

Murray Customer Service Committee

**Submission to IPART
Bulk Water Review**

2001/02 – 2003/04

May 2001

Introduction

The Murray Customer Service Committee (CSC) includes water users from the regulated Murray and Lower Darling Rivers. All major regulated water user organisations in the NSW Murray and Lower Darling valleys are represented on the CSC. Groundwater users, are also represented but are a minority on the Committee.

The CSC first met in August 1999. Despite the initial enthusiasm of members and State Water, opportunities for the CSC to influence the costs of water services in the NSW Murray have been limited.

This submission is intentionally concise and focuses on the key issues the CSC believes the Independent Pricing and Regulatory Tribunal (IPART) need to address in this determination. Individual members of the CSCs have provided detailed input to submissions prepared by the organisations they represent on the CSC.

The CSC has identified resolution of the following issues as critical to IPART's bulk water determination for the Murray for 2001/02 and beyond:

- Murray Darling Basin Commission (MDBC) costs
- Rate of return on capital
- Transparency and accountability for expenditure and efficiency
- Separation of State Water from the Department of Land and Water Conservation (DLWC).

The CSC advises IPART against making a three-year determination. The CSC believes, more detailed information is required about costs to justify the proposed price increases. This information should be provided before a three-year determination is made by IPART. The CSC recommends IPART consider alternative ways to constructively address pricing issues in the future with DLWC, IPART and water users.

MDBC Costs

MDBC costs have a dominant influence on bulk water prices in the NSW Murray. MDBC infrastructure is used to regulate the water supply to the majority of water users in the Murray and Lower Darling Rivers.

The CSC is dissatisfied with the detail provided in the DLWC submission about MDBC costs, in particular the costs associated with operating MDBC's business unit, River Murray Water (RMW). The CSC has not had access to detailed MDBC costs since its commencement in 1999.

Access to detailed, accurate information about MDBC costs is essential to any discussion about whether MDBC costs are efficient costs. This information is also needed to ascertain the extent of duplication between MDBC and DLWC.

The CSC cannot understand the reluctance of RMW to provide detailed information about their costs and anticipated future costs. The CSC contend that, if RMW were confident their costs are efficient and based on sound economic principles they should not be concerned about the information being made available to water users.

The difficult confronted by the CSC in obtaining detailed information about MDBC costs, has naturally made the Committee skeptical of the costs associated with the MDBC.

MDBC ANNUITY COSTS

The CSC's greatest concern is the size of the MDBC costs associated with infrastructure. More information is needed about how the \$14.8 million (NSW share - \$5.9 million) MDBC annuity is calculated. This information should have been available to the CSC some time ago so that members had an opportunity to understand and if necessary challenge MDBC's annuity costs.

RMW's balance sheet also needs to detail any annuity funds collected and record when they are expended. Unless movement from reserves is detailed water users will have no confidence that annuity funds paid will be available when the funds are required to refurbish water infrastructure.

The CSC notes that the Murray bulks water annual asset costs are the highest of all regulated valleys and nearly twice the costs of the Murrumbidgee Valley (DLWC 2001, appendix 4, table 20). This situation would be exacerbated if the costs of enhanced spillways, environmental enhancement and new salt interception schemes were included in MDBC costs charged to water users.

Whilst the CSC recognises that more infrastructure exists in the Murray and this will contribute to the higher costs. For example MDBC assets include substantial salt interception infrastructure, the barrages and a number of weirs and locks in South Australia that are not part of Murrumbidgee infrastructure. However it must be noted that RMW costs are also shared between NSW, Victoria and South Australia and that the total volume of water diverted from the Murray is substantially higher than Murrumbidgee diversions.

MDBC ACCOUNTING ARRANGEMENTS

The institutional arrangements between the NSW Government and MDBC are complex. Their complexity combined with an absence of detailed information about MDBC costs makes understanding the total costs associated with providing bulk water services in the NSW Murray difficult.

The CSC believes the institutional arrangements between the MDBC and its partner governments that involve the MDBC contracting the partner governments for services is unlikely, because of the absence of competition to result in RMW costs being efficient.

In addition the CSC understands NSW water users are now paying a greater share of MDBC costs because of decisions made by the Ministerial Council. In particular, NSW share of all operations and maintenance costs has increased from one third to 40% because NSW diversions are higher than Victoria's and South Australia's. The CSC believes the changed cost sharing arrangements underestimate the significance of the secure water supply South Australia receives from the regulated Murray.

The CSC recommends that IPART require access to detailed RMW costs and that this information also be provided to the Murray CSC.

Until this information is available and expenditure justified the annuity charge in the NSW Murray should not increase.

Rate of return

The CSC does not support DLWC's proposal that bulk water users should pay a rate of return on capital expenditure. Water users over time will contribute 90% of the funds for major asset refurbishment and replacement. Charging a rate of return on the water user share of capital expenditure is not appropriate.

The CSC acknowledges that the government is entitled to a rate of return on the capital it invests, provided it can be demonstrated the government contributed the capital.

Transparency, accountability for expenditure and efficiency

Since its commencement the CSC has been frustrated because DLWC and State Water cannot provide the Committee with accurate and timely information about income and expenditure.

It is not possible from the information available to the CSC to identify whether DLWC and State Water costs are efficient costs. Until the CSC is presented with detailed and objective information about the programs water users contribute to, establishing efficient costs will be difficult.

More information has been provided to the CSC about State Water costs and predicted expenditure. State Water has also aimed to develop performance indicators for their work.

The information available for activities performed by DLWC that water users contribute towards is inadequate. The CSC is not confident the 'ring fencing' arrangements developed by IPART prevent DLWC from cost shifting activities to product areas that water users contribute to.

The CSC recommends that explicit, audited service agreements be developed between State Water and DLWC for activities water users contribute to. Once this information is available the CSC should be given the opportunity to be involved in evaluating performance and determining budgets.

Separation of State Water from DLWC

The CSC considers the fundamental obstacle to ensuring that water users only pay for the efficient costs of bulk water supply is the incomplete separation of State Water from DLWC.

The CSC genuinely believes that State Water is trying to run a customer focussed, professional and efficient business. However, this is difficult to achieve because of the continued, substantial involvement of DLWC in activities water users contribute to.

Without definitive separation of State Water from DLWC and instigation of contestable, audited services between DLWC and State Water, IPART's 'ring fencing' will not result in efficient costs, or prevent DLWC camouflaging their costs.

The CSC recommends the introduction of explicit, audited service agreements for all DLWC activities water users contribute to.

Other issues

BULK WATER DISCOUNTS

The CSC supports the continuation of bulk water discounts for the larger bulk water diverters. The costs savings to DLWC and State Water of these larger schemes are obviously substantial.

The CSC recommends IPART maintain the bulk water discounts at their current level.

PROPOSED COST SHARING FOR WATER MANAGEMENT PLANNING AND IMPLEMENTATION

The activities in this product area are a core responsibility of government and the primary beneficiaries of the activities will be the general community.

The CSC recommends the water user share for this product area be set at zero.

GROUNDWATER COSTS

It also needs to be established whether DLWC's costs for groundwater management, including monitoring and metering are efficient costs. The experiences of some CSC members suggest that the groundwater data could be collected at lower costs by the use of contractors.

MURRAY BULK WATER SUBMISSION

The CSC draws attention to the way the DLWC submission is presented. It would be more helpful to the CSCs and water users if the information was not consolidated across the state but presented as a Murray bulk water submission.

Conclusion

The issues raised in this submission will be familiar to IPART.

IPART and water users are again faced with trying to establish whether DLWC costs are efficient and consistent with the pricing principles established by IPART.

Despite the efforts of water users, IPART and continual reform of DLWC it is difficult to determine whether the costs associated with bulk water are efficient.

Unfortunately the CSC is not aware of any organisation that it would be appropriate to benchmark DLWC and/or State Water against to help measure their efficiency.

The CSC does not consider the proposed price rise can be justified for the following reasons.

- DLWC have not proved their costs are efficient costs or provided evidence to allow water users to judge their efficiency.
- The proposed price rise includes charging a rate of return on capital invested by water users.
- Water users are being asked to contribute to core government activities that the wider community is the primary beneficiary of.
- Detailed MDBC costs are not available.
- The organisational structure for DLWC continues to provide opportunities for government to cost shift to water users.

References

DLWC, 2001. Submission to IPART bulk water pricing 2001/02 – 2001/04, Department of Land and Water Conservation, April 2001.