Submission to the IPART Determination of Bulk Water Prices for the Period 2001 to 2004
With specific reference to the Namoi-Peel Valley

Respondent: The Coordinating Committee of the Namoi Valley Water Users Associations Inc.

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Abbreviations Used

BAR	Bulk Access Regime
CMB	Catchment Management Board
COAG	Council of Australian Governments
CPI	Consumer Price Index
CSC	Customer Service Committee
CSO	Community Service Obligation
DLWC	Department of Land and Water Conservation
DoA	NSW Department of Agriculture
ESD	Ecologically Sustainable Development
MDBC	Murray-Darling Basin Commission
RMB	River Management Board
TAMP	Total Asset Management Plan
WST	Wholesale Sales Taxation

Dictionary of Terms

Intraagency	Agreements made between DLWC and State Water

PART ONE: Achievement of IPART Recommendations and Efficiency Targets as mentioned in Determination 7, 2000

1.1 ESTABLISHING STATE WATER

1.1.1 Establishment of State Water

"DLWC has indicated at this stage it is not likely to establish State Water as a separate entity because it believes State Water responsibilities and accountabilities will change as a result of water reforms process."[1] As the Water Management Act is not yet fully operational this statement still holds true so the ability of DLWC-State Water to present 3-year, or longer, forecasts is questionable.

Though they have been set up as separate companies in the books a clear delineation of functions and funding has still not occurred.

The DLWC has shown a distinct disinterest, almost contempt, for the IPART process, whereby any measures to present the valley financial statements were postponed until March 2001 when this round was due. This is neither efficient, transparent nor effective management.

"In future determination … IPART would like to incorporate into its determinations any price agreements between DLWC and State Water CSC."[2] These service contracts have not been made available and thus can not be used to ensure the transparency of information provided for price determinations.

There have been no demonstrable service contracts presented when requested, thus we can only assume that these costs are being accounted for twice. An example of this is the operating licence that contains some resource management functions indicating a service contract exists, yet there is no provision in the accounts for this. IPART and DLWC must ensure these costs are not being accounted for twice – once in State Water and then again in the DLWC system.

1.1.2 Functions and Services

The fact that there have been no changes to licence fees is an indication that the operating arm (State Water) continues to subsidise the management arm (DLWC). This will apparently change when the Water Management Bill 2000 is finalised; therefore we fully expect another round of IPART in 18 months when this is complete.

By definition State Water is not a separate entity thus DLWC has not achieved the requirements of either IPART or COAG.

It is offensive to state "underpricing of water services will perpetuate ecological degradation … not allocated to those users who value them most … water is used in an

[1] IPART Transcript of public hearing 5 July 2000, page 15

[2] IPART Report No 7, 2000 page 3

inefficient manner.'[3] At any price the consumptive water user of the Namoi-Peel does not waste the water they are entitled to, as it is too important to their business structure to do so.

Both this DLWC submission and the last 2 contain provision for Rate of Return on assets, depreciation and an annuity cost, each being an accounting term for the same item. To state that this is not reflected in the water price is misleading, as all previous and current submissions have included all 3 forms of asset cost recovery. It is just that DLWC has changed the asset valuation and the cost recovery percentage in the respective submissions.

Separation of duties has not occurred as every effort to achieve customer service targets is stymied by DLWC. If separation had truly occurred why then does a Regional Director attend all CSC meetings (State Water's forum) and refuse to attend resource management committees such as RMB's and CMB's.

1.1.3 Cross-Subsidisation by Water Sources

Cross subsidisation between water sources concerns us less than the double accounting or subsidisation of other agencies and other DLWC portfolios through an inefficient and murky accounting system.

We have been instructed numerous times, at region, that State Water merely collects the monies for groundwater and unregulated water on behalf of DLWC. State Water has no role in the delivery or management of groundwater or unregulated water resources within the Namoi-Peel Valley. Section 2.2 page 6 of the DLWC submission supports this yet section 1.1, page 6 contradicts it, which is the correct means of separation of duties for operating and managing the unregulated and ground water resources for this valley?

1.1.4 Stability of Water Licences

The new Water Management Bill 2000 has in fact made water rights and security within valleys less stable. This has reflected in the Australian Bankers Association's nervousness toward financing, or refinancing, enterprises with water licences. It is also reflected in the lack of interest in irrigation farms currently listed on the market.

1.1.5 Medium Term Pricing Proposal

Once again the DLWC refers to the beneficiary pays principle as being the determinant for pricing, bearing this in mind annuity charges on items required for environmental compliance and safety compliance for the public for a CSO as the public is the greater beneficiary of these services. At most the State Water customer should be expected to pay 10% of these costs.

The minor assets of the Namoi/Peel provide no service to the bulk water customer, and are not impacted by the demands of the customer; thus their water user share should be 0%.

[3] DLWC(April, 2001) Submission to IPART on Bulk Water Pricing 2001/02 – 2003/04

To suggest that pricing is a tool for achieving ecologically sustainable development is to suggest that the rates of people in Sydney should be much higher to achieve ESD in the Sydney basin and along our coastline. This is a naive assumption.

1.2 Customer Service

1.2.1 Customer Service Committees

The establishment of the Namoi-Peel CSC has seen no improvement in resource management or operations in the Namoi-Peel.

In particular, there has been no improvement in the quality and timeliness of information presented; in fact it has declined. DLWC, as the providers of this information either refuse to provide the information or they provide it so late in the day that it prevents the user from having adequate time to disseminate the information before making decisions.

The CSC's were to be a forum for discussion of TAMP and all other financial records prior to the current IPART round but due to the tardiness in supplying accurate and transparent information this has not been possible.

The Performance Reporting Framework is not yet operational, and until there is true separation of DLWC & State Water it is not possible. It is likely, according to the DLWC that this will not occur for another 2 years, while we await the implementation of the Water Management Bill 2000.

1.2.2 Bill Format

Bill format in the Namoi continues to be a contentious issue, as accounts have been shown, on many occasions, to be incorrect. Often overbilling water usage to the user.

It is not possible to have the Namoi bill format the same as other valleys as this valley has a different operating environment. The Namoi is in fact the trial valley for continuous accounting and as such its accounts need more complete details on them.

It is also essential in the northern valleys of NSW, where the water year runs October to September, that the bills demonstrate the usage over this period not over the financial year. This is essential as it ties back to the resource management in the valley, in particular to the MDBC Cap audit process and in the near future the Bulk Access Regime (BAR).

1.3 Financial Information

The quality of information has declined since the last IPART round, as information presented to CSC has not been clearly disseminated and is not presented in a timely manner.

There was no provision of a budget for 2000, in the Namoi-Peel, nor has there been one for the years 2001 to 2004, such that informed comments can not be made on proposed increases.

It is apparent, given the timeframe of March 30 to 9 April 2001(when DLWC discussed financials with the CSC's), that an independent audit of either 1999 or 2000 financial years has or will not occur. This represents a failure to meet a requirement of the previous IPART determination[4]

Recent briefings by DLWC reflect the need for benchmarking and establish a link between costs and services, yet another IPART requirement, for this round[5].

It is also necessary that expense items listed as Price Exclusive (Non IPART) be cross-referenced against their relevant income item. This is a function of transparency, ensuring that these items are recovered 100% from the customer incurring the service, as is required by IPART determinations.

1.4 Efficiency

1.4.1 Rationalisation of Community Consultation Process

Contrary to IPART’s suggestion to rationalise the community consultative process, DLWC has in fact expanded at the expense of the paying customer.

The proliferation of committees, sub committees and working groups is alarming. Justification for this is not possible, in particular when representatives consistently do not attend forums and information requested, to expedite the process, is either not provided or presented. It is a culture of meetings for the sake of meetings that is being subsidised by the paying customer of DLWC/State Water with limited or no benefit to either the customer, environment or community.

1.4.2 Coordinating Water Quality Management

This is not happening in the Namoi-Peel. We have been instructed that we, as paying customers, will pay the cost of additional staff to carry out this process. This is an obscene waste of resources when the data is already collected by meter readers and where it isn’t can be collected via SCADA. The only staff which may be needed are therefore those to collate the data, but there are already staff to do this.

In order to maximise the benefits across all agencies, the Whole of Government approach touted as the reason for the reforms, service contracts for this, and other shared information should be drafted and State Water acknowledge such income, or expenditure, in their financial reports.

1.4.3 Efficiency Gains

‘DLWC proposes that potential efficiency gains across all of its costs will no more than offset increase in inflation.’[6] The tribunal noted this in their submission and stated that further efficiency could be expected. However, given that the DLWC by its own admission would achieve efficiency to offset inflation, why then did the water price over the past two years include a factor for CPI, that is inflation. An admission by the DLWC that they have not delivered the efficiencies intended!

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[4] IPART Determination Number 7, page 8
[5] ibid. page 8
[6] DLWC, main submission , 1998 p. 6

1.4.4 Efficiency of Service Delivery

The paying customer is disillusioned with the DLWC/State Water delivery of their proposed productivity measures[7] all discussions on achievement of these measures have met with responses stating that items can not be delivered until the new Water Management Act is in place. This leaves us with a 2 to 3 year wait on the DLWC/State Water achieving its efficiency gains. The licensed user should not be expected to cover the costs of inefficient services nor should they be expected to pay the costs of implementing the new system when it is the barrier erected between delivery of efficient and transparent services.

1.4.5 Achievement of Best Practice

Best practice for DLWC/State Water would be better achieved if region and customer service area were the same; you can not possible compare the 2 at present because they are so very different.

1.4.6 Continuous Improvement Problem Solving Teams

These committees are representative of a wider group than State Water and its customers, thus funding arrangements should reflect this.

1.4.7 Further Information on Service Standards and Performance

Information provision has not improved since 1995-96. It has declined. There was, pre-IPART, biannual provision of financial reports now it occurs every 2 years, that is when an IPART round is due.

There has been no suspension of licences in the Namoi though some users consistently refuse/delay payment of their account past normal trading terms.

1.5 Performance Indicators

It is impossible for DLWC or State Water to achieve any of the performance indicators before the separation of the two entities is complete, something unlikely to occur for another 2 years.

2. Cost Recovery

2.1 Costs

It is pleasing to note that the financial reports for 1998/99 demonstrate a saving on expenditure against the budget that was presented for that year. Have these savings been passed on to the customer? Do they represent either a miscalculation by the DLWC in doing their budgets or is it actually an achievement of efficiency? This must be determined so that the accuracy of the 2001/02 budgets, when presented can be relied upon.

The use of 1996/97 to 1999/00 reports for assessing historical cost trends[8] is dubious. The costs during the period were inflated by a change in management structure due to the water reforms process, and have been shown to be unreliable. If we were to apply the precautionary principle to these, as is done with all other management reports of the

[7] ibid, p79-81
[8] DLWC(2001) ibid. p.22

DLWC they would not be utilised and we would continue with the current price until better information were made available.

By its own admission in previous submissions the cost structures to date did not provide clarity of information or delineation of resource management activities and thus should not be relied upon as the basis for future cost determinations.

We must stop and consider that the decimation of industry through inaccurate pricing targets is as detrimental to our community as the degradation of the environment.

2.2 Revenue

We also note the financial reports for 1998/99 demonstrate a surplus, over budget, of income. Does this represent a greater recovery rate from customers than was expected, was allocation higher than expected or is it merely a reflection of the increased cost of water? This needs to be determined so that informed decisions can be made about the need to increase the cost of water further.

2.3 Cost Recovery

2.3.1 Cost Identification and Allocation

Cost centres for region and customer service areas do not align and create inefficiency in cost share determination. It also makes it difficult to identify true costs for given valleys.

The claimed separation of financial reporting has provided the DLWC with another excuse for not supplying information, as they claim it is not their cost area and then when State Water is asked for information they say it is incomplete as it requires the resource management figures.

2.3.2 Lack of Ratification of TAMP and DLWC Cost Recovery Targets

It was the customer’s understanding any further cost recovery increases on those presented to the 2000 determination would need to be ratified by the relevant valley CSC.

The Namoi-Peel CSC was presented with the increase demanded, by DLWC, at a meeting held in Moree on 8 March 2001. Given the next meeting of the CSC is not until late May, ratification prior to the IPART hearing is impossible. Once again due process has not occurred, it seems only to occur when it is convenient to the government or its agencies.

2.3.3 Cost Recovery Comparison for the Namoi-Peel

Table 1 shows the increase demanded by DLWC to achieve cost recovery. This increase has occurred over the last year and is largely represented by the implementation of the Water Management Bill, annuity charges and TAMP. In the Namoi-Peel the greatest proportion of TAMP relates directly to the upgrade of structures as required by the Dam Safety Committee, the costing of these increases to the paying customer is neither equable nor viable.

TABLE 1: COMPARISON OF COST RECOVERIES NAMOI-PEEL VALLEY **($million)**

Water Type	2000 Determination	2001 Presentation	$(million) increase	% increase
Regulated	3.57	**12.95**	**9.38**	**263%**
Unregulated	0.09	1.08	0.99	**1100%**
Groundwater	0.54	1.49	0.95	**176%**

There was a considerable under recovery of non-IPART costs in the Namoi. These are for services, which should be recovered 100% from the particular user. This needs to be investigated and rectified.

2.3.4 Resource Management Cost Recoveries

To insinuate that, and require recovery of, the costs of other agencies involvement in management activities[9] by the water user in preposterous. This is occurring at the moment, as the cost share used for this function is not truly reflective of the beneficiary of these activities.

When determining compliance within the northern valleys the DLWC is remiss as the billing and management years do not coincide with each other as a result water usage stated is often different to actual water usage.

Planning presently refers to items of State Water portfolio DLWC is preventing them from managing efficiently and effectively.

The Namoi Unregulated River Management Committee has been instructed that it no longer has a management role in determining sharing rules or the management of unregulated water in the valley thus it should not be costed to the water user. It is it fact just the appearance of community consultation and should disbanded to save the DLWC and water users money.

2.3.5 Cost Recoveries Not Outlined

The submission neglects to mention the charges to be applied to Special Additional Licences and to those entities, which, applied for and have/will be approved for overland flow harvesting/farm dams harvesting. These must be shown if transparency is to be achieved. They should be shown as a separate recovery item as they are neither unregulated nor regulated users per say.

2.4 Renewals/Capital Annuity

2.4.1 Asset Costs

As the assets in question are now State Water owned any of the annuity charges raised for them should be maintained in a bank account operated by State Water. The system of paying funds into Treasury and then proving that the agency needs them for services, in order to retrieve them from consolidated funds is not working. It is evident that funds are either not being returned or they are not returned efficiently or in a timely manner.

[9] DLWC(2001) ibid. p.11

DLWC does not have any assets, which service the water user thus it should not recover an annuity, depreciation or rate of return from the water users.

It is noted that asset infrastructure costs[10] have been accounted for twice in the submission once in the TAMP and then again as operating costs. This must be rectified.

2.4.2 Compliance Annuity – Category 3

As the capital annuity mentioned by the DLWC is to cover the costs of environmental and dam safety requirements, it represents a CSO and as such should be recovered from Treasury rather than the licensed water user. It can be shown that the only beneficiaries of the capital works required for the Namoi will be recreational interests and the general community, thus as they are the impactors, beneficiaries and polluters the cost should be apportioned 100% to them.

The definition provided by DLWC supports the fact that compliance works are a function of the Whole of Government approach not of the water user and thus, as treasury has agreed should be funded from consolidated funds.
"Compliance annuity

- recovers capital expenditures to meet regulatory compliance and raised standards
- primarily covers compliance with safety of the public in and around the infrastructure and reduction of risk associated with floods and seismic activity
- raised standards primarily cover environmental protection works (some of which are regulatory):"[11]

2.4.3 Non-Infrastructure Assets

DLWC non-infrastructure assets must be transparently shared between the portfolios of the DLWC. As all staff handle both water and land management now the depreciable amount should first be divided by the amount of time it is used for water activities before being apportioned between water user beneficiaries.

2.4.4 Over Recovery of Asset Costs

The costing of both a renewals annuity and a rate of return on assets represents a double up of recovery of costs for the DLWC or State Water. The logic behind this is that an annuity factor is charged on an asset be it new or old and thus is factored into the total service requirements for that asset. A return on capital represents another bookkeeping method of covering the service requirements for the new assets. Thus, though the amounts of recovery may not be the same it is effectively claiming a book amount twice.

A sinking fund must be maintained to ensure efficient use of State Water account managers time. The need to reapply for funds that were distinctly for State Water operations to start with is a process, which costs the customer in the service capacity provided by both staff and structures.

[10] DLWC (2001) ibid. p. 16-20, 23
[11] Rick Rundle(2001) Presentation to combined CSC, DLWC, Sydney 9 April 2001

There is a situation in the Namoi-Peel where DLWC have, in their costing for IPART determinations over the last 3 years charged a maintenance item for a given asset and the work has never been conducted. This represents inequity to customers or fraud by the DLWC in its presentations of TAMP to IPART.

2.4.5 State Water Capital Annuities Category 4 – Future Capital Development Works

Within the Namoi-Peel there are no undertakings by the DLWC or State Water to upgrade or provide growth initiatives for the water user thus the costs provided by the DLWC should not be included in determining a price structure for the State Water customer of the Namoi-Peel valley.

There are provisions in the Water Management Bill 2000 for growth in the Tamworth City Council entitlement. If the Category 4 works listed in the DLWC submission refer to this then the price determination should be reflected in the high security water price for Tamworth City Council not in the other water users of the Namoi-Peel valley.

2.4.6 Infrastructure Support Costs

A service agreement with DLWC should not be costed to the customer as the cost of this infrastructure is already recovered through the resource management budget figures.

2.4.7 State Water Return on Capital

Consideration of this section of the submission indicates that State Water is recovering the outright costs of major refurbishment, eg compliance works, and an annuity on the value of the refurbishment through the TAMP. This does not reflect a true water user share – it is overcharging the customer to meet inefficient management within the agency.

3. Maximum Price

3.1 Proposed Base Charge

The issue of a minimum bill, for licensing, has not been raised at the CSC, or with any other customer representative organisation in the Namoi-Peel. Until such time as it is, and adequate justification for such an item can be given we believe it should not occur.

It is far more prudent that State Water and DLWC revise debt collection policies to ensure outstanding accounts are paid or due process is taken against these licensees.

3.2 Water Transfer Fee

Water transfer fees should be delineated in the financial reports. It is clearly not a State Water income, but should be listed as a line item in the DLWC financial report to ensure transparency.

3.3 Structure of Bulk Water Charges

We reiterate previous submissions requesting a higher component charge on the regulated high security user particularly in the Peel Valley. Table 2 demonstrates the benefits or impact the given class of users has on Chaffey Dam, at given capacities, and clearly shows that management and operation of dam is more heavily weighted to the Tamworth City Council and other high security users.

3.4 Groundwater Charges

In August 1997 the groundwater users of the Namoi were given an undertaking by the government that they would not suffer any price increases until the issue of allocation and entitlement was finalised. This is yet to occur and thus there should be no price increase for the groundwater user of the Namoi-Peel valley.

To charge the groundwater users of the Namoi-Peel a fee based on full entitlement is robbery, when you consider the fact that users have/will within the next year take cuts of up to 80% of their entitlement. If full entitlement fee is to be charged for example on a licence of 1000 megalitres, which now equals 200 megalitres the user is effectively charged, in 2001/02, $400 for the 800 megalitres of water which is no longer entitlement but is listed as such.

It is also inequable to apply the full cost of the hydrogeologic studies, which have/are to be conducted in order to determine the final entitlements within zones, to the paying groundwater users of the Namoi-Peel as these studies benefit the wider community as much as the customer of DLWC/State Water.

The DLWC needs to review its pricing structure for groundwater to reflect more accurately the actual entitlement and usage by groundwater users. If it does not there will be cause to query anticompetition policies and its achievement of the COAG requirements.

TABLE 2: BENEFICIARIES OF/IMPACTORS ON CHAFFEY DAM

Water Customer	Entitlement (Megalitres)	Reserves held for Customer (Megalitres)	Reserves held for Customer as % of dam reserves	Dam reserves remaining for allocation
Dam at 100% -	**62,000**			
Tamworth City Council	16,400	32,800	53%	29,200
Other High Security	881	1,762	3%	27,438
Low Security	31,105	27,438 (88% of entitlement)	44%	0
Dam at 80% -	**49,600**			
Tamworth City Council	16,400	32,800	66%	16,800
Other High Security	881	1,762	4%	15,038
Low Security	31,105	15,038 (48% of entitlement)	30%	0
Dam at 56%	**34,562**			
Tamworth City Council	16,400	32,800	95%	1,762
Other High Security	881	1,762	5%	0
Low Security	31,015	0		

3.5 Implications for Customers

3.5.1 Reference to Peel Socio-economic Study conducted by Department of Agriculture

The NSW Department of Agriculture(DoA) study referred to in the last Determination by both IPART, DLWC and Namoi Water Users was not provided to the Namoi-Peel CSC, thus it could not be ratified by them. The implication by DLWC and IPART that the CSC ratified it is therefore misleading.

The Namoi Water Users made reference, to the inefficiency in producing and providing the report at the June 2000 hearing. It was a demonstration at that time, and remains a demonstration, of an inability by DLWC to meet benchmark and efficiency targets.

The report was finally presented, with much trepidation on the part of the DLWC and DoA, to the Namoi-Peel CSC on the 16th of February 2001. They have not yet had time to review it totally in order to provide an opinion on its contents. The minutes of that meeting indicate the CSC has little confidence in the figures presented in the report, and suggested that until such time as the report is amended and cost structures for the Namoi-Peel are better presented IPART be deferred. This was a reflection of the CSC lacking confidence in the efficiency of the DLWC and the transparency and accuracy of financial and socio economic reports presented by the DLWC.

3.5.2 Impact on Enterprises

We have refuted the use of the initial study stating that as the price of water represents such a small portion of the cost structure of a large cotton farm the impact of a price increase is negligible. Looking at one cost centre in isolation, particularly in the present economic times, could effectively run farms out of business. We request that this document not be referred to again.

As the DLWC submission states “The variable costs do not include fixed or overhead costs such as depreciation, interest payments, rates or permanent labour.. Therefore the impacts of increases in entitlement charges for high and low security bulk water are not included in the analysis, as irrespective of the level of drop production, the irrigators pay the entitlement charges based on entitlement volume.”[12]

The fact that fixed costs are not included grossly effects the validity of the DLWC saying there is no impact on enterprises as it does not truly reflect the margins made by farmers.

The argument is further flawed by the fact that entitlement fees are in fact a variable cost as they will vary by 20% for each of the next 3 years, and have varied in all of the previous submissions of the DLWC. Under this situation entitlement fees are very much a variable cost to be included in the gross margin determination. Something the DLWC has chosen not to do.

We noted in our submission in March of 1998, Appendix 5 the water costs per megalitre to grow cotton or pasture, a more accurate picture than the gross margin analysis. Appendix 1, page 23 to 25 of this submission, outlines the impacts of CPI Increases and DLWC water charge increases on the irrigator. A vastly different scenario to that which

[12] DLWC(2001) ibid. p33

the DLWC and DoA would have you believe. If the cost increases, which DLWC wishes to implement, continue there will be no industry in the Namoi-Peel Valley.

This decimation of our regional economy will occur in the short term, not the long term, and with it the ability to service any of the State Water/DLWC structures will be degraded. The reasoning behind this is if there is no industry there will be no customers for State Water to service.

3.5.3 CPI Factor Used by DLWC

There is an inconsistency in the accounting methods used by the DLWC when demonstrating cost recoveries and determining maximum price. For cost recovery they use a financial year and for maximum price the a calendar year. If there is to be transparency and consistency in financial statements the one time period should be utilised. Thus the CPI factor for either increasing or decreasing the water price charged should be related to the June quarter of the CPI.

By using the December 1998 quarter CPI the DLWC appears to have taken the highest value index for the year. The difference, in percentage, between June and December of that year is 0.08, resulting in a significant saving being lost to the customer.

The DLWC is now requesting a CPI for the March quarter[13] if the CPI is to be used as an efficiency target for the DLWC it must relate to the financial year not the March quarter which has no relevance to the water industry.

We still argue that there is no need for the DLWC to recover an inflationary factor in its water charges as efficient services and management will, by their own admission, offset any inflation.

4. Comparison of cost structures with previous determinations

4.1 Variable water use and the fixed water charge

The DLWC argued at a recent presentation that due to the variable nature of water use in the Namoi-Peel the price increase needed in this valley would be the highest relative to current charges.

The tribunal implemented a two-tier system of pricing in Determination No 6 1997 to allow for the more effective recovery of fixed and variable costs of the DLWC. In doing this it was noted that there are variable and discretionary costs of the DLWC, the variable costs were covered by the usage charge and discretionary costs were also covered by this cost in the years where usage was up. Given that there have been several years of above average usage the discretionary items should be well funded.

Some items mentioned in that determination, 3-years ago, have not yet been conducted though they were factored into the cost structures for each of the determinations since, eg maintenance on Gunidgera Weir. Have these funds been held over so that this essential maintenance can occur?

[13] DLWC(2001) ibid. p26

4.2 High Security/Low Security Ratios

Once again the DLWC has put the issue of equable shares for high security users in the too hard basket. This is not good enough, particularly, in the Namoi-Peel where the low security user is substantially subsidising the high security user. This is reflected both in the lack of differentiation in price and the special provisions in the Water Management Bill 2000 for high security users of Namoi-Peel.

4.3 Rate of Return on Assets

The DLWC has increased its required rate of return on assets from 6% [14] to 7%[15]. This represents a substantial increase in apparent costs to be recovered. Can this be justified as efficient service delivery from the assets in question? Can it be guaranteed that this is not just to compensate for the fact they are unable to recover a rate of return on old assets or upgrades of such assets?

4.4 Actual Costs & Revenues Presented

The licensed water user has great difficulty in relying on the financial reports presented at CSC's or at other venues when they differ substantially each time they are presented. This was the case with the Actual Bulk Water Price Related Costs 1998/99[16] and the Financial Statements for the Barwon Region: Namoi-Peel Valleys 1998/99 and the figures presented at 2 consecutive CSC meetings this year as representations of the actual expenditure for 1999/2000 in the Namoi-Peel.

Such variances demonstrate a system, which is still in disarray. Representing another target of service efficiency that the DLWC has not met, and appears to not want to meet.

4.5 Goods and Services Tax

The implementation of the GST has not impacted the costs of servicing the bulk water customer, as there is not GST chargeable on water licences or delivery. Thus the only impact this new system would have had on the service delivery efficiency was to decrease costs through the savings on WST, as mentioned in the DLWC Submission[17]

As the estimated savings, of 0.5% for the 2000/01, were not passed on in that year's water price the water user looks forward to this accrued saving being offset against the 2001/02 price determination. The projected savings for the Namoi-Peel, based on the 1998/9 actual expenditure[18] total either $36,155 or $37,852. The actual adjustment factor should be available now and should be factored into the price for 2001/02.

4.6 Impact Statement

As has been noted in previous submissions by this organisation the Gross Margin analysis provided by the DLWC is grossly inadequate in determining the effects of water price changes on licensed users in the Namoi and Peel Valleys.[19]

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[14] IPART Determination Number 98-5, Table 4.1 page 3
[15] DLWC State Water presentation of forecast cost increases Moree 8 March 2001
[16] DLWC(2000) Submission to IPART proposed bulk water prices for 2000/01 p.4
[17] DLWC(2000)ibid. p.6
[18] DLWC(2000) ibid. p.4 and DLWC(2000) Financial Report for the Barwon Region Namoi-Peel
[19] CCNVWUA In(1998) Submission to IPART on Bulk Rural Water Pricing in the Namoi Valley: The Regulated Surface Water Share, p.13 & 45 and CCNVWUA Inc 2000 submission p.9

It is also noted in its minutes of the Namoi-Peel CSC that they do not support this method of analysis.

It is therefore with much dissatisfaction we note the DLWC continues to use this as a measure for justifying increases in water charges.

The CSC's would like to see the completed detailed socio-economic impact analysis[20]. If this refers to the Peel Valley Socio-Economic Impact study conducted by the DoA, which the Namoi-Peel CSC, did not receive a copy of until February 2001, it can not be relied upon for justifying increases in charges in any of the Northern Valleys. I refer to submissions made by the Peel Water Users Association for a more in depth critique of this document. It must also be noted that at no time has the Namoi-Peel CSC ratified any portion of the DoA's socio-economic study, and for the DLWC to state otherwise is misleading and mischievous.

PART TWO: CRITICAL ANALYSIS OF 2001 COST AND INCOME INFORMATION PROVIDED

5. COST AND INCOME DATA PROVIDED

5.1 Total Asset Management Plan

In November 2000, the Namoi-Peel CSC were perplexed to receive the State Water TAMP and then be informed it was merely a preliminary document and a time estimate for the actual TAMP could not be given. They have still not received the actual TAMP, though presentations by DLWC and State Water[21] indicate that a revised version has been completed.

5.1.1 Cost Sharing in the TAMP

The consideration by DLWC to apply cost sharing ratios uniformly across the state[22] does not represent recovery of efficient costs of service.

In the Namoi-Peel this can be related directly to the following products and subproducts listed in the TAMP Volume 2, Section 6,

Table 6.1.2, page 5:

- Product PD3 River Salinity Strategies. It has been shown, through studies, that the regulated extractive user of the Namoi-Peel system does not impact on the salt loads within the river system. Therefore they are neither polluter nor impactor on this cost unit. Nor are they a beneficiary as the salt targets for the Namoi are set at the end of the system, not within reaches and as such the regulated user could well be taking in the salt from the upper catchment. They should therefore be apportioned a customer share of 0%.Based on this the regulated user share of PD3 should be 0%.
- Sub product PC404- As this item relates specifically to the hydro electric power station the recovery of this cost should be from the service agreement with the company involved not the regulated water user.

[20] DLWC(2000) ibid. p. 11
[21] DLWC & State Water (March 2001) presentation of forecast cost increases Moree 8 March 2001
[22] DLWC (2000) ibid. p15

- Sub products PC 437 and 438 - Due to the upcoming implementation of the Water Management Bill 2000 and the operation of the MDBC Cap there can be no further development of regulated water within the Namoi-Peel Valleys. Thus there should be no apportionment of these codes to water users within the Namoi.
- Sub products PD200, PD210, PD220 – All studies in the Namoi show the effect of nutrient discharge from irrigation and town supplies is minor, thus the allocation of costs under these codes should be reviewed. It is our belief that the water user share should be no more than 10%.
- Sub product PD230 – The last IPART determination costed 0% to all education products based on this PD230 should receive a 0%
- Sub products PC404, PC405, PC 407, PC414, PC415, PD200, PD210, PD220 and PD230 – These do not represent regulated water user costs thus should not be apportioned to this cost centre.
- Sub product PC104 Pricing and IPART Submissions – IPART costed 90% of PC1's to water users based on the rationale these items were required to deliver water to water users of regulated rivers[23], PC104 does not meet this rationale and should receive a customer share of 0%.
- Sub products PC408, PC410, PC412, PC413, PC417, PC419 – These sub products should be reviewed and a costing presented for each infrastructure item to ensure that non-water user infrastructure is not costed to the customer share. PC408 needs to be done across the state to ensure that the cost share ratios for each valley in NSW is accurate and transparent.
- Sub products PC420, PC421, PC423 – As surveillance relates to public safety issue the licensed water user has little impact or benefit on its incurrence, thus the customer share of this item should be reviewed to better reflect this. It is our belief the customer share should be no more than 10%.

Table 6.2.1, p 16

- The following structures do not represent a service to or impact by the licensed water user– fish passages, stock and animal stops, fishway, fish elevators, hydro power stations, water quality facilities, sewerage treatment facilities, caravan parks, conference centres, golf courses, picnic areas and facilities, toilet blocks. Therefore, their life cycle plans and relative costs should be apportioned a 0% customer share.

Section 6.2.4 Activities in Recurrent Program, p.20

- Ground and recreation area maintenance do not represent a licensed water user benefit or impact and thus should not be costed to the customer share.
- Warning signs do not represent a licensed water user benefit or impact and thus should not be costed to the customer share.
- Upkeep of the access roads at the dams should be apportioned more accurately among the beneficiaries, we acknowledge the ability of service staff to access the facilities is necessarily granted a water user share these roads also provide access to the recreational user. A fair customer share of this cost would be 50%.

Section 6.2.4 Activities in the Capital Program, p. 21

- If IPART rationale is followed compliance with OHS & R and Structural should be apportioned a 50% customer share and Public Safety Issues and Environment Issues apportioned a 0% customer share.

[23] IPART(1998) p76

- Within the Namoi-Peel enhancement will not include enlarged supply capacity to low-security regulated users thus it should not be apportioned to them.
  <u>Section 6.7 Individual Asset Expenditure Forecasts</u>
- Major Dams & storage, p. 28-31 – A portion of these costs, in relation to Keepit Dam, should be allocated to the hydro electric service contract as they are both a beneficiary and an impactor on works. Suggest that 10% of costs be recovered from the hydro contract.
- Minor Dams & Storages, p. 31-34 – These are costed to non-IPART activities[24] yet the Namoi breakdown in the TAMP does not support this rationale.
  <u>Section 7 Asset Management Practices</u>
- Planning for future investment, p. 6 – Flood and seismic upgrade for Keepit Dam was deemed a CSO and NSW Treasury has set aside funds for this work, the TAMP does not clearly identify this as being the case. There must be assurances that it has not been included in the customer share.
- Environmental asset management, p. 13-14 – This represents an obligation to the community at large and to other agencies thus it is not a water user impact or benefit and should be apportioned a 0% customer share.
  <u>Section 8 Asset management Practices: Benchmark Monitoring and Review</u>
- P. 6 and 7 - The following do not represent a function of service to regulated water users– foreshore management; public relation duties; waterway authority; hydro electric power station installations; water quality testing; OH&S, public access and safety and vandalism; conducting tours of installations and facilities; legal liability; fringe benefits tax. They should therefore be clearly itemised and receive a 0% customer share.
- Operations/Management Issues, p.7-9 – Of the plans listed only the TAMP and practical restraints on system operations are managed by State Water, thus these are the only costs which a State Water customer should be expected to share.
  <u>Appendix C3 Minor Dams and Storage</u>
- Major Dams: As it can be shown that Chaffey Dam is largely impacted by and beneficial to Tamworth City Council and other high security users the apportioning of costs of the dam should reflect this. The TCC share of customer share should be no less than 70%.
- Minor Dams and Storages: Why are these dams apportioned a recurrent cost when they have been recommended for decommissioning? The dams listed do not represent a benefit to or impact by the regulated water user of the Namoi-Peel thus they should receive a customer share of 0%.

We reserve judgement on all other costs until such time as we receive a better breakdown of the individual subproducts for the Namoi-Peel.

5.1.2 Reliability of Data Presented

As mentioned previously, we can not place any stock on the reliability of the financial information provided until such time as DLWC/State Water indicate their respective service contracts and the intra departmental cash flows for these.

Nor can the asset costing for items such as PC401 Water infrastructure depreciation and PC408 Infrastructure related insurance be relied upon. A simple check of the addition of

[24] State Water(2000) TAMP, vol. 2, section6, p31

the 30-Year totals presented in the TAMP shows a large discrepancy in the tabulated total. This must be rectified to ensure TAMP costing is accurate.

5.2 Transparency and Accountability

'The CSC…. are the forum for disclosure of cost and service information…. Further improvements in reporting costs and services are planned.'[25] Yet another ambit claim by the DLWC to mislead IPART into believing it is achieving its required separation of structure and efficiency targets. If in fact these forums were being used in this manner financial statements would be presented at each meeting, as the statements are supposedly calculated monthly for each valley[26], this has not occurred.

The Namoi-Peel CSC has received one financial statement in the last year.

5.3 Analysis of 2000-1 Financial Report

Insufficient data provided.

[25] DLWC (2000) ibid. p14

[26] State Water (August 2000) Preliminary Total Asset Management Plan, Section 6, p.10

Appendix 1: Impact Assessment Analysis

TABLE A1.1: INDICATIVE COST OF WATER, IN THE NAMOI-PEEL VALLEY, AFTER CPI AND DLWC PRICE INCREASES

CPI Factor for given periods

	1997 to 2000	1997 to 1998	1999 to 2000
December quarter	9.42%	1.60%	5.80%
September quarter	9.36%	1.30%	6.08%
June quarter	4.99%	7.00%	3.19%
	1997 indicative price	2000	2001
Namoi-Peel Cost per megalitre of water			
DLWC Charge (assume full use of licence)	**June quarter CPI applied**		
Low security licence	6.50	9.51	11.03
High Security licence	8.00	11.70	13.54
Diversion & pumping costs	25.00	26.25	27.08
Shire Rate Cost	7.00	7.35	7.58
Condition of Licence - reticulation	8.00	8.40	8.67
Cost per megalitre for low security water	$46.50	$51.51	$54.37
Cost per megalitre for high security water	$48.00	$53.70	$56.88
DLWC Charge (assume full use of licence)	**December quarter CPI applied**		
Low security licence	6.50	9.51	11.03
High Security licence	8.00	11.70	13.54
Diversion & pumping costs	25.00	27.36	28.94
Shire Rate Cost	7.00	7.66	8.12
Condition of Licence - reticulation	8.00	8.40	8.67
Cost per megalitre for low security water	$46.50	$52.92	$56.76
Cost per megalitre for high security water	$48.00	$55.11	$59.27
DLWC Charge (assume full use of licence)	**September quarter CPI applied**		
Low security licence	6.50	9.51	11.03
High Security licence	8.00	11.70	13.54
Diversion & pumping costs	25.00	27.34	29.00
Shire Rate Cost	7.00	7.66	8.12
Condition of Licence - reticulation	8.00	8.75	9.28
Cost per megalitre for low security water	$46.50	$53.25	$57.43
Cost per megalitre for high security water	$48.00	$55.44	$59.94

TABLE A1.2: COSTS TO GROW 1 HECTARE OF CROP IN THE NAMOI-PEEL VALLEY

	1997 Indicative Cost	2000 Cost	2001 Cost
Cotton Crop: Low Security user No rainfall 8meg/ha Rainfall 6meg/ha Cost Increase1997 to 2000 – Dollar Range Percentage Cost Increase 2000 to 2001 – Dollar Range Percentage	 $ 372.00 $ 279.00	 $ 423.36 $ 317.52 $38.52 - $51.36 13.81%	 $ 504.97 $ 378.73 $ 61.21 - $81.62 19.28%
Cotton Crop: High Security user No rainfall 8 meg/ha Rainfall 6 meg/ha Cost Increase1997 to 2000 – Dollar Range Percentage Cost Increase 2000 to 2001 – Dollar Range Percentage	 $ 384.00 $ 288.00	 $ 440.88 $ 330.66 $ 42.66 - $56.88 14.81 %	 $ 525.05 $ 393.79 $ 63.13 – $84.18 19.09 %
Pasture Crop: Low security user No rainfall 10 meg/ha Rainfall 8 meg/ha Cost Increase1997 to 2000 – Dollar Range Percentage Cost Increase 2000 to 2001 – Dollar Range Percentage	 $ 465.00 $ 372.00	 $ 529.19 $ 423.36 $ 51.36 - $64.19 13.81%	 $ 631.21 $ 504.97 $ 81.62 - $102.02 19.28%
Pasture Crop: High Security user No rainfall 10 meg/ha Rainfall 8 meg/ha Cost Increase1997 to 2000 – Dollar Range Percentage Cost Increase 2000 to 2001 – Dollar Range Percentage	 $ 480.00 $ 384.00	 $ 551.09 $ 440.88 $ 56.88 - $71.09 14.81%	 $ 656.31 $ 525.05 $ 84.18 - $105.22 19.09%

TABLE A1.3: CPI INCREASES IN FARM INPUTS

	CPI Increase %
Food	0.8%
Transportation (includes fuel)	7.9%
Miscellaneous (includes insurance and childcare)	9.9%
Communication	7.8%
Clothing and footwear	7.5%

Appendix 2: Comments on NSW Agriculture's "Economic Assessment of Water Charges in the Peel Valley"

- This report was NOT provided to the Namoi-Peel CSC and its comments were therefore NOT incorporated into the report as claimed in IPART'S Report No. 7, 2000 page 19. This is a *serious integrity* issue for all water users, but should be of particular concern to all Customer Service Committees.
- The NSW Ag. Dept is currently working on a revision of the report and reassessing its assumptions - particularly those of irrigated area and gross margins
- The representative farms are hypothetical NOT actual farms and are not cross referenced to actual farms
- Three of four "representative" farms are unrepresentative of the valley and represent only the largest 20% of Licence holders
- Economic analysis is based on unrealistic prices for Lucerne hay - 70% @ $6.00 per bale
- Peel regulated usage and reliability data incorrect. Peel has the lowest reliability of supply of all the northern regulated rivers NOT the best
- Ground water details are also wrong, in dry times the ground water depletes rapidly and is an unreliable source of water and is well over allocated - with respect to sustainable yield
- There are no other crop options in the Peel, which have a higher gross margin than Lucerne
- Irrigated areas of cutting Lucerne too large
- Volume of water used per season too low
- Usage charge ONLY was factored into the gross margins
- The hypothetical representative farms production and costing is related to the actual DLWC recorded acreage water use in 1997/98, which was an average season but with unusual rainfall patterns in that of five cuts it would have been likely that only three cuts would have been watered. There is significant room for error when hypothetical not actual farms are correlated with actual water usage
- Cross checking with the Haymaker project on water use can be used as a guide only as the acres of cutting lucerne monitored in the Haymaker project were only relatively small sections of the actual farm acreage sown to irrigated lucerne. Because of the likely variation in irrigated area of the farm, the yield obtained and the impact of water pricing - the effective price of water should have been used to calculate the "gross margins per ha" to reduce this error effect
- Dispute all of these deficiencies, the report demonstrates a reduction in Net farm income of 11% ranging to 27% and a reduction in operating returns of 16% to 109% across the four representative farms
- These figures were NOT highlighted in the conclusion of the report

- "Major viability" has been reassessed by the Ag Dept and defined as sending the irrigator broke. This was also not spelt out in the report
- IPART and DLWC have selectively quoted from this document in a manner, which can only be described as mischievous and lacking integrity. As I explained at the Sydney CSC meeting of 9/4/2001, the DLWC submission is dishonest
- Each of the above points are important and can be expanded if necessary

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