

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

**REVIEW OF RURAL WATER CHARGING SYSTEM
WORKSHOP - NARRABRI**

**Tribunal Member
Mr James Cox, CEO, Workshop Chairman**

**Members of the Secretariat
Ms Amanda Chadwick, Ms Chen Chou and Mr Alex Kelty**

Mr John Madden, Arche Consulting

**Held at The Crossing Theatre, 117 Tibbereena Street,
Narrabri, New South Wales**

**On Friday, 15 June 2012 at 12pm .15/06/2012
Transcript produced by Merrill Corporation**

1 OPENING REMARKS

2

3 THE CHAIRMAN: Good afternoon, everyone, and welcome to
4 the workshop. I would like to thank you all for coming.
5 I realise that some people have come quite a long distance.
6 We do very much appreciate the effort you have made to be
7 with us today. Thank you very much.

8

9 We have a couple of guests from ACCC. It is very
10 pleasing that they have been able to join us for this
11 meeting today at some inconvenience to themselves. We
12 thank you very much for making that effort. It is really
13 good having you here today.

14

15 From our point of view, we have been asked by the New
16 South Wales government to do a fairly quick inquiry into
17 issues relating to the future of rural water pricing for
18 New South Wales.

19

20 I think, Amanda, we have to report back in early
21 August?

22

23 MS CHADWICK: 15 August.

24

25 THE CHAIRMAN: So it is a fairly concentrated but
26 hopefully a high quality inquiry.

27

28 Today what we are looking from you is really to get
29 some early input. As we have explained, there will be a
30 formal process later on, but the purpose of today is to get
31 as many ideas and issues on the table as possible so we
32 will be aware of them in the early stages of the inquiry
33 when we write the issues paper. We are therefore very
34 much interested in your ideas and comments and the
35 discussion is really to get your views on these important
36 issues.

37

38 We are looking for an interactive discussion today, so
39 it would be good if you would talk to us about as much as
40 possible. It is perhaps worth noting that we have some
41 microphones around the table. Bairbre, who is sitting in
42 the middle there, is very nobly transcribing the
43 discussion. It would help her enormously and it would help
44 us enormously if you were to use the microphones when you
45 wish to make any comments. We will make sure we get a
46 microphone to you.

47

1 That was all by way of introduction. I think it might

2 be a good idea to go around the table and introduce

3 ourselves so everyone will know who everyone else is.

4 Obviously I should start with myself. I am Jim Cox. I am

5 the chief executive officer and the full-time member of

6 IPART. I will now ask everyone to identify themselves,

7 starting from my left.

8

9 MS AMANDA CHADWICK: I think I know many of you. My

10 name is Amanda Chadwick and I am the director of water at

11 IPART. That means I am responsible for the water pricing and

12 licensing functions.

13

14 MS CHEN CHOU: Chen Chou from IPART. I am manager on

15 this bulk water review.

16

17 MR JOHN MADDEN: John Madden. I am with Arche

18 Consulting and assisting IPART with the process.

19

20 MR ALEX KELTY: I am Alex Kelty an analyst in the water

21 team working with IPART on the bulk water review.

22

23 MR JOSEPH CARUANA: I am Joseph Caruana with State Water.

24

25 MR PATRICK DEVLIN: Patrick Devlin, analyst at ACCC water

26 pricing and monitoring.

27

28 MR SHANE GROSSER: Shane Grosser. I am an assistant

29 director in the monitoring and water pricing team at the

30 ACCC.

31

32 MS MARY EWING: Mary Ewing, Lachlan Valley Water

33 executive officer.

34

35 MS JON BAKER: I am Jon Baker from Namoi Water.

36

37 MS SUSAN MADDEN: Susan Madden, executive officer with

38 Macquarie River Food and Fibre.

39

40 MS ZARA LOWEIN: Zara Lowein, executive officer with the

41 Gwydir Valley Irrigators Association.

42

43 MR IAN COXHEAD: Ian Coxhead, from Cockburn Valley

44 Water Users and director of Namoi Water.

45

46 MR ILDU MONTICONE: Ildu Monticone. I am president of

47 the Peel Valley Water Users Association.

.15/06/2012 2

Transcript produced by Merrill Corporation

.15/06/2012 3

Transcript produced by Merrill Corporation

1
2 COUNCILLOR COL MURRAY: Col Murray, mayor of
3 Tamworth Regional Council.
4
5 MR BRUCE LOGAN: Bruce Logan from Tamworth Regional
6 Council.
7
8 COUNCILLOR WARREN WOODLEY: Councillor Warren
9 Woodley from Tamworth Regional Council.
10
11 THE CHAIRMAN: Thank you very much. We will now start
12 up the discussion on the terms of reference.
13
14 SESSION ONE: TERMS OF REFERENCE FOR THE REVIEW
15
16 MS CHOU: I will take you very briefly through the terms
17 of reference and some of the key milestones for the review.
18 John and Alex will take you through some of the
19 supplementary comments around the key issues we want to
20 discuss. We really do want this to be an interactive
21 session, so we will be asking for your questions to get the
22 sessions going.
23
24 First up, I will start with what we hope to achieve
25 today. We want to introduce the objective of the review so
26 everybody has the same understanding. We will outline what
27 the key dates are for this review and what the key issues
28 are that we need to address. Also, as I said, we want to
29 seek early input from you for this review.
30
31 What is the review about? There are two main
32 elements, the first one being looking at price structure
33 options that better match farmers' or customers' cash
34 flows. That can also involve your billing or payment
35 options. The second one is around determining the New
36 South Wales government's cost share of State Water's costs.
37
38 Having looked at those options, we will make some
39 recommendations to government taking into account ACCC
40 pricing rules, State Water's and Office of Water's
41 financial viability, and we will go through some of the
42 assessment criteria that will apply when we assess the
43 options later on in the presentation.
44
45 As Jim said, we need to deliver a final report to
46 government by 15 August, which is a fairly quick time frame
47 to deliver an issues paper plus have two workshops and a

.15/06/2012 4

Transcript produced by Merrill Corporation

1 public hearing. So the key dates are: we are releasing
2 the issues paper on 26 June. We are looking for
3 submissions by 10 July, which is about two weeks. Then a
4 public hearing will be held on 3 July, and we will release
5 the executive summary, which is sort of a draft list of our
6 final recommendations for submissions due, the following
7 week.
8
9 Are there any questions so far? We will move on, and
10 Alex will take you through our cash flows.
11
12 SESSION TWO: FARM CASH FLOWS AND IMPACT OF
13 WATER VARIABILITY
14
15 MR KELTY: Thank you, Chen.
16
17 As part of the terms of reference of this review, we
18 will be examining price structures and also influences on
19 cash flows. There are a number of factors that we will be
20 examining that can affect farm cash flows, and these are
21 things such as water availability, which may be defined in
22 a number of ways. Two of the main ways we have looked at
23 it so far are allocations as a percentage of entitlement
24 and also actual and modelled extractions. Other factors
25 that could affect cash flows are the industry of the
26 business, commodity prices and also input prices.
27
28 We are also interested in obtaining your feedback on
29 other factors that may affect farm cash flow or measures
30 about water availability aligned with cash flows as well as
31 the best ways of measuring both availability and cash
32 flows. We are also interested in knowing what other major
33 farm costs could affect cash flows and financial viability.
34
35 This slide just shows measures of water availability
36 in terms of average general security allocations as a
37 percentage of entitlement. This covers a period of
38 20 years from 1989-1990 to 2008-2009.
39
40 I am sorry that the slide is a bit on the small side
41 for this distance, but basically using this measure, we
42 could see that the water availability varies significantly
43 across the different regulated rivers. The Border River
44 only received 33 per cent of general security allocations,
45 whereas the Hunter received 97 per cent and there is quite
46 a bit of variability amongst the valleys.
47

.15/06/2012 5

Transcript produced by Merrill Corporation

1 We are interested in receiving feedback on the impact
2 that the recent drought had on farm cash flows. We would
3 also like to know how water trading has allowed farmers to
4 manage water availability and also manage cash flows.
5 Additionally, where general security allocations have been
6 low, we would like to know how irrigators have attempted to
7 offset the impact of fixed water charges.

8
9 I will now hand over to John Madden for our next
10 session.

11
12 MS CHOU: We might first go back to some of the questions
13 that we actually want to ask in this session. The key
14 issue and one of the things we need to look at is the price
15 structures and the relationship between water availability
16 and farm cash flow. We have listed on that slide a couple
17 of factors that might affect farm cash flows, but we are
18 interested in your views on whether we have missed
19 anything. What are your major farm costs?

20
21 MR COXHEAD: Through you, Mr Chairman, could I ask one
22 question? The previous slide you had up there, Alex,
23 showed that percentage of allocation. With regard to that
24 average for the Peel of 74 per cent from 1998-1999 to
25 2008-2009, I find that quite surprising. I do not think it
26 is anywhere near that figure because we had several years
27 in that period where it was zero allocation and many years
28 where it was zero allocation at the start of the season and
29 then there was some allocation during the season.

30
31 Our total allocation is somewhere around 33,000
32 megalitres on the regulated system. Given the cap
33 arrangements, I think we can only use 30 per cent of that.
34 That figure does surprise me and I wonder where those
35 figures did come from.

36
37 MR KELTY: We got those figures from NSW Office of Water
38 data. Obviously they are allocations across the whole
39 season, so that might be why you may get a lower allocation
40 at the start of season.

41
42 MS CHADWICK: Can you explain in your mind whether that
43 was for the whole season or is there something I am
44 missing?

45
46 MR MONTICONE: We had eight years of drought and in
47 several of those years we had zero allocation. Apart from

1 that, the fact is that the water sharing plan that affects
2 the Peel now very much limits the ability of irrigators.
3 They can use only 20 per cent of their entitlement. What
4 happened in the last 20 years is totally irrelevant. The
5 Peel will never be higher than 20 per cent from here on,
6 and that kicked in on 1 July 2011. So using a figure of
7 something like 74 per cent, whether it is right or wrong
8 for the last 20 years, is rubbish. It will never ever be
9 more than 20 from here on.

10
11 MR MADDEN: At this early stage, I guess we only had these
12 figures for the last 20 years over the last determination.
13 I can let you know that yesterday we received the model,
14 114 years, from the Office of Water for all the valleys.
15 That will be basically the basis of it, which is the
16 current water sharing plan rules going backwards. These
17 figures on the slide are basically for today's discussion
18 and that is one of the issues that we want to talk about.

19
20 MR MONTICONE: Well, I do not understand what that means.
21 The current water sharing plan going backwards for
22 20 years, I don't understand that, but that doesn't matter.
23 For the Peel, I think you need to work on no more than
24 20 per cent. It will never be more than 20 per cent of
25 entitlement in the future.

26
27 THE CHAIRMAN: Can you explain to us why that is so?

28
29 MR MONTICONE: The water sharing plan reduced the general
30 security access from 31,000 megalitres to 6,100 for the
31 irrigators. There is a whole history all around the water
32 sharing plan. It kicked off on 1 July 2011 and we had an
33 argument about that. We think that we have been cut too
34 drastically, but that is an argument for another day and
35 not for this meeting. However, I do want to point out that
36 we can never get to 74. With the wind behind us, we will
37 never do it.

38
39 MR MADDEN: My only point is just that we understand
40 the limitations of this data and we are actually getting
41 the data which reflects water sharing plans as they are
42 now.

43
44 As a general comment that might open discussion a bit
45 more - I know that we have the Lachlan, Macquarie, Namoi,
46 Gwydir and Peel represented here - it might be good to get
47 a bit of background regarding the drought and how

1 significant it was to people and how they adjusted. It is
2 kind of a question without notice, but could I ask you to
3 give us one or two minutes background so we can get that
4 understanding.
5
6 MS EWING: The Lachlan suffered severe drought from 2001
7 onwards. In the period 2002-2010 the Lachlan actually had
8 an average allocation of 3 per cent. It had six years of
9 zero allocation in that period and it had a severe drought
10 impact.
11
12 The basic response we made once we got into the second
13 successive year of zero was to lobby the state government
14 for waiving the fixed charges. That happened three times
15 in that period. In the end, the state government made a
16 policy decision that any valley that had zero allocation
17 for three years in a row would have its fixed charges
18 waived for the next year. That is a highly, highly
19 unlikely circumstance. We had four years in a row.
20 Effectively, if that policy had been in place during that
21 entire period, we would have had one year waived.
22
23 One of the other issues which we may talk about later
24 was that we noted that as inflows decreased, flow in the
25 river decreased and allocations went to zero and therefore
26 extraction decreased. In fact, a major part of the
27 operation of the river was just maintaining base
28 environmental flow and delivering stock and domestic and
29 basic rights.
30
31 We have made the argument to IPART before that we
32 think, in those situations, it is a legitimate argument
33 that those with basic landholder rights should pay
34 something for that service when they are the impactor when
35 supply gets down so low that there is virtually no
36 extractive use. In fact, a lot of the work that State
37 Water is doing is therefore maintaining base flow in the
38 river and allowing basic landholder rights.
39
40 I would be happy to expand on that later in our
41 submission, but that is one issue where we think that the
42 customers of State Water could be expanded to assist in
43 spreading the burden in times where there is little
44 extractive use.
45
46 MS BAKER: I will probably just refer to two major pieces
47 of work that have just concluded. Access Economics has

1 done a major study for the Namoi Council Water Working
2 Group. Guy Roth has also just completed his Wee Waa
3 drought study. Those are two massive documents that very
4 clearly and in great detail go through the issues relating
5 to how the change in the water portfolio is used and,
6 therefore, farming practices and the issues that might
7 impact on that and how that then actually transfers to,
8 I guess, the questions that you are asking in regard to
9 what decisions you could actually make or what pricing
10 mechanisms could be used that might actually address some
11 of those changes. I will certainly provide all of those
12 reports to you - happy reading.
13
14 MS CHADWICK: I have some follow-on questions about that
15 and will ask them later.
16
17 MS MADDEN: From the Macquarie's perspective, my
18 comments would be similar to Mary's, although our valley did
19 not get quite to that zero per cent for that period of time. With
20 regard to the New South Wales government policy around
21 waiving fixed charges on the third year of zero
22 allocations, if you look back, we certainly had a few years
23 of zero and numbers down around 5, 9 per cent. They were
24 still less than 10 per cent and had quite a severe drought
25 impact, but we would not have qualified for the fixed
26 charge relief. That might be something that we could look
27 at.
28
29 We are sort of coming out of the drought now with the
30 first year of the new level of full production in the
31 valley following around 25 per cent of entitlement being
32 transferred to government environmental water holders.
33
34 We are also trying to get some information on our
35 usage against our water sharing plan limit. If we look at
36 the 60 per cent shown on that slide for the Macquarie, that
37 is actually too high. We would be breaking our water
38 sharing plan limit. Our liability is more like 51 per
39 cent. That will come through in the new figures.
40
41 We have also seen a bit of a change in irrigator
42 behaviour. That is a result probably of a combination of
43 drought and concern around government policy impacts. So
44 we are actually seeing people use less than our planned
45 limit. We are waiting for figures to confirm that, so that
46 could impact on projections going forward for consumption.
47

1 I would also echo Mary's comments around perhaps
2 widening the user base, so probably in extreme weather
3 events, whether it be drought or also flood mitigation in
4 the Macquarie. That is again an issue that MRFF have
5 raised with IPART quite a few times; namely, that
6 Burrendong Dam has a significant flood mitigation capacity
7 which is not applicable to other areas. In extreme
8 weather, be it drought or flood, we see a lot of effort
9 from the State Water delivery agency going toward managing,
10 whether it be for basic landholder rights or community
11 benefactors, I suppose. So there are a couple of options
12 there potentially around widening the user base.
13
14 MR MADDEN: To follow on from that, could I ask you to
15 explain the Cudgegong versus the Macquarie. Was there a
16 difference up around Mudgee and those areas during the
17 drought?
18
19 MS MADDEN: Potentially, but we don't represent the
20 Cudgegong, so I am not overly familiar with what has been
21 going on there. I understand there has been a definite
22 change primarily to do with the wine grape industry and
23 there has been some changed use in the --
24
25 MR MADDEN: But with the allocations in the industry --
26
27 MS MADDEN: It is the same. We operate under a joint
28 resource assessment. Our water sharing plan applies to
29 Cudgegong and Macquarie. There are some more changes in
30 there, but generally allocations are the same.
31
32 There is potentially an impact with some high security
33 from the Macquarie that has been moved up to the Cudgegong
34 for the Cobbora mine project. There is some with the
35 Windamere catchment in that the drought record has not been
36 maybe factored in to that. There is an issue there, but
37 I can get more and give you a contact in Cudgegong for
38 that.
39
40 MR MADDEN: Thank you.
41
42 MS CHADWICK: Before we move on, because stock and
43 domestic rights and basic landholder rights have already
44 been mentioned, in our price review of the Office of Water,
45 which was finished in February last year, we became
46 increasingly conscious that there was an issue there and we
47 also realised that the policy framework around it was still

.15/06/2012 10

Transcript produced by Merrill Corporation

1 unclear. So one of the strong recommendations we made in
2 that report, and one of our expectations of the Office of
3 Water when it comes back for the next set of prices, is
4 that that policy framework is established. We made it very
5 clear in that report that there is an issue to be addressed
6 in that regard.
7
8 MS LOWEIN: It is always handy being the fourth in a line.
9 You don't have to add much more as the others have covered
10 the main points.
11
12 For the Gwydir we are very similar to the Lachlan and
13 Macquarie in the sense that from 2002 we had four zero
14 allocations. Our allocations until 2010 never got above
15 30 per cent. During that time we had a number of changes
16 within the valley. Our biggest buyer, which was very
17 active around 2008 onwards and purchased 20 per cent of the
18 entitlement, was the Commonwealth. That changed irrigator
19 behaviour and it will change the way in which our regulated
20 system will run from now on in.
21
22 We are returning obviously to a high production year,
23 to a new production level as Susan alluded to. We are not
24 quite sure what the impact will be, but we are seeing very
25 conservative watering behaviour and planting behaviour from
26 our irrigators into the next season.
27
28 Another point is that the drought, I suppose, brought
29 a lot of the water use efficiency issues to a head and a
30 lot of work was done to minimise losses on-farm. With
31 that, there was a change in irrigation practices, which
32 equals a limit-of-water type of situation where, instead of
33 fully irrigating, they may look to alternative systems and
34 irrigate once or twice a year instead of three or four
35 times. That changes water use patterns and we are not sure
36 how that will play out in the next drought once the
37 research is behind that.
38
39 There are two points that I picked up from our
40 previous history in the organisation. The ECAs that were
41 delivered throughout the drought and they did at the tail
42 end of the drought are not included in the delivery loss
43 account which the rest of the irrigators have to cover and
44 they are not included in the cost share arrangement either.
45 So we had concerns with the way the state operates its
46 state-based water in our water sharing plan.
47

.15/06/2012 11

Transcript produced by Merrill Corporation

1 MS CHADWICK: I'm sorry - ECA?
2
3 MR MADDEN: Environment contingency allowance.
4
5 MS LOWEIN: So that is our environment contingency
6 allowance, which is 45,000 megalitres for the side which
7 the state Office of Water and obviously Environment and
8 Heritage run. In the Gwydir we have a 30 per cent delivery
9 loss. I don't believe they are included in that 30 per
10 cent nor is the fact that they are paying fees and charges
11 on their 45,000 megalitres. We feel that the cost share
12 should change to account for the state owning that
13 percentage of the water. Obviously with the Commonwealth
14 water that sits in the dam, it pays its fees and charges.
15 The state doesn't.
16
17 The other piece of information on top of what John was
18 talking about for the Namoi is that the NSW Office of Water
19 completed its questionnaire from 2006 to 2010 on the water
20 sharing plan areas. It looked at irrigator behaviour
21 changes and water use over that time. The questionnaire
22 was quite limited in terms of the number of responses they
23 got back, but at this stage it is probably the best
24 indication of the changes in behaviour and how they are
25 managing their portfolios and how they plan it differently.
26 I would draw your attention to that. It might be something
27 worth looking at.
28
29 THE CHAIRMAN: Thank you. And from the Peel?
30
31 MR COXHEAD: I am not going to speak too much on the Peel
32 because Ildu is sitting here beside me and he is the
33 chairman. The way the price structure is at the moment
34 with valley based pricing, it is really killing valleys
35 such as the Peel, which is paying ten times the amount that
36 they pay in the Murray. We have advocated for many, many
37 years that there should be postage stamp style pricing
38 throughout the state. The present situation takes the
39 competition away. We cannot compete against those who have
40 a lower price structure in their cost of water.
41
42 Our major cost now, and it is by far our major cost,
43 is to buy the water and apply it to the paddock. That
44 exceeds any other individual cost. It is a huge component
45 of our cost structure and it is something that we really do
46 need addressed urgently because we are being priced out of
47 existence.

.15/06/2012 12

Transcript produced by Merrill Corporation

1
2 We have many irrigators now - this is a drastic change
3 in irrigator behaviour - who are just occasionally
4 opportunity irrigating and then just leaving the rest of it
5 to mother nature. That is not the way to operate a
6 profitable farm, and it is through that process and that
7 process alone that the irrigation industry is dying in the
8 upper reaches of the Namoi.
9
10 We really do need to harp continually on this project
11 or this costing of individual valleys on different pricing
12 structures. State Water needs to look at the postage stamp
13 pricing throughout the state to get to even or somewhere
14 near even pricing throughout the state.
15
16 Fifteen or 20 years ago I started off not too bad, but
17 with every IPART hearing since then there has been a
18 percentage increase. That gap between the bottom and the
19 top has drastically widened and we find now that it is
20 totally unbearable to be able to cope with.
21
22 There are many other issues that I would like to talk
23 on, but I will hand over to Ildu now because I am sure he
24 would like to speak on them himself.
25
26 MR MONTICONE: Thanks, Ian. I will go back to the topic
27 of drought for a moment and I will say something about
28 pricing later. First of all, in the Peel, the irrigators
29 draw their general security water from Chaffey Dam which is
30 one of the smaller dams in the region. The second thing is
31 we share that dam with Tamworth Regional Council.
32
33 Tamworth Regional Council is the major user and the
34 priority user and we don't have any argument with that. We
35 have understood that, so there is no battle there with
36 Tamworth Regional Council. Our problem is that the
37 irrigators get what is left. I don't have the figures in
38 front of me, but I can get them for you. During the
39 drought, we often started the year with a zero allocation,
40 sometimes a 15 per cent allocation. You can't run an
41 irrigation business on that sort of level and I agree with
42 Ian.
43
44 Irrigator behaviour in the Peel is very much linked to
45 the level of water in Chaffey Dam on a year-to-year basis.
46 There is no on-farm storage in the Peel contrary to other
47 valleys, so we are totally dependent on the amount of water

.15/06/2012 13

Transcript produced by Merrill Corporation

1 that is in Chaffey Dam, and it is very difficult when that
2 water supply is low.
3
4 There was a point where Chaffey Dam got to 13 per
5 cent. We know it is going to be enlarged, but when Chaffey
6 Dam got to 13 per cent everyone was worried. Irrigators,
7 of course, had no water for a considerable period of time
8 before that. I think the point I am trying to get across
9 to you is that the Peel valley is considerably different
10 from a lot of other irrigation valleys in the area. We
11 operate out of a very small dam. We share it with a major
12 user and our reliability of supply is very low.
13
14 COUNCILLOR MURRAY: I will speak briefly and my associate
15 Bruce Logan will speak in more detail. Generally we share
16 our irrigators' concerns about the Peel valley. We feel it
17 is totally unreasonable that every other pricing mechanism
18 we use through government agencies across the state is
19 based right across the state; yet here we find the
20 anomalies with our water pricing where we are on a
21 valley-based pricing. If you go and register your car in
22 Deniliquin or on the Murrumbidgee or the Murray, it will
23 cost you the same as it would if you were to register it in
24 Tamworth on the Peel and that applies to other services.
25
26 We find it quite amazing that we have a valley-based
27 price on our water; yet on some of the bigger irrigation
28 schemes that use that same New South Wales water, the price
29 at the starting end of an irrigation scheme is exactly the
30 same as the price for the end user, who is right down the
31 far end of the scheme, so we are at such a big disadvantage
32 in Tamworth.
33
34 We have a very large meat processing industry in
35 Tamworth. They are quite large water users and they are
36 significantly disadvantaged through this rural water
37 pricing; hence, we find that competitively we are at such
38 disadvantage and we believe it is totally unreasonable.
39
40 MR LOGAN: I will make some comments in relation to the
41 drought from a Tamworth perspective. Tamworth obviously
42 has a high security licence, so we still have allocation.
43 However, as Ildu pointed out, Chaffey Dam got down to 13.9
44 per cent. Tamworth is a city with 50,000 people and
45 40 per cent of our water is used by business, 60 by
46 residences. At that stage the council was six months away
47 from telling businesses that they would have to cease

.15/06/2012 14

Transcript produced by Merrill Corporation

1 business and 12 months away from running out of water
2 altogether.
3
4 I think the key issues for us in relation to that are
5 that, at some point in time, and I can't remember the
6 numbers, but at some point in time, obviously the general
7 security irrigators received zero allocation - they
8 probably didn't have any at the start of the year.
9
10 For us losses from the dam to the intake point were
11 exceeding 100 per cent. Whilst we were paying for a 16,400
12 megalitre high security entitlement, the way the dam was
13 operated and the losses we experienced in the river meant
14 that there was nothing like that amount of water available
15 for the council. For every one megalitre of water that we
16 wanted, they had to release at least two. So if you said
17 that there was 10,000 megalitres of water left in the dam,
18 that's great, but there was only 5,000 that was usable, and
19 the council still had to pay for 16,400 megalitre
20 entitlement when, in reality, in those conditions, it would
21 only get access to half that water.
22
23 The council is aware that if we demand or in fact ask
24 for our high security entitlement to be run probably as it
25 is run in other locations - that is, that the dam would be
26 run so that we got at least 18 months or two years - in the
27 peak of the worst drought, we would still have the
28 allocation to our entitlement, but there would be no water
29 available for the general security irrigators downstream.
30
31 We don't insist on that. We have an arrangement - in
32 fact it is now enshrined in the water sharing plan - that
33 even though we have a 16,400 megalitres entitlement, we
34 will not use more than 11,000 megalitres in any one year.
35 That makes 5,400 megalitres of our entitlement available
36 for other users, but we pay for the 16,400 megalitre
37 entitlement. With a lot of areas, and I won't touch on
38 what the mayor said, we feel all sorts of anomalies and
39 inequities in the way the pricing structure is set up for
40 the Peel at the moment.
41
42 MR MADDEN: Thank you. It was good to get that background
43 and to hear about your experiences.
44
45 MS CHADWICK: In terms of the experience and the
46 information we can access, everyone's story is important to
47 consider. There is some information that is available to

.15/06/2012 15

Transcript produced by Merrill Corporation

1 us that ABARE collects about farm costs and agricultural
2 costs and the extent to which water costs contribute to
3 that. However, ABARE does not, as I understand it, have
4 information for the Peel. Is there information that you
5 have that we ought to be taking into account of that
6 experience or your profitability over time?
7
8 MR MONTICONE: In the Peel specifically?
9
10 MS CHADWICK: And across all four valleys; is there data
11 we should know about?
12
13 MS MADDEN: For us it is probably the Cotton Comparative
14 Analysis reports, given certainly our general security
15 problem and the use of general security in cotton
16 production.
17
18 MS BAKER: I think the Access Economics report has some of
19 the Peel and all of the Namoi with regard to productions.
20 That would probably provide the latest information.
21
22 MR MONTICONE: For the Peel, one good place to start would
23 be the previous submissions to IPART. For at least the
24 last three rounds of IPART or maybe longer, the Peel has
25 not only presented a comprehensive submission but it has
26 also appeared at the IPART hearings.
27
28 Mr Cox will remember Laurie Pengilly - he sends his
29 regards, by the way. Laurie Pengilly also provided quite
30 detailed statistics on the costs of his irrigation property
31 and I don't know whether IPART got access to information
32 relating to other irrigation farms on the Peel either.
33
34 MS CHADWICK: No.
35
36 MR MONTICONE: A lot of that information has already been
37 presented and it will not be significantly different now
38 from what it was then. If there is a need for figures from
39 the Peel specifically, if you are lacking figures from the
40 Peel, we would be happy to work together and provide some
41 figures.
42
43 THE CHAIRMAN: Thank you for that. I remember Laurie's
44 submissions. It is true they were detailed submissions and
45 he did go into his farm costs. It is probably useful to
46 remind us of that, so thank you.
47

1 MR COXHEAD: I can provide you with some of my personal
2 figures. Our return on investment is 2.5 per cent. I note
3 that State Water requires a 7.5 per cent return on its
4 so-called investment. That investment was placed and
5 provided for by the taxpayers many years ago, but State
6 Water still requires a 7.5 per cent return on that
7 investment. In this economic age, particularly in the
8 rural/agricultural sector, that is quite an astronomical
9 return.
10
11 I would suggest that, for most of the irrigation
12 properties in the Tamworth area, their value has fallen by
13 some 20 per cent because of that very, very low return on
14 capital. Of course, structured into that are our water
15 charges and that has a major impact.
16
17 THE CHAIRMAN: I think one of the key things that the
18 government is looking for in its inquiry is to get some
19 understanding of how changes in water availability reflect
20 on farm cash flows. I think that is really the core point.
21 I would be interested in hearing any of your comments on
22 that issue. Obviously there is some very useful and
23 interesting material, but we need to get an understanding
24 about it.
25
26 COUNCILLOR MURRAY: Mr Chairman, I couldn't emphasise
27 enough the value of that study done by Access Economics for
28 Namoi Council's Water Working Group. That is completely
29 independent. It is unbiased, very highly credible
30 information that goes to extraordinary lengths to actually
31 finitely detail what those challenges are for low water
32 usage.
33
34 I struggle to say this, but if you are really
35 seriously serious about what you are doing, I think you
36 really need to take that into account because otherwise
37 the credibility of any delivery of a decision will be
38 affected. I struggle to believe that, but if you can't
39 really take that into account, I think we will always have
40 a problem. I hate to be that blunt, but I can't say it any
41 other way.
42
43 THE CHAIRMAN: I am sure we will read it and take it into
44 account.
45
46 MS CHADWICK: Part of the purpose of days like today is
47 for you to bring to our attention reports and information

1 that we should read. Thank you very much for doing so and
2 we will read it.
3
4 MR MADDEN: There is one general question, which might be
5 a bit hard to answer or maybe there is someone we can speak
6 to, around that threshold. Zero is obviously something
7 that is fairly bad, but in terms of planting decisions and
8 people actually even growing a crop, is there someone who
9 should know or is there any experience around if you get
10 20 per cent allocation or 15 - depending on the valley of
11 course; it is all different - when do you actually start
12 getting into a situation where people can do something with
13 the water as opposed to, I guess, the only option being to
14 trade?
15
16 COUNCILLOR MURRAY: Could I have a shot at that one. I
17 am a farmer also. I am not an irrigation farmer, but this is
18 extrapolating quite strongly towards the irrigation
19 farmers. The capital cost of equipment is so incredibly
20 high. Irrigation farming is such a highly geared industry.
21 Whether it is 10 per cent, 20 per cent or 30 per cent there
22 is really very little difference. The component of your
23 capital cost is so high. You cannot suggest that you could
24 just get a contractor in and if everybody were to do that,
25 you would usually only have a very small window to take the
26 crop off whether it be lucerne, cotton or irrigated cereal
27 crops or whatever.
28
29 You just don't have the opportunity to wait for
30 somebody to turn up at your front gate and strip the crop.
31 If you lose two days, your opportunity could be gone. It
32 could rain. So you must have that capital equipment. You
33 must inherit that extraordinary component of your turnover
34 and your capital equipment.
35
36 Therefore, whether you get 20 per cent of water or
37 30 per cent of water, that's a nothing, unless you are
38 talking probably 70 per cent. Maybe you could start
39 somewhere there and you would have something that is
40 relevant to your capital costs. If you try to do a
41 business plan with all of your capital costs and 20 per
42 cent of your potential income, I don't think you would need
43 to be an economist to work out how you are going to finish
44 up.
45
46 Ian suggesting that he has a 2.5 per cent return on
47 investment is pretty scary. It probably would not take a

.15/06/2012 18

Transcript produced by Merrill Corporation

1 huge amount of water to significantly change that figure
2 because all your costs, or most of them, are there. Sure
3 you might have to get pay for a bit of diesel if you get
4 the tractor out of the shed and use it. However, if it is
5 sitting in the shed, it will still cost you nearly as much
6 as it would if you were out there using it.
7
8 MS EWING: I would like to make a comment on that. From
9 the Lachlan experience, I think once it went below 20 per
10 cent, that was when trading started to become a much more
11 attractive option for people.
12
13 Clearly the other thing that affects that is when you
14 actually get an announcement. In the Lachlan, the
15 situation would now be different because we have moved to
16 continuous accounting, so there is a greater ability for
17 people to manage their supply.
18
19 So it is around that 20 per cent, you then start to
20 see a very active trade market. Obviously with the
21 situation in the Lachlan, we also had people with high
22 security licences that had relatively little water and we
23 were seeking to trade in to keep businesses going who did
24 not have an alternative supply such as groundwater.
25
26 MR MADDEN: Just a quick question: was there a
27 difference? Jemalong had only a certain amount of credit
28 to cover losses? Was there a difference between being in
29 the scheme and outside the scheme?
30
31 MS EWING: Jemalong had real problems. I can get you more
32 accurate information directly from Jemalong, but they have
33 a conveyance allowance which is a stepped one. Basically,
34 in that situation, their first couple of runs of the season
35 are for stock and domestic purposes normally and they then
36 found that they did not have an adequate conveyance
37 allowance to manage that when there was a very low general
38 security allocation.
39
40 I can certainly talk to Jemalong and get their views
41 on that for the submission process.
42
43 MR MADDEN: Yes, please.
44
45 COUNCILLOR WOODLEY: I didn't come here to speak but
46 I can't help saying something in support of the people down
47 here on my left. I have an OAM because and I am only

.15/06/2012 19

Transcript produced by Merrill Corporation

1 saying that for a reason: I have been on council now off
2 and on for 35 years. I have been in business for 50 years,
3 and you can tell that from the colour of my hair, and what
4 I am saying to you is that what these people are saying is
5 right. It is difficult for them. You cannot compare these
6 people here with the people who irrigate off the Darling or
7 the Murray or anything else. They have huge properties and
8 small percentages of profit.
9
10 I have been in the car industry nearly all my life.
11 Competing with the car industry in Sydney for a country
12 motor dealer is very difficult because, in Sydney, they
13 turn over \$1 million in car sales probably every week and
14 they work on a very small profit. That is no different
15 from Woolworths, Coles and Bunnings - that is how they make
16 their money. You probably know that because it is very
17 basic business.
18
19 You cannot compare people on farms in Tamworth and in
20 the district with anyone else. You have to somehow do
21 something separate because for them to make 1 or 2.5 per
22 cent of profit, that is almost nothing. But that sort of
23 profit is a lot to a big business. That is how they run
24 their business. Woolworths and Coles probably only make
25 1.5 per cent on their turnover but that is millions of
26 dollars.
27
28 Here there is nothing. You cannot survive. You
29 really cannot survive in country centres, Mr Chairman.
30 Tamworth and the Peel valley is only one of dozens of such
31 centres as you go down the basin. You know that yourself;
32 I don't have to tell you that. But there is real growth
33 and real productivity and a lot of people are moving out of
34 the cities to country towns - to those valleys. That is
35 where the real growth is. You have to do something to help
36 those people and even this out.
37
38 That is a part of your responsibilities from where you
39 sit, I don't care what you think. It is for humanity as
40 well because of the job you are in. These people have to
41 make a profit. They have to be able to raise their
42 families and feed their kids and do the things they have to
43 do. That is the way it is. You can't judge it on high
44 water usage.
45
46 I am not a farmer, so I don't know, I can't work on
47 that. I just have a long experience of living in Tamworth

.15/06/2012 20

Transcript produced by Merrill Corporation

1 and of being on the council and trying to make the water
2 use work and knowing all the farmers around and how hard it
3 is in times of drought.
4
5 I don't know whether my words make any sense to anyone
6 around the table. I am saying that, somehow or other, the
7 sorts of costs that we are expected to pay in just one
8 valley - the Peel valley - apart from all the others is
9 ludicrous. I can't understand it in my whole life. I wish
10 you could explain it, but you probably can't, and neither
11 can anyone else quite frankly. So why is this happening?
12 Something is wrong with the system.
13
14 I came here to listen in to see if you, Mr Chairman,
15 and the people around you can do something about making
16 this equal, if you possibly can, not for your sake, not for
17 us, not for the government, but for the sake of the people
18 who live here and live in rural New South Wales, which is
19 just the most spectacular place to live in the world.
20 Thank you.
21
22 THE CHAIRMAN: Perhaps it is just worth saying that, from
23 an IPART point of view, we have been aware of the issues of
24 the Peel and in successive determinations we have not moved
25 the Peel to a full cost recovery partly because we are
26 aware of the issues that you and others have raised with
27 us.
28
29 COUNCILLOR WOODLEY: You are. Thank you for saying
30 that, thank you.
31
32 MR MONTICONE: I don't know if this is the appropriate
33 time to bring this up, but while we are talking about cost
34 recovery and return on assets and the Peel valley, I think
35 it has been well publicised that the Peel pays twice the
36 Namoi, three times the Hunter - both adjoining valleys -
37 and 10 times the Murrumbidgee.
38
39 That is a grossly inequitable outcome of the IPART
40 process. Whatever the rationale that is used, the outcome
41 is grossly inequitable. There can be no logical argument
42 for the Peel paying twice the Namoi and three times the
43 Hunter, let alone 10 times the Murrumbidgee.
44
45 IPART has used that argument, and it relates to State
46 Water too. I am not pointing the figure at any individual
47 in particular. What I am saying is that the process is

.15/06/2012 21

Transcript produced by Merrill Corporation

1 delivering a terrible outcome for the Peel which cannot be
2 justified on any logical basis. The argument on cost
3 recovery and return on investment is absolute rubbish.
4
5 If the state government said to all the train users
6 that Central Station had to produce a return on investment,
7 the public of Sydney would be up in arms, but the
8 government applies the same logic to dams that were built
9 30, 40 or more years ago. They were fully paid. We were
10 paying then, and there was no cost recovery and no return
11 on investment in place then when they were built, and not
12 for 20 and 30 years afterwards.
13
14 To retrospectively bring in this argument about cost
15 recovery and return on investment at this stage of the game
16 is simply unbelievable. If IPART was playing its role
17 properly, IPART would really seriously question that method
18 of charging.
19
20 I would say to you that if IPART allows it to continue
21 and if the state government continues down this path,
22 whoever is responsible within those two organisations
23 should be ashamed of themselves because they are not doing
24 their job.
25
26 THE CHAIRMAN: Let me then respond to some of that.
27 Firstly, one of our responsibilities is to set rail fares
28 in Sydney. We have typically argued that rail fares should
29 increase so that passengers pay their fair share of the
30 costs of running CityRail. That is the IPART position on
31 the railways.
32
33 In terms of full cost recovery, there are two things
34 to say there. Firstly, the next determination of State
35 Water's prices will be done by the Australian Competition
36 and Consumer Commission and not by IPART. Secondly, in
37 talking about what we have done in the past, we have been
38 concerned to implement national policies that have been
39 adopted by the New South Wales government, including the
40 idea that people should pay the full cost of providing the
41 water services.
42
43 We have, as I was saying before, long been aware of
44 the issues in the Peel. We have not, in fact, determined
45 prices to recover the full costs in the Peel or anything
46 like it because we have tried to strike a balance, if you
47 like, between the issues that you are raising and the

.15/06/2012 22

Transcript produced by Merrill Corporation

1 issues of full cost recovery which are part of national
2 government policies.
3
4 So, yes, we do understand the issues you have raised,
5 and, yes, we do understand there are issues in the Peel,
6 and we do understand there is a limit to what people could
7 reasonably be expected to pay.
8
9 MR MONTICONE: Thank you.
10
11 THE CHAIRMAN: Are there any more comments on these sorts
12 of issues. I suppose we can move on to price structures?
13 Perhaps we can move on to that now.
14
15 MR MADDEN: I am sure there will be plenty more
16 opportunities to comment as we go.
17
18 SESSION THREE: OPTIONS FOR PRICE STRUCTURES
19
20 MR MADDEN: This is a quick overview. Obviously the
21 issues paper coming out on the 26th will have a lot more
22 detail for people to comment around the structures and the
23 options. At this stage, I think this is to get people into
24 the zone, for want of a better word, to thinking about what
25 is coming. Also if anyone has any initial thoughts or any
26 comments about these types of options that could be used,
27 we would ask you to raise them today.
28
29 The current structure in the majority of valleys in
30 New South Wales is 40 per cent to 60 per cent fixed to
31 variable. When we are talking about pricing structures,
32 that is probably one of the key features of the tariff
33 structure at the moment. That actually accounts for
34 variable usage through the years. So in periods of low
35 usage, you pay less because 60 per cent of your costs are
36 based on that variable amount, so obviously that is
37 something that we will be looking at.
38
39 There is peak and seasonal pricing here. Seasonal
40 pricing is the point here which was in the terms of
41 reference, which is simply establishing some type of price
42 that is different in a season with low water availability -
43 so what the trigger is exactly and whether it is going
44 forward, or at a certain point of time where the water
45 availability or water announcements are at and if that is
46 affecting agricultural operations. Those are the kinds of
47 issues that have to be dealt with. Again, that might be

.15/06/2012 23

Transcript produced by Merrill Corporation

1 some kind of deferral or it might be a structural lower
2 price in a dry year versus a year with more water
3 availability.
4
5 Differential pricing, I guess is something we have
6 talked about today. We have differential pricing at the
7 moment in New South Wales. Obviously valley by valley is
8 an example of that, but also pricing between customer
9 groups, high security, low security, supplementary,
10 et cetera.
11
12 We are looking at all the different elements of
13 pricing structures and we are not saying these are the
14 proposed options. One option may be in terms of a higher
15 charge for higher security, for example. Obviously then if
16 they have less variable water availability and general
17 security has more variable water availability, if there was
18 a higher contribution from the higher security, there would
19 be less of the amount of costs to be covered from general
20 security, which then would translate to fewer issues when
21 there is no water. Again I am just talking in the
22 theoretical here.
23
24 The other element, which is a little bit different to
25 look at because it is not actually pricing structure per
26 se, is the payment terms and how State Water charges,
27 whether it be quarterly charges versus the end-of-year
28 charges, whether there could be just more generous payment
29 terms in certain periods around the timing and in terms of
30 when to pay. There are obviously issues around hardship
31 policies, interest rates charged on accounts that are
32 outstanding and so on, which I think are at 8.5 per cent
33 but we can go into that in a little bit more detail.
34
35 I guess there are other issues that come into this with
36 regards to the price setting approach and Jim mentioned
37 the move to the ACCC. That means, in a sense, a new
38 framework under the infrastructure charging rules that the
39 ACCC has announced which will mean some differences
40 between what IPART has done in the past and what may
41 happen in the future. Obviously we cannot second-guess what
42 the ACCC is going to do. We can only look at the rules and
43 guidance that is out there at the moment.
44
45 I don't know if you want to mention, Joseph, when that
46 will happen, just the determination period and the like.
47

.15/06/2012 24

Transcript produced by Merrill Corporation

1 MR CARUANA: There has been some mention around moving
2 to the ACCC. In the timing perspective our current
3 determination runs until 30 June 2014. With regard to our
4 submission preparation, our submission to the ACCC is due
5 on 1 May next year - so 2013 - for a 1 July 2014 start
6 date.
7
8 When we talk about time frames, it is a similar sort
9 of procedure as happens with IPART when State Water puts in
10 a submission and outlines its costs and various issues. In
11 this case then, what will happen is it will go to the ACCC,
12 which who will then do its determination process. I
13 understand that the ACCC will put out a draft and a final
14 determination similar to IPART. So it is similar to IPART;
15 it is just the time frame is a little longer. Our
16 submissions will have to be a bit earlier than under IPART,
17 but it is still through a similar process and I suppose
18 under a new corporate framework.
19
20 I don't know whether anyone has any particular
21 questions on that framework or State Water's understanding
22 of the basis of that framework, but it is a new area that
23 State Water are under. We are the first bulk water utility
24 to be determined by the ACCC under this framework.
25 Victoria are going through it, but their state regulator
26 did accredit themselves. In a sense, we are the first bulk
27 water utility to go through it in a different environment,
28 but those are the time frames around that.
29
30 COUNCILLOR MURRAY: Could I ask two questions. Will the
31 ACCC look at competition and will they look at the way
32 consumers are affected with their regime?
33
34 MR CARUANA: I can't speak on behalf of the ACCC, but --
35
36 MR GROSSER: The things that we would look at are all set
37 out in the pricing principles. I guess what I would
38 suggest is that you have a look at the pricing principles
39 which are available on our website
40
41 COUNCILLOR MURRAY: Through you, Mr Chairman, who
42 sets the pricing principles?
43
44 MR GROSSER: They have already been set and approved by the
45 commission.
46
47 COUNCILLOR MURRAY: No, you have missed my question.
Who

.15/06/2012 25

Transcript produced by Merrill Corporation

1 sets them?
2
3 MR GROSSER: The Commission. The ACCC has released the
4 pricing principles which will outline the issues which we
5 take into consideration.
6
7 MR COXHEAD: So, through you, Mr Chairman, could I ask
8 whether one of those pricing principles is no valley
9 subsidisation and pricing subsidies?
10
11 MR GROSSER: I don't have those pricing principles in
12 front of me yet and I don't feel comfortable commenting on
13 that. What I would suggest is that you have a look at
14 them. What I can say is, as with all pricing
15 determinations, you will have the opportunity to make
16 submissions on the draft determination.
17
18 THE CHAIRMAN: Thank you.
19
20 MR MADDEN: One point to make that may have ramifications
21 for the fixed versus variable discussion is the potential
22 change in going from the IPART process, which is an
23 estimate of water usage, four years into the future;
24 whereas the ACCC process can actually look at that annually
25 or may have to look at that annually. That actually may
26 mean an increase in the usage charge.
27
28 These things are unknown, I guess, at this stage, but
29 the usage charge might vary from year to year, with limits,
30 though, because the principles do have the capacity to pay
31 still written in them, and obviously it is about the
32 interpretation at this stage and we have to do that as part
33 of this process. We have to look at those principles when
34 we are looking at these issues.
35
36 To explain a few more of the options as opposed to the
37 last slide which was looking at the different features of a
38 pricing structure and approach, the options that we are
39 looking at are changes to the tariff structure. By that,
40 I mean the fixed versus the variable ratio. It is about
41 40:60.
42
43 One option which State Water has canvassed with some
44 of their customers is a choice of tariff structure. So
45 actually some people may want to pay a higher fixed charge
46 and be more certain about their costs from year to year.
47 I guess the obvious example is a Commonwealth environmental

.15/06/2012 26

Transcript produced by Merrill Corporation

1 water holder or a river bank. If they own a lot of
2 entitlement to paying charges they might, for the sake of
3 budgeting purposes, not be so worried about their cash flow
4 from year to year but want to know that they would rather
5 pay X amount per year, not necessarily on their usage
6 charges.
7
8 There are a lot of issues around that choice of tariff
9 structure - who can make the choice and when, who would
10 make the choice within corporations if they do that on
11 behalf of everyone or they can bundle up. I guess part of
12 this discussion too is if there was a move towards a higher
13 fixed charge, whether that choice would allow some users to
14 spread their risk over time.
15
16 I would just note that that would also probably incur
17 a premium, so if you actually wanted to pay higher fixed
18 charges, you would pay relatively less versus someone who
19 pays higher usage charges.
20
21 MR LOGAN: Sorry, can I ask are we only talking about
22 State Water charges? The Office of Water has different
23 split-up and we are not talking about having the same.
24
25 MR MADDEN: The review looks at them all.
26
27 MR LOGAN: Both?
28
29 MR MADDEN: Yes, both. So a recommendation from IPART
30 would be applicable to both State Water and the Office of
31 Water.
32
33 THE CHAIRMAN: We will be making recommendations about
34 both of them.
35
36 MS CHADWICK: But we recognise there are differences
37 between the two entities. For example, with the Office of
38 Water, there is a much lower penetration of meters and
39 where meters are not present, some of these tariffs are
40 impossible.
41
42 THE CHAIRMAN: I think it is fair to say, on the State
43 Water side, John, the existing situation is 60 per cent
44 variable/fully fixed. There is a possibility with the move
45 to the ACCC that there may be greater emphasis on fixed
46 charges. A lot of these options are really ways of trying
47 to adjust that by giving people choices on variable and

.15/06/2012 27

Transcript produced by Merrill Corporation

1 fixed charges depending on water availability. That is the
2 basic situation.
3
4 MR MADDEN: Yes, but there is that given that that is the
5 general vibe, for want of a better word, that there is a
6 push towards a higher fixed charge.
7
8 In other states there is a higher fixed charge.
9 Victoria is about 90 per cent to 10 per cent, in the
10 Goulburn-Murray, I think 70:30 in some of the other areas,
11 Southern Rural Water. They are already have much higher
12 fixed charge to variable. But they do not explicitly say,
13 "You will not have a certain ratio" in the principles, so
14 it is a matter of making your case one way or other, but
15 really that will come through in the State Water
16 determination process.
17
18 THE CHAIRMAN: Thank you. We would be interested in
19 hearing any comments on those issues.
20
21 MR COXHEAD: I have a question for John. How would you
22 deal with the Peel in that situation with the higher fixed
23 charge when there is entitlement out there of 31,000
24 megalitres you are paying a fixed charge on but a plan
25 limit of 6,100 megalitres? They are again devastating as
26 far as the Peel is concerned.
27
28 MR MADDEN: The fixed charges apportions the same cost.
29 At the moment, for example, if the full cost - I am just
30 making these numbers up - was \$5 million and if IPART
31 determined that the appropriate cost of recovery is, say,
32 \$3.5 million from irrigators, it is still that divided by
33 the number of shares, entitlement shares. If that number
34 goes up, it is a ratio just with the amount of shares on
35 offer. Is that what you were getting at?
36
37 MR COXHEAD: I understand that, but I am not sure whether
38 you understand what I am saying. There is such a huge
39 percentage of entitlement out there that can never be used,
40 but that is still subject to fixed charge. If there are
41 high fixed charges on that unusable entitlement, that is
42 then another great impost on those irrigators who have
43 entitlements they can never use.
44
45 In the State Water sharing plan we asked that some of
46 that should be purchased back, and an approach has been
47 made to the Commonwealth to purchase it back, but it is not

.15/06/2012 28

Transcript produced by Merrill Corporation

1 really interested. Of course, if it is purchased back,
2 then that is deducted off the plan limit, so you are left
3 with no water anyway the plan limit, so we are cornered
4 whichever way we go.
5
6 MR MADDEN: Yes, I understand the differential impact.
7 The people who are mostly sleepers, they would be paying
8 more.
9
10 MR MONTICONE: Could I clarify that? They are not
11 sleepers. They are people who will never be able to use
12 their entitlement, whether they want to or not, because
13 80 per cent of the entitlement has been eliminated out of
14 the Peel. Now, that 80 per cent is not a sleeper figure.
15 It is a figure that has been eliminated out of the system;
16 yet the irrigators are still paying the entitlement charges
17 on it.
18
19 I think you need to be very aware of that when you
20 look at the pricing structures that you are playing with at
21 the moment. If you increase the fixed charges on
22 entitlement that people can never access, people will go
23 broke overnight. I don't know whether you understand. Do
24 you understand where we are coming from?
25
26 MR MADDEN: No, only for the fact that, with that
27 entitlement, if there is a certain level of cost, it is
28 about how you share it then amongst the people who hold the
29 entitlement in that area. I take your point that if we
30 have a 3.5 to 5 million full cost recovery, then you are
31 all getting away, so --
32
33 MR MONTICONE: I think in your calculations the figure you
34 should be using for the Peel is the 20 per cent of
35 entitlement not the 100 per cent of entitlement because
36 only the 20 per cent can ever be used. So when you do your
37 calculations, it is only the 20 per cent of allocations
38 that should be taken into account.
39
40 MR MADDEN: Yes, but then you are just splitting it up a
41 different way. I don't --
42
43 THE CHAIRMAN: I suppose the question is who is paying.
44 If there are people with entitlements who are not going to
45 use it and there is an entitlement charge, they may have to
46 pay the cost even though they don't use the water. I guess
47 that is what --

.15/06/2012 29

Transcript produced by Merrill Corporation

1
2 MR MADDEN: That is what I understand. If there is a
3 proportion of entitlement holders who never use water and
4 fixed prices go up, they will then be paying more for
5 something they never use
6
7 MR COXHEAD: They can't use it.
8
9 MR MADDEN: But they could actually. I know it could be
10 difficult and no-one wants to buy it, but they could trade
11 that to someone who wants it and they can activate part of
12 it even at the ratio of 20 per cent.
13
14 COUNCILLOR MURRAY: Oh, come on.
15
16 MR MADDEN: I am not saying it is not an issue, but that
17 is --
18
19 MR MONTICONE: It is a huge issue.
20
21 MR MADDEN: It is a particular issue.
22
23 THE CHAIRMAN: I think we can understand the situation.
24 Perhaps we could hear from someone else.
25
26 MS MADDEN: I was going to comment in regards to
27 fixed/ variable and I might just lead on from that and raise
28 another issue which we have heard before about increasing
29 the user base.
30
31 I am not sure if it is a similar situation but
32 previously in the Macquarie when the water sharing plan was
33 implemented and a 160,000 megalitre allowance was given as
34 a state environmental water holding, that is not
35 technically a licence, but it has general security
36 characteristics that it can be stored, carried over and has
37 delivery considerations the same as another --
38
39 MR MADDEN: It can be called on.
40
41 MS MADDEN: Yes, it can be called on. So it requires
42 effort from State Water and Office of Water managing that.
43 That is something that has eroded the liability of
44 entitlement holders, but they are still paying the full
45 charge of that entitlement and the environment holder is
46 not. So it is a similar issue and that is why --
47

.15/06/2012 30

Transcript produced by Merrill Corporation

1 THE CHAIRMAN: They are paying for something they can't
2 use.
3
4 MS MADDEN: Yes, and that is why we would like to see that
5 revisited in terms of the actual user base, so that is one
6 of my points.
7
8 To go back to the variable/fixed, our preference is
9 certainly towards maintaining the status quo with a high
10 proportion of variable charges. We understand there are
11 issues around that with what the ACCC is looking at. In
12 that vein we would be quite supportive of looking at
13 differential pricing options that John mentioned such as
14 whether or not some users would prefer higher fixed
15 charges. There might be some offset there to allow others
16 to retain a high variable charge.
17
18 MS EWING: In commenting on the same thing, I think the
19 Lachlan also has a preference for a lower proportion of
20 fixed charges. Our rationale has been that we feel a high
21 proportion of fixed charges is a disincentive to seeking
22 efficiencies, so we have always seen a benefit in that.
23 With the high proportion who get the fixed charges it also
24 tends, in the end, to drive usage because people think,
25 "Oh, well, I'm paying for the water, I might as well use
26 it." So there are a couple of issues there.
27
28 Like Macquarie, we think the idea of people being able
29 to choose a pricing package is quite innovative. I assume,
30 to have discussions at this level, that State Water has
31 actually checked with ACCC that that is something that
32 would fit within the principles.
33
34 MR CARUANA: Yes, we have had consultations with the
35 ACCC. I suppose it comes down to the fact that we are still
36 relative new in the framework. Basically State Water's
37 interpretation is that in our submission we can suggest
38 what we think is preferable and put our case towards the
39 ACCC. It is then up to the ACCC whether it agrees with it.
40
41 It is State Water's thinking obviously that if there
42 is customer support with a particular approach, it would be
43 difficult for a regulator to say no to it. At this stage
44 from the State Water perspective, yes, we have had
45 discussions.
46
47 Maybe to give you more context, our understanding is

.15/06/2012 31

Transcript produced by Merrill Corporation

1 that the pricing principles suggest that, in the past,
2 IPART has set a high weighted average cost of capital, so a
3 high rate of return to compensate for that volatility risk.
4 State Water's understanding of the pricing principles under
5 the ACCC is that volatility risk associated with variable
6 charging can be diversified away from; ie, State Water is
7 not as risky as traditionally has been said and probably
8 the easiest way to do it would be obviously higher fixed
9 charges. That is where the higher fixed argument comes
10 into it.
11
12 We are in a position now where it is State Water's
13 understanding going forward that we have a lower weighted
14 average cost of capital, ie, a lower revenue requirement,
15 but State Water recognises and IPART recognises that there
16 is a clear preference for higher variable charging. The
17 question then becomes how do we accommodate that and this
18 choice option was discussed at a pricing forum that we had
19 in February and going forward.
20
21 Yes, we have had discussions with ACCC saying, "This
22 is what we are thinking." Obviously we are still in our
23 development phase and given the IPART review it will be a
24 case of us putting our submission and then it will be up to
25 the regulator to see whether it accepts it. From our
26 perspective we will put forward a recommendation.
27 Obviously customers have objectives they want to satisfy,
28 and State Water has as well, and one of those is financial
29 viability. Under the rules, State Water understands the
30 ACCC must give regard to its having sufficient revenue to
31 run its business.
32
33 As long as those objectives are met, State Water is
34 happy to put forward a particular approach and the choice
35 model seems to be one of those that seems to be gaining
36 support as far as this process.
37
38 I obviously don't want to speak for IPART
39 recommendations, but it seems like something that we can
40 work towards and put in our submission and go from there.
41 If it gets regulator acceptance, great. If it doesn't, we
42 will go through the draft determination process and then go
43 for there.
44
45 I hope that answers your question, Mary. Sorry, it is
46 a long-winded answer
47

.15/06/2012 32

Transcript produced by Merrill Corporation

1 MS EWING: Not at all and it does. I have a comment or a
2 question about the different fixed charges in periods of
3 low availability. Again I can see some attraction in it,
4 but my assumption is that if there is a threshold set, say
5 it is below 20 per cent or 10 per cent, or whatever, you
6 can click that option on. Would a whole valley have to
7 move to that option in that scenario? I presume if that
8 were to happen, the fixed charges would have to rise later
9 in a pricing period so that, by the end of the pricing
10 period, the same recovery as planned at the start could be
11 achieved.
12
13 MR CARUANA: Obviously we want to make sure we have a
14 system in place that customers are happy with, but also we
15 have to make sure it is as simple as possible and
16 simplicity would imply that it be applied across the
17 valley. Our submission must do one of two things. It must
18 explain what we want to do in a way that anyone can
19 understand and we want to make sure it is as simple as
20 possible. So the thinking is that, going forward, it would
21 be on a valley basis.
22
23 Without preempting the work that IPART is doing,
24 I suppose there was thinking along the lines of those other
25 arrangements - things like how often would you be able to
26 opt in and out of the system? From a State Water
27 perspective obviously to maintain simplicity, the easiest
28 option would be once every determination. Given
29 determination periods are three years for the first time
30 and four for the next, State Water's thinking is that this
31 would avoid customers changing several times in the
32 determination --
33
34 MS EWING: Goodness me.
35
36 MR MADDEN: I think that is a bit of a different policy
37 from the choice one, because the choice is just a ratio of
38 fixed. What they are talking about there is actually a
39 lower fixed when there is low availability.
40
41 MS EWING: Yes, that's correct.
42
43 MR MADDEN: So the choice could be any time you can
44 choose, and then if the low availability comes along,
45 fine, you will already have that set in and a structure
46 to help you somewhat. A lower fixed charge that is
47 triggered by lower water availability we are assuming would

.15/06/2012 33

Transcript produced by Merrill Corporation

1 have to be recovered through higher costs over time in
2 other years.
3
4 THE CHAIRMAN: I think it is fair to say that the thinking
5 on these issues is evolving at this early stage and our
6 purpose today is to assess the degree of interest in these.
7
8 MS CHADWICK: Yes.
9
10 MS LOWEIN: Following on from that, our preference is
11 definitely in looking at the options for flexibility and
12 choosing a structure that suits the variety of businesses
13 that are represented in the valley. We would be very
14 supportive of that being on an individual basis and not on
15 a valley-by-valley basis. The difficulty is that there is
16 not one pricing structure that would suit all of the
17 irrigators in our valley nor would they be the same as
18 might suit those in the Macquarie valley or elsewhere.
19
20 We have had discussions with State Water on those
21 opportunities and we think a good way to go to is on an
22 individual basis as that allows them to manage their risk
23 as well as State Water's.
24
25 MR LOGAN: In relation to the 60:40 split I can't speak
26 for the council, but more flexibility would be something
27 that we would think is a good idea, notwithstanding our
28 earlier comments about the fact that we want to have
29 state-wide pricing.
30
31 Someone mentioned perhaps there being a higher price
32 for high security rather than a differential between high
33 security and general security. I don't want to let that go
34 past without putting on record that, in the Peel, we
35 presently pay eight times what the general security is.
36 Everyone else pays two perhaps or possibly three, so if you
37 are incorporating a higher percentage for high security in
38 the Peel, we may as well blow up the dam and be done with
39 it.
40
41 THE CHAIRMAN: Thank you.
42
43 Namoi?
44
45 MS BAKER: I will probably be reiterating what has already
46 been said. As Zara said, when you go last, you get to
47 agree with everybody else.

.15/06/2012 34

Transcript produced by Merrill Corporation

1
2 From a Namoi perspective, the preference is for the
3 flexibility. We don't know whether or not that is actually
4 practically possible. I think in the process we would look
5 forward to seeing the detail of these options spelled out
6 so that we can actually put some numbers to it to see how
7 it would pay out either on a valley basis or an individual
8 basis and whether or not that flexibility actually does
9 achieve the outcome that it was sought to achieve in the
10 first place.
11
12 In our case, until we have some numbers and we can put
13 some detail to that, I don't know that we can really
14 comment either way. We may be agreeing to something that
15 will provide a disincentive or provide a disadvantage to
16 our members. I really would not like to comment further on
17 that until we have that detail. Certainly I think the
18 concept that you are proposing is something we would agree
19 to exploring in this process and we look forward to seeing
20 the level of detail.
21
22 I am hoping, John, that in that information there will
23 be some numbers around that so we can actually say that
24 this is something that is feasible going forward.
25
26 MS CHADWICK: I very much understand why you want that
27 knowledge and that a comment be provided. Within a
28 15 August time frame, there are some limits on what we can
29 do. We will do everything we can to make sure the
30 information is there.
31
32 The other point is that we are not modelling a new set
33 of prices. That is the ACCC's responsibility. So, again,
34 that comes with a caveat, I suppose.
35
36 MS BAKER: Thank you.
37
38 THE CHAIRMAN: I guess we should develop a proposal in
39 sufficient detail and whether there are likely to be
40 unintended consequences.
41
42 MS CHADWICK: We will go as far as we can to --
43
44 THE CHAIRMAN: Within the time frame we have.
45
46 MR MADDEN: I have a question while we have you all here.
47 People might not have had experience with this, but would

.15/06/2012 35

Transcript produced by Merrill Corporation

1 anyone have any comments on payment terms, hardship
2 policies and things like that during the drought? Were you
3 aware that they were taken up? Were they useful?
4
5 MS EWING: Yes, they were taken up to a degree. I guess
6 part of that was driven by the fact that you couldn't trade
7 water unless your payments were up to date, so people
8 negotiated payment plans with State Water. However, there
9 was also a fair degree of reluctance, I guess, because
10 simply pushing the problem into the future in a prolonged
11 drought gives you a big burden at the end, so people at the
12 same time were reluctant.
13
14 Once we started to get some water back, I think there
15 were certainly some people who were happy to have the
16 quarterly payments because of the convenience and the fact
17 that it helps you manage your cash flow a little better.
18
19 MR MADDEN: Thank you. That's fine if no-one else has
20 any comments. I was just wondering whether people might
21 have mentioned stuff to you and things like that.
22
23 THE CHAIRMAN: Are there other points you want to raise on
24 price structure? If not we might move on to cost shares.
25
26 SESSION FOUR: OPTIONS FOR COST SHARES
27
28 MS CHOU: I think we have sort of touched on this topic of
29 cost shares already, so I will just go through it fairly
30 quickly. We talked about State Water's current
31 determination under IPART as a cost sharing methodology as
32 developed over a number of determinations and as based on
33 the impactor pays principle. Some valleys do not fully
34 recover user share and we have touched on that.
35
36 My understanding of the ACCC rules is that government
37 share is not something that the ACCC will dictate to or
38 facilitate or set a number on. It is really up to the New
39 South Wales government to decide how much it is willing to
40 contribute.
41
42 MR GROSSER: May I clarify that. There is no provision in
43 the rules for us to set the government contribution so,
44 yes, it is not an issue for the ACCC at this stage.
45
46 MS CHOU: So your set price is based on efficient costs,
47 but you will take into account any government contributions

.15/06/2012 36

Transcript produced by Merrill Corporation

1 towards the costs of State Water in setting those prices?
2
3 MR GROSSER: That's correct.
4
5 MS CHOU: So the important point really is that the New
6 South Wales government needs to agree to the cost shares
7 before State Water's pricing submission process starts.
8
9 MR MADDEN: I don't know if everyone understands cost
10 shares. Page 4 actually gives a good indication of what we
11 are talking about, which is really the activities that
12 State Water undertakes that have public benefit, I guess,
13 in terms of things like flood operation and water quality.
14 So that says there that since IPART's last decision a lot
15 of work has been done in that area looking at State Water's
16 activities and costs and how much actually have those
17 benefited other people not just irrigators.
18
19 MS MADDEN: I have a comment on the actual terms of
20 reference and that is that they might be expanded to
21 include widening the user base as well as just conservation
22 of cost shares.
23
24 THE CHAIRMAN: I think it would be reasonable for us to
25 pick up that point.
26
27 MS EWING: In terms of cost shares, looking at the bottom
28 point that relates to the New South Wales government, one
29 of the things that strikes me is the actual process that
30 IPART will use or what it will negotiate with the New South
31 Wales government in terms of how the New South Wales
32 government actually manages that agreement process.
33 I think we would --
34
35 THE CHAIRMAN: I think the government will decide at the
36 end of the day. We can make the recommendations about what
37 the government might do or what we would do.
38
39 MS CHADWICK: In all honesty, that is what happens now.
40
41 THE CHAIRMAN: I think that is the reality of the process.
42
43 MS CHADWICK: But the next slide has a couple of options
44 on how we can address this.
45
46 MS CHOU: We have come up with four options. That is not
47 to say they are exclusive, but bear in mind that we have

.15/06/2012 37

Transcript produced by Merrill Corporation

1 developed the cost share approach over a number of reviews.
2 The first option is we could recommend maintaining our
3 existing approach - so IPART to review the cost share price
4 and ACCC price determination.
5
6 The second one would be freezing the current cost
7 shares. So State Water could just apply the cost share
8 ratios from the 2010 determination to the ACCC determined
9 costs. There would not be a role for IPART in that
10 scenario.
11
12 The third scenario would be for IPART to review the
13 cost shares after a fixed period, say, every third
14 determination.
15
16 The fourth option is that the New South Wales
17 government just independently decides the dollar amount of
18 the contribution.
19
20 In these options there are varying degrees of costs of
21 administration. There is not necessarily a difference in
22 terms of the underlying methodology being impactor pays,
23 but there are just differences in terms of how much
24 administration is involved in keeping the cost shares going
25 forward under the ACCC framework.
26
27 MS CHADWICK: I will elaborate so you can see a little bit
28 more of the difference between the options. Under the
29 first option, State Water would present to us, in effect
30 its book - so costs by activities. We would look at the
31 last cost shares that we applied to each activity and reach
32 a view as to whether or not that percentage remains the
33 right percentage.
34
35 Take, for example, flood mitigation, whatever costs
36 State Water has allocated to that, we could check that they
37 are the right costs. Then we would times it by the
38 percentage last time and have a consideration as to whether
39 or not that percentage remains appropriate going forward.
40
41 As to the second option, it is saying that we have
42 considered that three times already and what that
43 percentage ought to be and State Water has had its
44 allocation of costs to those activities considered three
45 times as well. So under that option State Water allocates
46 the costs, times it by the percentage as last set and
47 reach - it is a mathematical exercise.

.15/06/2012 38

Transcript produced by Merrill Corporation

1
2 Under the third option, it is saying that maybe there
3 are some things that State Water does, but their activities
4 might change fundamentally at some point, so you want as
5 much stability of the old method as possible. Under that
6 proposal, about at every third ACCC determination - so that
7 is 12 to 15 or so years - you would double-check that the
8 activities remain the right activities and that the
9 percentages remain the right percentages.
10
11 Does that help you understand the difference between
12 those four?
13
14 COUNCILLOR MURRAY: I would like to suggest probably the
15 third option would be fairly well structured. It gives you
16 that process of review without too much inherent cost.
17 I feel that we have had a fair bit of history there to date
18 which has established some or taken out some of the
19 anomalies, so I think I would be in favour of probably the
20 third option.
21
22 THE CHAIRMAN: Are there any other views on those four
23 options?
24
25 MS EWING: We would certainly not be in favour of the
26 fourth option. Having been to a number of price
27 determinations, I think IPART does apply a very logical,
28 easily understandable framework and I think it is
29 worthwhile that IPART continue to have some input in that
30 framework.
31
32 MR COXHEAD: Could I ask a question? NSW Office of Water
33 and State Water are monopolies. What checks and balances
34 are there to ensure that they are operating at the most
35 efficient operation?
36
37 THE CHAIRMAN: That is a fair question. If we look at
38 State Water, State Water is a state-owned corporation. Its
39 prices have been reviewed by IPART historically and in
40 future they will be reviewed by the ACCC.
41
42 As part of those reviews, we certainly looked into
43 their efficiency and there have been cost savings within
44 State Water. I would imagine that there will continue to
45 be pressure for State Water to make cost savings in the
46 future. I think there is pressure there. It is perhaps
47 not the same pressure as the market would exert on people

.15/06/2012 39

Transcript produced by Merrill Corporation

1 exposed to the market, but they are under continuing
2 encouragement to produce more efficiently. They have
3 become more efficient and I would expect that to continue.
4
5 If you look at the Office of Water, I think it is a
6 bit more difficult. The difficulty there is that they get
7 their money partly from us and partly from the government
8 and coordinating those two things is interesting. We have,
9 in our price determinations, encouraged them to become more
10 efficient. We did a large efficiency study in the 2011
11 determination.
12
13 Also, importantly, we asked them as part of that
14 determination to make an undertaking that that information
15 would be provided to the customer. We are following up
16 with them to make sure that they are providing what they
17 said they would provide on the way through. In this way,
18 we would hope to ensure that they provide the services for
19 which people are paying. But it is unfinished business and
20 we have to wait until it happens.
21
22 MR COXHEAD: One of the biggest inefficiencies in the NSW
23 Office of Water and State Water was the separation of those
24 two departments or the separation of one department
25 creating two administration and-wise. It has resulted in
26 an overlapping between those two organisations. When we
27 started, we had an access and usage charge. Now we have
28 four charges, with two organisations.
29
30 To me that seems to have been the start of the rot.
31 Charges really started to skyrocket from that period when
32 we were subject to a further round of charges from a whole
33 new department. Of course that department has
34 shareholders, namely the state government, and it requires
35 a profit.
36
37 I am on State Water's customer service committee so
38 I have a fair bit of information available to me as to the
39 efficiency of State Water. That is one check and balance,
40 I suppose. Those customer service committees are there to
41 try and get some grasp on their expenditure.
42
43 Because these organisations are a monopoly, because
44 they are state government departments and IPART is
45 basically funded by state government, it is a little bit
46 like the child in the lolly shop, isn't it? It is just one
47 of those situations where you are checking on yourself to a

.15/06/2012 40

Transcript produced by Merrill Corporation

1 certain extent or a government department is checking on
2 another government department.
3
4 As far as we are concerned as customers, is that
5 totally fair? Is IPART as independent as it appears to be?
6 I don't want to sort of drag that out any further, but I do
7 just question the independence of one government department
8 checking on another government department.
9
10 THE CHAIRMAN: I think we are a very independent
11 organisation. I have no doubt that we are very independent
12 of government and we get very little interference from
13 government. I think you need not worry too much about that
14 issue - we are independent.
15
16 In terms of what we can do, I think you should look at
17 the success of the determinations we have made. We have
18 been encouraging both the Office of Water and State Water
19 to become more efficient and I think there is evidence to
20 demonstrate that they have become more efficient. I think
21 we have done that part of our job.
22
23 Another thing that is very important is the
24 interaction of customers. Customer interaction and
25 involvement with State Water is very good. One of our
26 frustrations is that it is hard to get that same degree of
27 customer involvement with the Office of Water and that is
28 one of the problems.
29
30 MR MADDEN: Can I add one thing? As we have noted, there
31 will be a change to the ACCC, so State Water and the
32 industry really have to look at the ACCC processes and make
33 sure that they look at those efficient costs, and it is in
34 their principles that they have to look at what are the
35 efficient costs of operation.
36
37 MR MONTICONE: Can I throw in my tuppence worth here? I
38 did not rehearse this with Ian Coxhead before, but there
39 was a review of the NSW Office of Water management expenses
40 that was prepared by PricewaterhouseCoopers/Halcrow for
41 IPART in April 2010. If anyone has not read that document,
42 I would commend it to you because it really demonstrates
43 just how inept and how mismanaged the NSW Office of Water
44 really is. I understand that the Independent Pricing
45 Tribunal is independent, but if IPART had any clout, it
46 would jump on the NSW Office of Water based on the contents
47 of that report.

.15/06/2012 41

Transcript produced by Merrill Corporation

1
2 MS CHADWICK: Jim has spoken a number of times about our
3 independence and our process. We commissioned that report
4 and it has resulted in a series of recommendations, which
5 are in chapter 13 of our most recent report, about the
6 prices of the prices of the Office of Water. It has also
7 resulted in a reporting schedule under which the department
8 is expected to report from October of this year. So we did
9 seriously consider those recommendations and to the extent
10 of our powers, we included that as part of the pricing
11 regime.
12
13 For State Water we have a further set of powers.
14 State Water is subject to an operating licence. Later on
15 this year, we will commence a review of that operating
16 licence. Obviously stakeholders such as yourselves will be
17 involved in that process as well. That also provides a
18 great deal of transparency about the performance of the
19 organisation and it is in fact the instrument that
20 encourages the establishment of consultative planning.
21
22 THE CHAIRMAN: Are there further comments on cost shares?
23
24 What I take out of this is that there seems to be some
25 interest in the continuing IPART involvement.
26
27 MS MADDEN: Yes.
28
29 MR MONTICONE: Yes
30
31 MS EWING: Yes.
32
33 THE CHAIRMAN: Thank you. The next session is on
34 assessing the options.
35
36 MS CHOU: That's right.
37
38 SESSION FIVE: ASSESSING THE OPTIONS
39
40 MS CHOU: We have spoken a lot about what are some of the
41 options around price structure, payment terms and cost
42 shares. We want to introduce the criteria that we might
43 apply to assess those options. Some of these points are
44 already in the terms of reference. So we have: impact on
45 the financial viability of State Water and the Office of
46 Water and impact on the state budget. Those are all
47 factors that we need to consider as part of the terms of

.15/06/2012 42

Transcript produced by Merrill Corporation

1 reference.
2
3 Given State Water will be under ACCC's rules and
4 principles, ACCC's rules and principles are one of the
5 factors we will have to consider. The national water
6 initiative is still valid and we will need to consider that
7 as well.
8
9 Given that the terms of reference are asking us to
10 look at price structure options that better match customer
11 impact, we need to assess those options in terms of how
12 effective they are in addressing customer impacts.
13
14 Economic efficiency is another point listed there, and
15 then how easy is it to implement and administer those
16 options?
17
18 Are there any comments on the criteria? Are we
19 missing anything there?
20
21 THE CHAIRMAN: I guess we have said it all. I think that
22 seems to be broadly agreement. The next step is?
23
24 MS CHOU: I was going to reiterate that the issues paper
25 comes out on 26 June, and the submission date on that is
26 two weeks away, being 10 July. We encourage you all to
27 make your views known to us through a written submission
28 and hopefully you will be attending the hearing in Sydney
29 on 3 July.
30
31 THE CHAIRMAN: Before we close, could I ask whether there
32 any final comments around the table?
33
34 FINAL COMMENTS AND CONCLUDING REMARKS
35
36 MS EWING: Could I ask a question about the public
37 hearing. Will anyone have the opportunity to speak at that
38 hearing or will you invite people to speak on the basis of
39 issues they have raised or how will that be managed?
40
41 THE CHAIRMAN: I would imagine, and this is speaking off
42 the top of my head, that the people who have made
43 submissions to us would be given a chance to present on
44 their submissions.
45
46 MS CHADWICK: The challenge would be that you have until
47 10 July to make your submissions, but we are having the

.15/06/2012 43

Transcript produced by Merrill Corporation

1 hearing on 3 July. Obviously, if you advised us that you
2 are planning on making a submission, we would really like
3 to know the theme of your submission and that you are doing
4 that so that we can best run the hearing.
5
6 THE CHAIRMAN: I imagine that the purpose of the hearing
7 will be for people to present their submissions and for us
8 to ask questions and get an understanding of what is being
9 said. That is the sort of thing I think would happen.
10
11 MR LOGAN: Could I ask for those dates again? Is it
12 2 July?
13
14 MS CHOU: It is 3 July for the public hearing in Sydney.
15
16 MR LOGAN: And the 15th are the main dates?
17
18 MS CHOU: No, we have said 10 July for receipt of
19 submissions.
20
21 MR LOGAN: Couldn't we have the 2nd and the 15th?
22
23 MS CHOU: Sorry, no. You will only get two weeks to
24 submit on the issues paper, which will come out on 26 June.
25 The submissions are due by 10 July. You will get another
26 chance to make a written submission on our preliminary
27 recommendations.
28
29 MR COXHEAD: Amanda, will there be a summary available to
30 us of this meeting today?
31
32 MS CHADWICK: Yes, indeed. I think we will get the final
33 transcript either late tonight or on Monday. Then we do
34 our best to get it up on the website within 24 hours after
35 that. So it will be up there and also the slides will be
36 available.
37
38 MS CHOU: The slides are already there, actually.
39
40 MR COXHEAD: Personally I would like to thank you, the
41 director, and the chairman, for the opportunity to come
42 along today and put our views forward because we need some
43 action taken in particular with pricing on water in the
44 Peel, and I know you have taken that on board. We have
45 spoken on many occasions and on the many submissions we
46 have put in previously. It is a huge issue and we thank
47 you for the opportunity today.

.15/06/2012 44

Transcript produced by Merrill Corporation

1
2 THE CHAIRMAN: And thank you for your attendance.
3
4 COUNCILLOR MURRAY: Mr Chairman, I would also like to
5 thank you particularly for the opportunity to have a good,
6 frank and open discussion. We are doomed to not agree on
7 every single issue, but I really do appreciate the
8 opportunity to come along and have a platform like this
9 where we can have that really frank discussion because
10 quite often we don't get that opportunity and we really do
11 appreciate it.
12
13 THE CHAIRMAN: In fact I think what is important is to
14 understand that it is about the issues not about the
15 persons.
16
17 COUNCILLOR MURRAY: Yes, absolutely.
18
19 THE CHAIRMAN: We can disagree about things, but we can
20 still be friends at the end of the day.
21
22 COUNCILLOR MURRAY: Absolutely. Thank you.
23
24 THE CHAIRMAN: I think we should finish at this point but
25 you are welcome to join us for lunch.
26
27 I don't think we can summarise the discussion.
28 I think our discussion has been fairly wide ranging. We
29 thank you very much for your efforts and your
30 contributions. We obviously have to go away and think
31 about what has been said.
32
33 The next stage is to prepare our issues paper, which
34 will be fairly long, as I understand it, much to my
35 distress. Obviously we would value your contributions as
36 we move through this process. Bear in mind that it is a
37 fairly short time frame and we will all have to accommodate
38 that as best we can just to get the best result so that we
39 can to provide a good basis for water pricing moving
40 forward. I think that is what we are all trying to do.
41 Thank you very much for your assistance.
42
43 MS CHOU: Thank you very much.
44
45 AT 2PM, THE TRIBUNAL ADJOURNED ACCORDINGLY
46
47

.15/06/2012 45

Transcript produced by Merrill Corporation