

14 April 2021

NSW Independent Pricing and Regulatory Tribunal  
E: [IPART - Lodge a submission \(nsw.gov.au\)](mailto:IPART - Lodge a submission (nsw.gov.au))

Dear Tribunal Members

## **CICL's response to IPART's draft determination for WaterNSW charges**

Coleambally Irrigation Co-operative Limited (CICL) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal's (IPART's) draft determination for WaterNSW charges from 1 July 2021.

CICL supports IPART making a four year determination for WaterNSW charges. CICL previously communicated to IPART, having considered the benefits and disadvantages of a one-year versus a four-year determination, its support for a four year determination.

CICL appreciates the draft determination is less than the charges sought by WaterNSW. However, the draft determination is a material increase in both entitlement and usage charges for CICL and its members, with general security entitlement charges paid to WaterNSW (i.e. excluding Murray-Darling Basin Authority (MDBA) costs) increasing by 11.8 percent and usage charges by 24.4 percent. As a member owned and funded co-operative, CICL will have no option but to pass this increase onto its members.

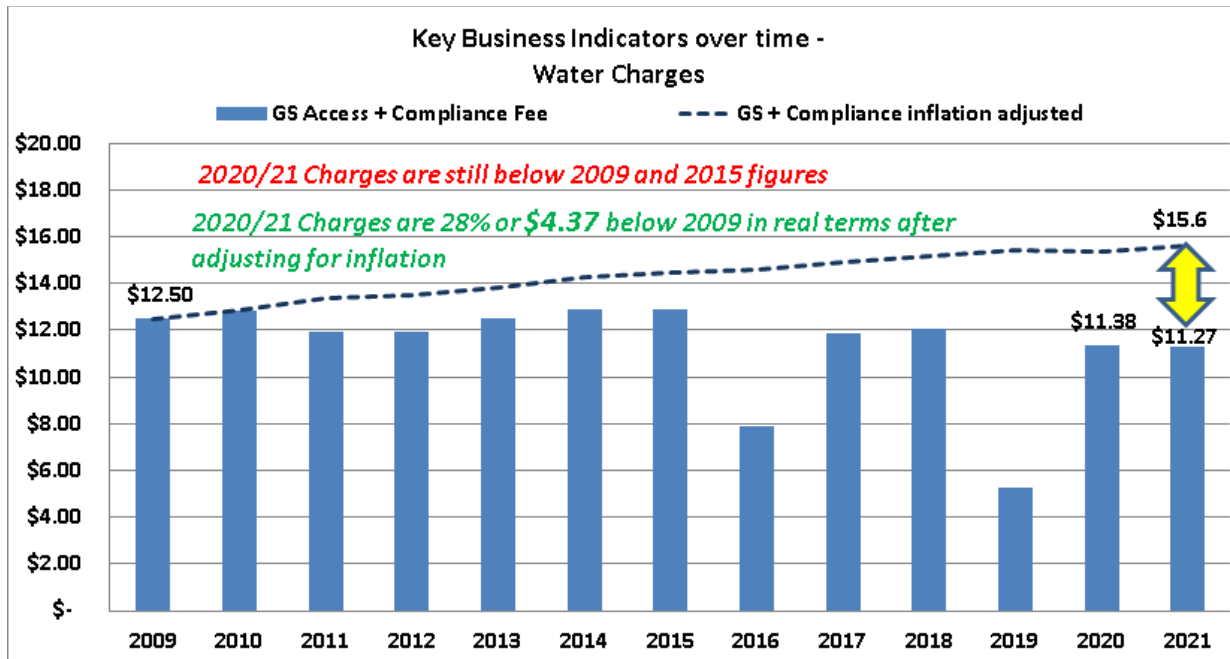
Most of these increases are not a consequence of WaterNSW offering new and improved services. CICL supports the portion of the increase which reflects increased operational expenditure to maintain capability.

It is imperative WaterNSW improves its commercial operations so that water users are not confronted with similar increases in future determinations.

In contrast with WaterNSW, CICL has delivered to its members a sustained price decrease in real terms since 2009 when it completed a major review of its fees and charges. A key business indicator for CICL is its charges. Figure one shows CICL charges compared to a trajectory based on the consumer price index applied each year from 2009. (Note CICL's access charges are 100 percent fixed and based on delivery entitlements held.)

In providing this data CICL is not suggesting that WaterNSW and CICL are directly comparable, however, both businesses operate in the water sector, have fixed assets with long lives, and variable water sales. CICL believes WaterNSW needs to identify opportunities to ensure it controls its future costs whilst maintaining its core services. This should be done in consultation with water users where more effective engagement with water users is required for the business services provided by WaterNSW. The current engagement model, which attempts to cover disparate customer groups, is not effective and needs renewal to ensure focussed strategic discussion with regulated water users.

**Figure one – CICL water charges 2009 – 2021 presented to CICL annual general meeting, October 2020.**



### Operating expenditure

CICL believes WaterNSW should have a robust asset maintenance program which ensures the service capability of the regulated river assets in the Murrumbidgee.

CICL supports charges being set to ensure WaterNSW has enough revenue to meet the efficient costs of its regulated river operations in the Murrumbidgee, including enough revenue to meet routine maintenance costs. CICL notes that the Murrumbidgee Valley's operational expenditure exceeded its 2017 regulatory allowance by \$10.9M or 40 percent.<sup>1</sup>

The weaknesses in the WaterNSW approach to seeking input and feedback from customers on operational expenditure were identified in CICL's first submission to IPART. These weaknesses were confirmed by Atkins in their review of WaterNSW expenditure.

CICL agrees with Atkins that WaterNSW does not demonstrate to its customers through the Customer Advisory Group how its approach is driving improvements in efficiency and performance. Therefore, CICL strongly supports IPART introducing for WaterNSW a continuing efficiency adjustment of 0.7 percent per year and a catch up efficiency of 1.1 percent per year. CICL believes these efficiency savings are small in comparison with WaterNSW increases in its regulatory allowance.

### Capital expenditure

CICL does not support IPART's acceptance that WaterNSW capital expenditure in the Murrumbidgee in the last determination period was efficient. This includes expenditure on the Burrinjuck Dam cable upgrade of \$10.6M.

CICL does not accept that WaterNSW expenditure on this project can be assessed as efficient for the following reasons:

- The project was not directly included in the 2017 regulatory allowance and a project of this size should have been.

<sup>1</sup> Atkins WaterNSW Final Report, February 2021

- The initial, preliminary project cost was estimated at \$4.5M and the final project cost was \$10.6M.
- Identified weaknesses in WaterNSW asset management systems by Atkins.

Water users have been funding WaterNSW and its predecessor's asset management and planning systems at least since IPART commenced regulation of bulk water charges in the late 1990s. Whilst WaterNSW is now a more diverse business, the fundamentals of water supply previously managed by StateWater in the Murrumbidgee are substantially the same. Burrinjuck Dam is an essential asset in the Murrumbidgee which was completed in 1927. Therefore, CICL believes WaterNSW, if it was an efficient business, would have been better prepared for this project. As a result, it may have avoided much of the cost escalation, which will now increase the Regulatory Asset Base which water users will pay depreciation and return of capital.

CICL strongly supports IPART introducing for WaterNSW a continuing efficiency adjustment of 0.7 percent per year and a catch up efficiency of 2.11 percent per year for its capital program.

### **MDBA Costs**

CICL supports IPART's decision not to include the cost of salt interception schemes in regulated water users' charges. CICL questioned the inclusion of these costs in regulated water users' charges in our submission to IPART in October 2020.

CICL supports IPART's decision to require MDBA corporate overheads to be paid by government.

CICL supports IPART's decision to include continuing efficiency savings of 0.7 percent per year and catch up efficiency savings of 1.1 percent per year for MDBA costs.

CICL understands and supports the rationale for including NSW user share contributions to MDBA capital costs in a regulatory asset base (RAB) and for the starting RAB to be set at zero.

IPART, in its draft report, has not explained its rationale for the allocation of MDBA River Murray costs to regulated water charges in the Murrumbidgee as these costs are for River Murray operations and assets, not for Murrumbidgee operations or assets. CICL still requires clarity on the rationale for allocation of River Murray costs to the Murrumbidgee and rejects assertions that that the Murrumbidgee should pay more of the River Murray costs.

### **Revenue volatility protection**

CICL supports IPART's decision to require WaterNSW to manage their own revenue volatility. WaterNSW implementation of the Risk Transfer Product was not effective and was expensive.

CICL supports exploration of a different tariff structure with a higher fixed charge component which removes the need for this type of product. CICL understands a tariff structure which is based on 80 percent of the revenue required from entitlement charges and 20 percent from usage would mean IPART does not include an allowance for revenue volatility protection.

Recent work completed by the MDBA demonstrates that water use is less than the modelled legal limits in the Murrumbidgee catchment with an average annual credit relative to the average transitional diversion limit of 110GL per year.<sup>2</sup>

---

<sup>2</sup> MDBA Trends in water use relative to the sustainable diversion limit in the southern Murray-Darling Basin, Final Report, December 2020.

CICL appreciates many rural customers have argued strongly for a tariff structure that is aligned with farm business incomes. However, CICL is concerned that the current structure that increases the cost of using water may not be the best model with the shifts in water user behaviour, increased ownership of water for the environment by government and investors and changes in government policy which are focussed on securing high priority needs ahead of building general security announced allocations.

Alternative tariff structures should be included in material provided to Customer Advisory Groups to encourage constructive discussion and improved understanding of the types of customers who are paying for revenue volatility protection and the impacts of alternative approaches on WaterNSW's regulated water user customer base.

### **Irrigation Corporation and Districts (ICD) rebates**

CICL welcomes the continuation of the Irrigation Corporation and Districts rebates. CICL remains of the view that IPART's methodology does not capture the full benefits of having most diversions in the Murrumbidgee occurring through the combined water use of CICL and Murrumbidgee Irrigation. This is because the costs incurred by NSW are spread across water entitlements to attribute the rebate, which underestimates the true avoided costs which are by licence numbers and work approvals.

### **Cost shares**

CICL supports the arguments presented by NSWIC against the use of the updated cost sharing ratios between government and water users for flood operations, water quality, dam safety compliance and environmental planning and protection, including fish ways. IPART argues irrigators are the impactor by evaluating whether this cost would be incurred if the dam had not been constructed.

CICL acknowledges the Murrumbidgee storages were constructed for irrigation water supply (Burrinjuck) and to support releases from the Snowy Mountains Hydro-electric Scheme (Blowering) and irrigation supply remain a primary purpose. However, irrigators are not the main receivers of the services arising from flood operations, dam safety compliance and environmental planning and protection.

Whilst the storages may have been constructed for water supply, once constructed the storages are providing a range of services which currently are not paid for by the users of these services. This includes recreation and tourism, and flood operations. The river regulation infrastructure in the Murrumbidgee catchment supports entire communities, their economic and social fabric. These broader community benefits are significantly undervalued in IPART's impactor pays approach.

Dam safety upgrades reflect the importance the community place on ensuring the safety of storages. The impactor, it could be argued, is the standards regulated by government.

Flood operations are driven by the objective of minimising the economic losses from inundation of the flood plain. In catchments such as the Murrumbidgee, the storages can effectively mitigate smaller scale floods, which in turn allows for increased economic activity on the flood plain below the storages and downstream of Wagga Wagga. This would not be possible without the storages.

Land use and riparian management in the Murrumbidgee catchment contributes to water quality issues and the need for water quality monitoring services, not just the activities of irrigation farmers. The former cost share of 50 percent more appropriately reflects the diverse factors impacting on water quality.

As evidenced at the recent IPART hearing on 30 March 2021, funding of fish ways and their cost is contentious. CICL supports efforts to improve environmental outcomes, however, CICL does not believe the irrigation sector should be funding 80 percent of the efficient costs. Changing community values, new knowledge and increased regulation which

prioritises the environment ahead of consumptive water use (except for critical human needs) are placing extraordinary adjustment pressures on the irrigation sector and have reduced the volume which water users can extract significantly. As an example, the regulated river Murrumbidgee modelled water use based on the 1994 level of development was 2,316GL per year, whereas the new sustainable diversion limit for the regulated component of the Murrumbidgee is 1,632GL per year, a thirty percent reduction.<sup>3</sup>

CICL believes it is too simplistic to argue that irrigators are the impactors and therefore irrigators should contribute to eighty percent of the efficient costs. The public benefit of many of these activities is undisputed and is justification for a lower water user share.

CICL recommends as a minimum IPART retain the 2016/17 cost shares for flood operations, water quality monitoring, dam safety compliance and environmental planning and protection.

If IPART continues with the 80:20 cost share ratio for these works, there is a significant risk of perverse outcomes where because of the financial impost on irrigators, works do not proceed that could deliver improved outcomes for fish and the wider community.

### Bulk water charges and tariff structure

#### **IPART Question**

**Whether stakeholders in the Murray and Murrumbidgee would prefer MDBA charges in these valleys to have:**

- **an 80:20 fixed to variable ratio; or**
- **a 40:60 with a volatility allowance (RTP) to compensate WaterNSW for its increased revenue volatility risk, noting the trade-off associated with having a lower proportion of fixed charges and a higher proportion of variable charges is the cost of a revenue volatility allowance.**

CICL supports continuing with the 80:20 fixed to variable tariff structure for recovery of MDBA costs for the following reasons:

- This structure better aligns with the cost base of MDBA.
- It removes the need for the expensive risk transfer product on this component of charges.
- It ensures entitlement holders are not avoiding paying the cost of the infrastructure required to support the reliability of entitlements. Since the effective separation of land and water just under 10 percent of high security and general security water entitlements in the Murrumbidgee are no longer linked directly to a work approval.<sup>4</sup> It is important that entitlement holders, not water users, are meeting the fixed costs of river operations.

### Metering

IPART asks a range of questions in relation to their decision not to include charges for implementation of the non-urban water metering framework in their draft determination for both WaterNSW and the Water Administration Ministerial Corporation (WAMC).

CICL believes government regulations are the impactor and that government needs to be responsible for set-up costs and implementation of the non-urban water metering reform. Water users who own their own meter are incurring their own costs of compliance with the non-urban metering standard.

CICL is aware that some water users will argue that the cost impost of this reform, implemented per licence, will be too high and are calling for alternative methods of sharing

<sup>3</sup> MDBA Trends in water use relative to the sustainable diversion limit in the southern Murray-Darling Basin, Final Report, December 2020.

<sup>4</sup> Department of Planning, Industry and Environment personal communication 31 March 2021.

this cost. CICL does not support the cost of implementation of this reform being socialised across entitlement holders.

Most of the questions IPART asks are not directly applicable to CICL which has a single extraction point which it owns. CICL is required to comply with the new non-urban metering standards by 1 December 2022.

CICL agrees that many assumptions made by WaterNSW about how water users will respond to the non-urban metering framework cause uncertainty about the cost WaterNSW will incur. It is also true that some water users, particularly smaller users, will change their holdings and use in response to the increased costs of compliance with the non-urban water meeting reform. It will take time for the full effect of the roll out of the metering framework to be understood which is a further reason for the cost of implementation of this reform to be incurred by government in this determination.

The new water metering standards will make no material difference to the interaction between CICL and WaterNSW operations. It will not materially improve the quality and timeliness of the data WaterNSW has on CICL's diversions as WaterNSW currently has a real time SCADA link from our off take which WaterNSW maintains. CICL assumes this will continue.

Currently CICL undertakes monthly verification of our meter with an external contractor and this data is used as the basis for WaterNSW billing of our diversions.

Under the new standards CICL will be required to install a Local Intelligence Device which will duplicate the data currently available to WaterNSW via the SCADA link. A key difference is the Natural Resource Access Regulator will also have direct access to our diversion data and the data will feed into their centralised system. This could have been achieved with our existing infrastructure, hence, CICL will have to incur an unnecessary additional cost.

CICL will also be required to verify its diversion data with a duly qualified person. CICL's current monthly quality assurance of its diversions exceeds the frequency the new regulations require.

The points made by CICL in its submission to IPART on WaterNSW response to IPART's request for information on metering reform costs (January 2021) remain valid.

If you require clarification of points made in this submission or further information please contact Jenny McLeod, Policy and Communication Manager, on [REDACTED]

Yours sincerely



**Clifford Ashby**  
**Chief Executive Officer**