

COMMENTS ON THE DLWC'S SUBMISSION TO IPART
2001/02 - 2003/04

1 INEQUITABLE NEW TAX

The Water Reform agenda is simply the introduction of a new tax. In previous years, State Government Departments were funded from the taxes that we paid, and they had to operate within their budgeted amount of funds. Now, the DLWC is aiming for total cost recovery of all their budget from the irrigation industry. This cost recovery does not result in a decrease in the taxes that we pay, nor do we get any additional benefit from the DLWC, so the NSW State Government is simply introducing a new tax on the irrigation industry.

This is inequitable as it affects one part of the community only. The other 32 State Government Departments that are listed on page 16 of the local telephone directory are not introducing cost recovery accounting, so why attack the irrigation industry? Is the only reason that the NSW Government has found a politically safe milking cow?

2 THE COAG IMPERATIVE

The NSW Government stands to receive several hundred million dollars from the Federal Government if certain conditions are met. In fact, several hundred million dollars have already been received, but what benefit has flowed through to the irrigation industry from this money that the NSW Government has received? None at all. Why doesn't IPART take a serious look at what the NSW Government has done with all these funds, and what its obligations are under the COAG agreement before allowing any further increases in water costs?

3 IPART IS NOT IPART

The Independent Pricing and Regulatory Tribunal (IPART) is not what its name implies. The members of the tribunal are selected by, and appointed by the NSW State Government. They are not a separate, independent body (such as a firm of auditors is in the corporate arena). The perception is therefore that the actions of IPART are merely a rubber stamp by the NSW State Government on the DLWC's request for price rises, and IPART's actions reinforce this perception.

4 IPART IS NOT DEAF AND NOT BLIND (but they might as well be)
Thousands of hours are spent in total by irrigators who submit a response to IPART on the DLWC's request for price rises, and attend an IPART hearing.

The members of IPART tell us that all the submissions are read, and they "hear what you are saying" at the IPART hearings.

But when the determination is made by IPART, there is no evidence that any notice has been taken of any of the material presented to them. This gives the impression to irrigators that the IPART process is simply a charade, and submitting a response is a waste of time.

5 NO END IN SIGHT FOR THE COST OF WATER

The DLWC won't give a definition of total cost recovery, and certainly won't put a figure on it for the Namoi/Peel valleys. So where will the final cost of water finish up? We know that the price will rise by another 20% for each of the next three years. At 20% each year the cost more than doubles each four years. But where will it finish? There is no reason for IPART to stop granting never ending price rises. What an unethical approach to business this is. How could any irrigator be expected to forecast long term business plans with this scenario? And who knows whether IPART might decide in the next round that 40% a year sounds like a nice round figure for a price rise?

6 IPART WON'T ENCOURAGE EFFICIENCY

Previous submissions to IPART have included a plea for the introduction of efficiency targets for the DLWC, but as long as IPART keep granting the DLWC's ambit price rise claims, the DLWC is under no obligation to perform efficiently.

There is no evidence of efficiency gains in the DLWC. Eleven years ago there were 3 people in the DLWC's Tamworth office – today there are about 150. Now, nobody would complain about that increase if there was some evidence that the workload had increased (such as would be the case if a new dam was built). But to the irrigator who is slugged with a 20% annual price rise, this massive staff increase for no apparent benefit is most unpalatable. In view of the fact that it has already taken the Tamworth office more than two years to convert 60 conjunctive licences to groundwater licences, (and the job is still not finished yet), one wonders what performance measurement criteria the DLWC are using.

IPART should apply the same criteria to the DLWC as it applies to the irrigators – that is, grant the DLWC a price rise that is equivalent to the DLWC's cost savings. If the DLWC want a 20% annual price rise, let it be conditional upon a 20% annual reduction in their cost structure.

7 DLWC'S FIGURES ARE NOT MUCH GOOD

In previous years I have been involved with meetings that pored for hours over the DLWC's cost account allocations, cost allocations to each valley, and the percentage of the cost that is attributable to the irrigation industry. The result of those meetings was that the DLWC's figures are so rubbery, and the percentages allocated to irrigators so ethereal, that the DLWC's actual expenditure figures are hopelessly unrepresentative of the real situation.

The members of IPART must be aware that the DLWC's accounting system is unreliable, and IPART should insist on the implementation of a reliable and accurate system that incorporates the budget figures and the actual results in a clear and transparent manner.

8 PEEL/NAMOI WATER CHARGES ARE THE HIGHEST IN NSW

The Peel/Namoi valley already pays the highest water charges in NSW, but in 2003/2004 some comparative charges will be:

Murrumbidgee	\$4.76/Ml
Peel/Namoi	\$19.06/Ml

Any independent person looking at this would believe that this discrepancy is unjustifiable. The commodity we are talking about is water, yet we are being charged more than four times the amount of our southern fellow irrigators for the same article. How equitable is that? It is not due to our inefficiency or lack of performance – it is caused by the DLWC's screwed up accounting and charging system, and IPART's ongoing tolerance of a bad and inequitable system.

And it will be worse in 2006/2007 when the comparison will be as follows:

Murrumbidgee	7% annual increase	\$5.83/Ml
Peel Namoi	20% annual increase	\$32.94/Ml

(we will be paying almost 6 times as much for the same commodity)

I don't believe that there is any other commodity that is priced on such an inequitable basis – not even electricity, fuel, or communication charges have such an unjustifiably unbalanced pricing policy.

Using the example of petrol, if a litre of petrol costs 95 cents in the Murrumbidgee, it would cost \$5.37 for the same article in the Peel/Namoi. Does the constitution allow a State Government Department to do that?

9 HOW WOULD YOU LIKE ONE OF YOUR COSTS TO GO UP BY 20% FOR THE NEXT 3 YEARS (OR 6 YEARS)?

The chances are that not one solitary reader of this document can claim to have a cost factor that is guaranteed to go up by 20% for each of the next 3 years (or 6 years). Only the irrigators in the Peel/Namoi are exposed to these exorbitant price rises, with the reckless approval of IPART.

Try it on petrol with a base figure of just 90 cents now – in 3 years time you'd pay \$1.56 (and in 6 years \$2.69 a litre). How politically acceptable would that be in a

climate where motorists scream if the price rises just a few cents? But that's just the rate that the DLWC is jamming into the irrigators in the Peel/Namoi valley, and we do not like it very much.

(And note that the base figure used is only 90 cents -a much lower base than the cost of water which is currently \$11.03/Ml and the price rise will be \$8.03/Ml in three years).

10 THE BALLOT BOX (non) SOLUTION

Voters would normally have the opportunity to vote against the policies of the NSW Government at state elections. However, the NSW State Government scarcely holds any seats in the irrigation areas of NSW, so they can continue to rape and pillage the irrigators with no fear of voter backlash. The Independent members of State Government have proven themselves to be powerless to stop the Government's actions, and therefore the Federal MP's are most likely to incur the wrath of the irrigators at the next election.

11 NO BODY, OTHER THAN IPART, WOULD GRANT A 20% PRICE RISE FOR 3 YEARS WITH NO END IN SIGHT

At a time when the CPI is around 5% (in the capital cities), no authority (other than IPART) would grant a 20% annual price rise for 3 successive years in advance. If one of the major retailers announced that their prices would rise by 20% for each of the next 3 years there would be such a public outcry that the ACCC would take action against the directors, if the media didn't crucify them first. But the good old DLWC can select any price rise percentage that it thinks it can get away with, aware that good old IPART will give the percentage a big tick in its determination, and aware that the irrigators have no political clout to stop the rort. This process fuels the public perception that Governments could not care less about their constituents, and that the "public consultation" process is a farce.

12 DLWC HAS RELIED ON FLAWED INFORMATION

The DLWC has relied on information contained in a report into the effects on the viability of irrigators as a result of the water price rises. The report was prepared by some of the NSW Department of Agriculture's economists, and the report attempts to prove that increases in water prices do not affect the viability of farmers in the Peel Valley. (Section 6.2 page 34). The problems are:

- (a) The report is full of errors and it is currently being revised by the NSW Department of Agriculture
- (b) The Regional Director of the DLWC Barwon Region was aware from several discussions at River Management Committee meetings and Customer Service Committee meetings that as soon as the report had been issued it was known to be faulty, yet it was still used by the DLWC in its submission to IPART

- © In spite of the errors, and in spite of the fact that comments were selectively quoted out of context by the DLWC, the report concluded: “*This (the price rises) implies that in the longer term, farmers in the Peel Valley will need togain other income beyond the operation of the farm.*” If that conclusion does not show that the water price rises will affect the farmers, then what does it show? And why did the DLWC not include this concluding comment in their submission?

((Economic Assessment of Water Charges in the Peel Valley” – July 2000 – Section 5, page 25)

13 EFFECTIVE PRICE OF WATER

The reliability of supply of water in the Peel Valley is amongst the worst in the state (yet we pay the highest water charges). In order to compensate for this low level of reliability, irrigators have had to acquire an entitlement which is larger than they really need, so that when an allocation of 50% is announced by the DLWC the irrigators can still access sufficient water to be productive. However, now that the DLWC has introduced a split charging system with a fixed component and a usage component, irrigators are paying the fixed charge on their total entitlement. So in a year when the DLWC announces a 50% allocation, the cost to the irrigator is 100% of the entitlement charge, plus the 50% usage charge. Therefore, the effective cost of the water is much higher than the DLWC’s proposed charges, and while the DLWC is well aware of the situation and while they are quite happy to take the money from the irrigators, they refuse to acknowledge the impact of the effective cost of water in their submissions to IPART.

14 FRAUD TO HAVE A FIXED CHARGE AND NOT SUPPLY

The DLWC announces the year’s water allocation at the beginning of the water year, and when Chaffey Dam is 100% full, the irrigators get an 80% allocation. However, the entitlement charge is levied on 100% of entitlement. In years when the dam is less than 100% full, the allocation may be much less (as low as 0%, 15%, and 25% in recent memory), and the entitlement charge is ‘still levied on the full 100% entitlement figure. In any other business, if you charge for a commodity that you know that you cannot supply, it is a fraudulent act. But not so in the DLWC – they have charging methods that are outside the normal law, (and outside the control of the Australian Consumer and Competition Commission, and outside the control of the NSW and Commonwealth Ombudsman). So control rests with IPART, who just continue to swallow the DLWC’s story and merrily approve the unfair charging practices.

15 SUGGESTIONS TO IPART

In the spirit of trying to be constructive, the following suggestions are made to IPART, in the full expectation that they will be ignored, as was the case with comments that were made in all of the submissions in previous years as part of the local water users group’s submission.

- (a) Limit the DLWC's price rises to the CPI figure. IPART cannot morally or economically justify annual price rises of 20% when the capital city CPI figure is around 5%, and the rural CPI figure would be even less.
- (b) Eliminate the irrational system of charging massively different prices for water in different valleys. There can be no moral or economic justification for the DLWC's projected prices in 2006/2007 where within the same state the Peel/Namoi valley will pay about 6 times the price for water that the Murrumbidgee pays.
- (c) Put a razor gang through the DLWC's administration and operating costs. IPART has never insisted that the DLWC should reduce its cost structure. It is morally and economically indefensible for IPART to continue to approve price rises to the DLWC's customers without insisting that the DLWC's escalating costs are gutted.
- (d) Introduce a ceiling for water charges that cannot be breached by the DLWC. It is morally and economically negligent for IPART to allow the DLWC to have an endless path of price increases. IPART should impose a ceiling for water charges, at which the DLWC should stop applying for any further increases.
- (e) Sort out the position with COAG. IPART should compel the DLWC to report the full financial position with COAG to its customers (the irrigation industry). The amounts of the tranche payments that have already been received, the tranche payments that are still due, the conditions that apply to the receipt of the future payments, and the way that the money received so far has been spent should all be declared in a public document. Otherwise the Water Reform Agenda will remain a most unpopular process with the grass roots irrigators.
- (f) Water Management Act. It is not yet clear what impacts the new Water Management Act may have on costs or the reliability of supply of water, and IPART should not agree to increases of 20% each year whilst this uncertainty exists.