump rules, where the cease to pump rules become active and there's no water left in the streams, then there's no water. If there could be access to reasonable farm dams and encouraged to have farm dams, and the encouragement would have to be through pricing then you would see better utilisation of water that could be harvested at the right time, and not then put stress on rivers when there is a stress period. So there has got to be a lot more positive thought put into it and if the department can work together with us the way they've been working with us on the 2-part tariff I think we can come up with a fairly reasonable solution. I think it has to be addressed.

MR HANLON: This starts to cut across water sharing plans and policy, and more than happy to work through those sort of things. We've had raised with us a few times the 10% rule on those northern coastal areas just doesn't work, not appropriate, so more than happy to deal with that through a process that belongs really in a water sharing or a policy type context rather than here. Happy to take it on board.

MR MAGNER: The pricing has a big effect on it because it will encourage people to go there so that's why we have to look at getting the pricing right and no good waiting another 4 years, let alone 6, to have it done again.

MR HANLON: So chicken and egg with this one. The rules aren't quite there to support the pricing and the pricing will happen first, Mr Chairman, if it's material enough with the policy changes we can have a discussion about whether it triggers the rules for mid-term stuff but probably not but I think the policy planning stuff has to happen first.

MR CLIFT: Chris probably put it in a nutshell. Basically we're looking for a pricing determination on flood plain harvesting and farm dams from this review by IPART foreshadowing that there are going to be changes in the water sharing plan. So that your determination will happen prior to the changes in the water sharing plan, so if they do make the changes that's fine, they've got to foreshadow a pricing structure that happens from the moment – and I think it's already been outlined for flood plain harvesting that that would happen, maybe for farm dams, the same thing.

CHAIRMAN: David, yes, that's right. We have a proposal for pricing with and without flood plain harvesting. We don't have a proposal for pricing with or without farm dams. Let's DPI and IPART need to think this through. But thanks for putting it on the agenda. So John and then Ken.

MR MADDEN: John Madden from the IPART secretariat. Just for clarification, are you talking in that farm dam and water captured from farm or pumped from the river into the dam for storage?

MR CLIFT: My dam is purely from catchment for my own farm. You do get situations on the north coast where – and I think up towards [inaudible] up towards Kyogle do have a licence to pump from the river into an on farm storage. But they pay a licence fee out of the river and then they've got to turn around and pay a licence fee per meg out of the dam for water they've already just pumped out of the river. That's my understanding. So they are worse off than what I am.

MR MADDEN: This question is to DPI Water, what type of charge is that and if you have any understanding of it and does it fall under the monopoly services you provide?

MR HANLON: So it wanders into that space a bit like the flood plain harvesting stuff where any dam might have multiple sources of water going into it, so you would expect there to be a charge for each different type of water source. In the flood plain stuff it gets incredibly complex. I counted three different water sources in one dam last time I was up that way having a look at how do you actually try and measure account and put entitlements on these things. So yes, it's inside of our submission about how that's dealt with.

MR MADDEN: I understand that, but I guess the question is for current charges because the flood plain harvesting is obviously a future charge?

MR MILHAM: Without having any specific knowledge of the individual case that's been raised, sounds like they are currently being treated as two separate surface water source accesses, so they would be charged equivalently. I would make the point that we have at least in recent times negotiated a new type of water access entitlements where there is that apparent double counting, or in fact real double counting in order to alleviate that problem for the water licence holders, so that's a conversation that the department is certainly willing to have where it appears the same water has been charged for twice.

MR GARNER: That's a good question, John and I think it does need to be included in the scope. My comment more than anything Gavin, is that you mentioned that some of these things start impacting on water sharing plans and it's very true. In some instances it's preventing us from moving forward, but we had a recent case where we tried to activate the mid-term review and we were shut down. We had New South Wales irrigators pursue that for us and it didn't go anywhere. So if there is an opportunity for a mid-term review on some of these issues then we would like to understand what the process is to activate that.

MR HANLON: As a starting point we can take it off line, but write to me and we can have a discussion from there. I think before I get asked this question, Mr Chairman, I think our promises made in previous – well, whether they are real or perceived promises made in previous water sharing plans about things we would and wouldn't do has been a little bit light on in some areas, so to support the next review like monitoring data, in some cases, so if there is a good case to reopen mid-term, a water sharing plan as opposed to a pricing submission, I would be happy to have a look at that. I would have to consider it in the context of everything else we have going on in the state at the same time.

CHAIRMAN: Thank you, Gavin, and thanks for clarifying that, reopening a water sharing plan and not the price determination.

MR HANLON: Yes, as a long term review I will change it.

MRS PATMORE: First of all I've had a bit of a giggle at that price shock. I would say that most people in this room are irrigators, have had price shocks over the last few years going from a couple of hundred dollars to a couple of thousand dollars. So a small amount up to $235 I think is quite negligible, that's my point of view. And it just shares the cost base a little bit more, I think. But another issue just resulting from last week. Peter, you said your brief is to set maximum prices, but I just put it to you that I wonder if IPART could set minimum prices as well for those who are not receiving what they are paying for and I do refer back to the Halls who have a property on the Bogan River. The Bogan River hasn't flowed for the last 2 years and yet in both years they have received an account for $1700. Now, the accounts are for the last financial year so the monitoring systems would indicate to the person that's doing the accounts that there's been no flow. Now, I do appreciate that the account does cover costs, but if $245 basically is the minimum fee that covers the cost, I would ask that IPART could consider a bit of compassion to these people. When we are in drought it's just another slug that we don't need. I know it's not an easy thing to do but surely there can be a minimum charge for people that aren't getting their water when they really need it. Thank you.

CHAIRMAN: Shirley made reference to some commentary at the public forum in Tamworth last week where the Halls and Newman were there and the issue about the people on the Bogan River having to pay a charge, even though they hadn't been able to take any water of course and the Halls recognised this, that if you waive the charge or have a very low charge in the years when there is no water, that when there is water the charge will be much larger because there will be a catch up, because the charge is – it depends whether it's a 2-part tariff or a part tariff, the charge is as you well know, hooked on the entitlement and so this is a very tricky issue. This has come up before in the State Water context and there was some arrangement which was looked at. For example, that if somebody doesn't receive water in a year and they are subject to a charge, that they might be able to pay it the following year with an incurred rate of interest to hold over and things like that. But the bottom line is even if there is no water being drawn for a river like the Bogan, it is still costing to manage the system and if it's not paid every year it has to be paid every few years. Okay, thank you. Any other questions or comments? Susan?

MS MADDEN: I wanted to make note for the record that Macquarie River Food and Fibre is slightly disappointed that the discussion and working around basic landholder rights hasn't progressed further.

CHAIRMAN: I'm sorry, which rights?

MS MADDEN: Basic landholder rights, so a lot of these issues are around how we divvied up between licence holders and entitlement holders, but certainly there are other customers, if you like, of DPI Water. Basic landholder rights being one of those, the system still needs to be managed even if you took irrigation use out those users, there needs to be a level of monitoring to make sure those users aren't exceeding take, that sort of thing. And the other one would be planned environmental water holdings as well. So while we understand that transaction costs might make it prohibitive to charge each one of those users individually, I don't believe that other licence holders, the cost should be socialised across them, that perhaps those charges be aggregated and become a CSO.

CHAIRMAN: Landholder rights, that's where somebody owns land that borders on a river and then they use it for stock and domestic purposes? Yes. What about the argument which is often made that the value of that landholder right is actually embedded in their property and it's capitalised into the property?

MS MADDEN: That doesn't cover the cost to New South Wales.

CHAIRMAN: I'm just wondering what about the argument?

MS MADDEN: I'm sorry, DPI Water.

AUDIENCE MEMBER: Irrigation licence.

CHAIRMAN: Irrigation licence is something separate from the property. It's a licence and –

AUDIENCE MEMBER: You sell a farm without one and sell a farm with one there's a huge difference.

CHAIRMAN: That's right, and the licence is something that you can take up and keep on paying even if there's no water and even if you don't use it, and you keep on paying it because it has an intrinsic value and as you say probably makes your property worth more with it than without it. A landholder right is a right that the property is located on the edge of a stream and there is a right to water stock,

stock and domestic purposes. This is not a new issue, it comes up from time to time. I'm glad Susan has raised it. It's an issue about whether these landholders should be charged the same way as the licence holder and an argument that's often made is that the landholder's right is capitalised in the value of the property; the irrigation licence can be separated from the property, you can give it up if you don't think it's worthwhile keeping it or you can keep it.

MR GARNER: In essence it could be valued in with the value of the property. When you look at it from the coastal streams, you walk up a stream and it's full of black snakes, and black pipes coming in and they're going through other people's property so they're not on the river. Because it's unmonitored and unregulated, there is an excessive amount of off-take of people taking advantage of it because there's no monitoring in relation to it.

CHAIRMAN: This goes to issues of monitoring. If somebody is putting a pipe in the river where they are crossing another property and they are not on the river, they are not a landholder, they're either a licensed user or there is somebody who is operating illegally which goes to issues of monitoring and policing.

MR GARNER: Monitoring and policing is the issue.

CHAIRMAN: Yes, so these are really important issues and there are really important principles here, and conceptually, there is a difference between a landholder who is using it, whose property borders the river and or stream, and they are using it for stock and domestic purposes. There's a difference between them and somebody whose property is not bordering the stream and they are using it for stock and domestic purposes. And they need a licence and then clearly there's a difference for irrigators. And there is an issue about illegal operation that is not condoned by IPART or DPI. Thank you, this is good stuff. Yes, any other issues, comments or questions from the floor?

MR PATMORE: Newman Patmore. Yes, up in the 70-30 fixed variable ratio there is some people seem to be in agreement with that, but like Chris mentioned earlier, we are on the Manning system and it's just coastal water running down to the sea. If we went to a 2-part licence by the time we pay 70% as a standing charge, pay for a meter reading and pay for a meter, then we don't have to use very much water and we are paying in excess of what we've been paying on a one-part licence anyway because the water charge would go over. So I think the 70-30 is absurd. I know it's set up to make sure the department gets their money but that's at our expense. I think farmers seem to be expected to carry the can in this nation. We cop everybody else's inefficiencies and mistakes because we're at the end of the line and we have to pay. I read in The Land last week that in 2005 this is – and I know it's another issue, that farmers paid 8% of the shire rates in this stage and constituted 1.75% of the households. A few weeks ago we had no telephone for 6 weeks. We don't have any mobile reception but when we finally had everything fixed up Telstra actually paid us some compensation. This doesn't happen with the water users. Shirley raised the issue with the people on the Bogan and you said well, there would have to be a catch up, they would still have to pay. When other utilities can't provide they help people out. This doesn't happen with water. I have been through the same sort of thing as Mark Hamblin described in Tamworth last week in trying to deal with State Water and now IPART over these excessive costs which we cop these days just to have a water access licence. You pointed out that yes, we can keep paying so we maintain the value of our property with having the licence and I hope that – I keep paying to maintain the licence so it will be there for my son's use. But I pay a lot of money for many years when I don't even pump any water, because I don't waste water, I use water when it's absolutely needed to try and keep crops alive and to sustain cattle in drought times. And often times when that happens the water is not available in the river anyway and we're on irrigation restrictions. As I described it to you last week we maintain the flow, satisfactory flow in the river during those times on a voluntary basis working in cooperation with Mid Coast Water. Why can't we be allowed to have just a minimum charge like we've been talking about here today, like we used to have years ago. I used to pay $546 for a 5-year irrigation licence and as DPI Water's own submission says that minimum charge, and I'm talking about $150 which I think is a lot more reasonable, covers the basic costs of managing a licence. Why do we have to pay all this money to manage a licence? Now, I've heard people talking about looking outside the square today and looking at a different paradigm. I contacted Mid Coast Water the other day because they're the utility in our valley that supplies all the towns with water. They take 8,000 megalitres a year and that services 40,000 households. When you break that down on the current determination's rate of $4.48 a megalitre, that constitutes about 90 cents per household. Mid Coast Water, in addition to that, pay $45,000 to IPART as a payment for some of the measuring stations. That adds over 40,000 people, another $1.10. So each household that they are supplying water to pays about $2. We pay almost 1,000 times that, our household, and in many years we don't even use that water. That's based on those other households using their 200 kilolitres a year. Now, what I would suggest, if you want to look at something, and Peter, you were very concerned last week in Tamworth, whenever something was suggested about the tax payer may have to pay, well, in this situation if we all pay – and I've worked it on $150. If the 527 licence holders in our catchment paid the $150 minimum charge, then to get the amount of money that you're getting now, there would only need to be an extra charge for each household of $4.38. $4.43, sorry. Which means that we irrigators would have to pay $150, $154.43, and the urban households would only be paying an extra $2 per annum on what they're paying now. That is a completely different concept, everybody as Shirley said to you earlier, needs water. In the previous determination, New South Wales office of Water and IPART claimed, and quite arrogantly, that they were providing water – they were making water available was the terminology, through the whole thing, and it's still used, making water available. Nobody came make water available. God created this incredible place we live in, provided rain and snow to give us the water. His son, Jesus Christ came to show us how to live with compassion and love and understanding and do to each other as we would have done to us. I don't see that happening in the way state government or their bureaucracies work.

CHAIRMAN: Okay, thank you very much, Newman. We will move to Session 3. John Madden will just do a brief introduction for Session 3.

MR MADDEN: Just looking at a quick overview of other prices and some remaining issues, some of which we have already touched on such as flood plain harvesting, but maybe something to revisit. You first look at forecast water take and DPI's proposal, and Mary mentioned this a little earlier as well, for regulated rivers, water take is based on a 20-year historical average looking back from this point of time. Unregulated rivers, for water take model which again Nick mentioned with some limited data in some cases, and for ground water take is for the 2-part tariff is based on a water take measurement available since 2006, where it is available. We've just got a bit of an overview in the actual amount of take in the different years of the current determination. The 4.6 is what we had that based on. That's 4.6 million megalitres. And we see there in some years it was lower than that. If we look going from 2014-2015 as well, we did have that spike in 2012-13 of 6.4. The take estimate obviously is influenced a little from the last period, we have gone from 4.6 to 4.4 in terms of the assumptions that we make for water take prices. If we just move to water take for unregulated rivers you see that's forecasting going down as there actually are more estimates and model data around water take in some of the unregulated rivers. So we have an estimate, going forward, of about .9 million megalitres for the proposed determination period. Ground water we have an assumption on water take going forward of .8 million megalitres. Moving to the flood plain harvesting, I think I'll go through it pretty quickly, but there is a proposal, basically two sets of prices with and without flood plain harvesting for those five water sources where flood plain harvesting and establishment of licences is likely to come into place within the next determination period. There is some comment that is a question from last week about the marginal impact of flood plain harvesting, as opposed to then applying, I guess, an entire water take price which actually has the current water take in each of those different water sources, and in an sense then dividing by the additional volume in the flood plain harvesting. That is something we are interested in. Stakeholder comments on flood plain harvesting, there was uncertainty surrounding the implementation thereof, but we have had comment that obviously the minister has to approve that and when they do come in to a certain water source it will be all in or none in. But there is uncertainty surrounding the water take forecast for flood plain harvesting and a number of stakeholders raised that as an issue. Moving on to water take measurement and this is the new name for metering. Again we have heard a little bit about DPI developing a water take measurement strategy in 2015, 16. The DPI water proposal maintaining the current approach for recovering costs through separate charges and using a price structure based on meter size which harmonised with WaterNSW metering charges set by the ACCC in their last determination. There's also DPI Water proposes two charging schedules based on the method used for meter reading, whether it's agency read or customer read. Broad stakeholder comments, reiterating that metering benefits must outweigh costs. And access to two-part tariffs without the high cost of meters could be a preferred option, which relates back in part to the ability for customer reads for water take. Moving to consent transaction charges, there's substantial reductions in the majority of the consent transaction fees, these are activities, such as water access licence dealings on unregulated rivers and ground water and approvals for works and the like. The increases in the transaction fees that are proposed are those that are based at the lowest levels within that group of charges. So these are new basic rights for approval, extension of approvals and the water allocation assignment for unregulated and ground water. There also is a proposal for a discount for online lodgement. Moving on to service levels and outputs, which again is being touched on as we've gone along. DPI reported on their performance against a service target set in the 2011 determination and their proposed future output measures and performance indicators in their proposal. There was a number of comments from stakeholders about DPI Water not meeting their service levels and targets and that they had been inefficient. It is something that IPART is examining, not just through our expenditure review and our consultant, but we will be looking at that also and following up on some of the comments that we received in these various forums. We will also review that proposal and obviously take into account feedback on how those performance indicators and the structure of them can be improved. We move on to the questions across those issues for Session 3. Are the proposed water take forecasts appropriate? Should flood plain harvesting be taken into account for pricing? So that's the proposed structure but also the flood plain harvesting water take estimate for forecasts. Are the proposed water take measurement prices and the price structure aligned with the ACCC structure appropriate? Are the proposed consent transaction prices appropriate? Are the proposed output measures and performance indicators appropriate?

CHAIRMAN: Moving to the final session, comments or questions around the table. This is also time to raise other issues that you might not have had the opportunity to raise earlier on.

MS SCHULTE: Overall (and we've made this comment before in the State Water submission) we prefer the use of the entire IQQM and not the 15-year rolling average, in line with Mary's comments that she made earlier. In terms of some of the outputs and monitoring of activities, we would like to see further action by IPART of having a regular review of the outputs and performances. One of the points that were in the submission around new licenses, it's probably one of the areas where we, as a Council, had very little interaction of those proposed new licenses and so there's certainly areas I think that consultation can be improved upon. In particular, given we have some concerns of how they might impact other areas and other water licence holders across the state. The last one about metering – we have as a Council rejected outright the proposal that was put to the ACCC in terms of metering, we do not believe that the data and the evidence that was provided to the cost foundation for those is adequate and the increases and charges that were put forward, including telemetry were quite excessive going forward, so we would like to urge IPART to have a very close look at that before it's taken as read to move those over to DPI Water as well.

MR MAGNER: There's a couple of issues here that I think are relevant coming from our group. It appears that the issue on trading and the cost of trading, firstly trading is not working on the coast because water sharing plans have made the trading areas too small for coastal streams. Just way too small for any logical trade. Added to that the loss of the dairy industry on a lot of the coast has reduced down the use of water, therefore there's a heck of a lot of licenses sitting out there that aren't being used. However, they don't want to get rid of them because they see them as a value. So trading in itself I think is a huge issue, and it was meant to free up everything but it hasn't freed anything for especially the north coast anyhow. I can't say for the rest of the coast, but definitely for the north coast it's not working. The dilemma that I see out of it is, I can go to any of the sale yards on the north coast and buy 100 head of cattle, and within a few minutes of those cattle being bought they're transferred to my PIC number and then registered to me. If I want to buy the same value of water, maybe the beast is probably worth a bit more than what a megalitre of water is worth, if I wanted to buy water the process is just so slow. I've got to go and get it approved, I've got to get it advertised. Each cost on it just adds up. I don't see the logic in this archaic system of transferring water within a given zone that could be done with the press of a button. With today's technology the information of where that water is and where it has come from and where it is going to is all sitting on a computer screen in front of them. I just don't see the logic in that particular activity being charged in the way the slow process that it's doing. There's other issues if you start to look through the great list of activities, I think the whole thing needs a review and look at just what are some of those things, why are we doing them? Have a good cold look at what's in the activities of the department that they are actually charging for. They are some of the concerns that I've got on that, the flood plain harvesting one yes, look, why can't the coast participate? It's never been allowed to. And that will probably do me.

CHAIRMAN: Gavin or Nick, any comments on the issue about some of the water sharing plans, there being such a small pool to trade and also the transaction costs to trade?

MR HANLON: Certainly wherever we can do things to free up trade and make it more easy to trade something we're interested in, and certainly add the same feedback, even in most of our systems, actually. We have just got to make sure that the physical barriers to trade are well thought through, that we don't end up in silly things happening and perverse outcomes happening here and there because we haven't thought through sensible rules. But in terms of use of technology and getting to almost instant I think you're starting to see a fair bit of work happening in New South Wales and Victoria, because water is traded all over the place at the moment, to try and get it to that sort of thing. We're not that far away. But in some of those smaller systems we need to be a bit careful of the actual physical rules around making sure the trade can actually be completed, so we'll just take the rest as a comment.

MR GARNER: We support all the issues that irrigators council raise, so we support those.

MS EWING: Yes, much the same, one comment about the output measures and performance indicators, I would like to acknowledge that DPI ward have done a lot of work for this submission in trying to improve their communication in consultation, but I think particularly valley-based people what we would really like to see is some of the hard data earlier on so that we can understand it progressively as we go through the process. Yes we've made these comments before and I acknowledge that you certainly have done a lot of work to improve the presentation this time, but I think there's still room for further improvement, I guess.

MR CLIFT: My question relates to the charges related to the pump size, metering. If by raising the minimum levy for water, which I think is a good idea, you may take out a lot of those small pump sizes, 50 millimetre pumps, they may not – when you start to add up the cost of the water the 250 bucks might cover a 25 meg licence. And if you have only got a 2 inch pump you're not going to shift a hell of a lot of water at the end of the day. I run a 250 mil pump on my dam which allows me to irrigate fairly quickly. That dam has still got a fixed capacity. All I'm doing is pumping it out quicker with that pump. I can't pump any more water once it gets to that stage, once the pump starts to cavitate so I can't see why at the end of the day I have to be charged to the higher rate and really if you look at all these charges I'm charged for electricity and there is a service fee. It's a fixed service fee for somebody to come and read my electricity meters. I've got three or four of them, right. Where's the difference between sending somebody out to read the meter on 100 mil pump as against a 300 mil pump? Takes the same physical effort to do both readings at the end of the day. So if you're looking at a user pays situation, that doesn't add up. The only reason they're doing it is they have considered me a higher risk, so they want to look at me a lot more often because I've got a bigger pump.

MR MILHAM: I think there might be a little bit of confusion here. The actual meter reading charge is the same, $198 regardless. It's the service fee that actually varies according to the – is proposed to vary according to the pump size.

MR CLIFT: Which is what the electricity boys claim their service fee to come out, which is a fixed service fee.

CHAIRMAN: So I guess that question is why does the service fee vary according to the size of the pump?

MR MILHAM: Well, that's in part a technical question, so I would have to take that on notice, but Gavin may partly have an answer as well.

MR HANLON: I take the point about it doesn't matter what size pump you've got on a dam, if a dam only holds X-volume of water but I would imagine the differentiated price to do with meter size, generally out of rivers and unregulated rivers is more about risk profiling than anything else. But look, we'll take the technical side of it on notice.

CHAIRMAN: Let's take that one on notice.

MS MADDEN: Just one additional comment about the water take forecasts, and I appreciate that there's no perfect way of forecasting water take back, but one of the reasons we've disputed against the historical average has been that you are actually doing an average water take under an entirely different set of management rules. So in that 20 years we've undergone quite significant water reform and the rules for extraction have changed over that period of time. So while the IQQM method is going to have some variation annually as well, it is at least under the current set of management rules, which would be just an additional comment on top of the one that Mary raised about the catch up period and how using that historical period you could be penalising new water uses for extraction under previous rules.

CHAIRMAN: Any final comments, questions from the floor.

MR PATMORE: Just on the whole situation would you consider broadening the tax base? Because this is really just a tax. And relieving us from these huge costs. Those of us who have endeavoured to look after our places and ensure that we have an entitlement, I came by my entitlement a few years ago when I decided that – I actually discovered that I was irrigating a lot more ground than the old licence that dad had for about 50 years covered. So I thought I'd put things straight and increase the entitlement from about 3 or 4 hectares up to 80 hectares, so I could irrigate wherever I needed to. And the office of the department then, Brian McDougal at the time said well, what volume would you put on that? I told him and after I had worked it out from the pumps and the worst case scenario, and he accepted that. So that entitlement now becomes what I'm charged on. It wasn't what I was charged on to start with. And this whole charging on volumetric is just a big money grab. I think that the department needs to be a lot fairer. In other nations, despite free trade agreements and everything else, farmers are subsidised. We are not subsidised here, we're taxed for the privilege of producing food. In some nations farmers are revered, but here we're regarded as environmental vandals and at my age I'm just getting a bit sick of all this stuff and I would like you people here to just take on board and see what you can do what you can do to help Australian farmers, thanks.

CHAIRMAN: There's a well-established principle that tax is something which is levied as a contribution to government revenue, a charge is something which is levied in return for a service. This is an issue about setting maximum charges for the water management services undertaken by DPI, and so we will be continuing to look at the setting of the water service charges, these are charges for services that DPI delivers. We are looking at having a fixed charge and a volumetric charge, in the case of the two-part tariffs, but we will take on board your comments, Newman, thank you very much. Moving forward, anybody else have any comments or questions?

MS SCHULTE: In relation to your comment about these services, we noted that in the pricing application there was quite a bit of rhetoric about the drafting of regulation, the provision of education material, customer engagement, which we would like IPART to have a very close look at whether or not they constitute part of the monopoly charges for DPI Water, and noting I guess that last time in the 2011 determination the definition was quite broad.

CHAIRMAN: Thank you, we'll take that on board, Stefanie, thank you. That's a good time to end. On behalf of IPART I'd like to thank you all very much for your participation in today's proceeding. It has been of benefit to us to get your views and we really appreciate the efforts and contributions made by people here today. A transcript and a link to a video of today's proceedings will be available on our website in a few days. We will consider all that's been said today when we make our decisions on the Water Administration Ministerial Corporations prices for DPI Water to apply from 1 July 2016. As previously mentioned, we plan to release a draft report for public comment in March 2016. People will then have about 4 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 set 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 by which submissions are due in response to that report. Finally I note that we will hold our final public hearing in Griffith on the 30th of November. Please refer to our website for information on how to register or to attend that hearing. This brings to a close our public hearing and I would like to thank you once again for all those who have participated and have a nice afternoon, thank you.

END OF SESSION