

Fixed Charges Relief Proposal December 2007

Executive Summary:

- NSW Irrigators Council seeks relief from the payment of fixed charges in extraordinary circumstances.
- The threshold for extraordinary circumstances should be two consecutive years of one-in-twenty-year events.
- If that threshold is met, government should make the fixed charges payment on behalf of irrigators.

Objective:

To establish the principles that would apply to trigger support from the NSW Government for irrigated agriculture during times of extreme hardship.

Background:

Both State Water and the Department of Water and Energy levy fixed charges against water entitlements.

Fixed charges, in large part, pay for the essential maintenance of delivery infrastructure.

NSW Irrigators Council does not disagree with the levying of fixed charges.

In times of extreme hardship, however, fixed charges are a significant impost to survival. When, for a significant period, irrigators are not able to receive the benefit of the infrastructure, the payment for its maintenance should be viewed as a public service obligation to government.

In recent years, the NSW government has assisted with payment of fixed charges for irrigators in the Lachlan region. A recent Federal Government assistance package for irrigators in the Murray Darling Basin has provided a "one off" support mechanism for irrigators. Subsequent to heavy lobbying by NSWIC, this grant can be used in certain circumstances to assist with the payment of fixed charges.

The response by Governments has been a reaction to specific circumstances rather than part of a consistent policy framework to support irrigated agriculture.

Irrigators respond to drought by reducing their own operating costs. The current water pricing system requires license holders to bear the costs of running the rivers to provide water for non-paying beneficiaries, such as basic rights holders, the environment and recreational users. The relative cost of meeting this obligation rises steeply under severe drought conditions when most of the flow in the river is to meet these obligations and very little is available for license holders. In extreme

circumstances, this cost should be treated as a public service obligation for government and hence funded by Treasury.

Proposal:

NSWIC proposes establishing a trigger for drought relief for irrigated agriculture, based on objective indicators of the impact of drought on the irrigation sector, which can be applied to each river.

Meeting the drought threshold trigger would result in fixed charges being paid by government on behalf of irrigators.

Trigger:

River systems across NSW have a range of expected reliabilities. Any potential trigger for drought relief must accommodate this range, whilst distinguishing between an extraordinary drought that merits relief and the normal climatic variability that irrigators can (and should) handle through their own risk management strategies.

NSWIC recommends a drought relief trigger which is based on identifying circumstances that rarely occur. That is, support should only be expected when an event that is a remote possibility occurs.

NSWIC recommends that the trigger be two consecutive years of 1 in 20 year low announced Available Water Determinations (AWD's).

There are a range of indicators that could be used to indicate an exceptional drought. Water allocation reliability (yield) is recommended as the primary indicator because it is a direct and objective reflection of the impact of drought on irrigated agriculture.

The trigger would be defined as when water allocation or cumulative AWD as at 31 October in any year is within the lowest 5% of historical allocations for that valley for two consecutive years.

Meeting the trigger would result in fixed charges for that licence category being paid by government and possibly other relief measures appropriate to that valley.

The Government may apply some eligibility criteria to ensure that the assistance is targeted at those producers who earn the majority of their income from primary production.