

MURRAY IRRIGATION LIMITED

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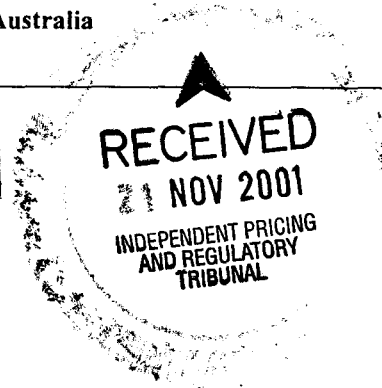
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Wednesday 14th November 2001

Professor Tom Parry
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Professor Parry

Thank you for the opportunity to comment on the Tribunal's Draft Determination and Report.

Murray Irrigation welcomes IPART's determination and recognises that the determination is a significant improvement on DLWC's proposal. However, I cannot stress strongly enough the concerns of Murray Irrigation's shareholders that bulk water prices have increased dramatically over the last six years. These increases have occurred at the same time as governments have introduced changes to water sharing arrangements and a number of years of low annual allocations. These factors have combined to cause a groundswell of frustration and ill feeling amongst our shareholders towards government and water reform. They also combine to place significant structural adjustment pressures on many of our shareholders.

This letter does not provide extensive comments on the draft report and determination, rather it focuses on the key issues Murray Irrigation considers important.

Full cost recovery

Murray Irrigation notes that the NSW Murray Valley will have reached 'full cost recovery,' according to IPART's current determination by 2003/04. As a result of this achievement Murray Irrigation expects bulk water price increases beyond 2004 to be minor. IPART has a crucial role in ensuring this occurs. It is imperative that IPART provide the correct incentives to and discipline on DLWC to ensure that the costs of bulk water services do not continue to increase in real terms.

Refinement of structural separation and financial information

Murray Irrigation welcomes IPART's recognition that there is considerable scope for the DLWC and State Water to refine its structural separation and financial reporting. This issue is a perennial frustration for water users and more particularly Customer Service Committee members. Murray Irrigation expects DLWC and State Water to improve their financial reporting and structural separation significantly during the next three years.

Service agreements

Murray Irrigation expects DLWC and State Water to have in place detailed, audited service agreements for the large number of activities undertaken by DLWC for State Water. IPART has an important role in ensuring this occurs.

Rate of return

Murray Irrigation remains of view that there is no justification for charging a rate of return on expenditure that is funded through water charges. Murray Irrigation does not consider that a rate of return is a requirement under COAG policy. IPART's acceptance of DLWC's request for a rate of return on capital expenditure will result in a continued upward spiral in bulk water costs and over time erosion of the benefits of the principle established by IPART that the original cost of the infrastructure is a sunk cost.

Legacy costs

Murray Irrigation considers the legacy costs concept useful. However, Murray Irrigation is concerned about how the DLWC and State Water may allocate works as a result of the introduction of the legacy costs concept. Access to detailed information will be necessary to ensure that DLWC and State Water do not shift costs between activities to areas that water users contribute to.

Sharing of MDBC costs

Murray Irrigation welcomes IPART's decision to share some of the MDBC costs more widely with other water users.

Murray Irrigation seeks both IPART's and the NSW Government's support to more critically analyse and question MDBC expenditure and cost allocation.

The NSW Government and IPART need to be aware of the impact on the MDBC's annuity of the construction of salt interception schemes. In Murray Irrigation's opinion the NSW Government needs a better approach to the Victorian and South Australian Government's strategy of cost shifting salt interception expenditure to the MDBC. This action results in NSW sharing a large proportion of these costs.

Impactor pays

Murray Irrigation continues to prefer a beneficiary pays approach and is concerned that the impactor pays approach agreed to by IPART is both difficult to understand and difficult to implement. Murray Irrigation would welcome the opportunity to be involved in discussions with IPART and DLWC about how the impactor pays approach will be implemented.

Customer Service Committee involvement in decision making

IPART's observation that the objectives of Customer Service Committee involvement in decision making will not be realised is absolutely correct. Considerable room for improvement exists in how State Water and DLWC involve Customer Service Committee members in decision making in their relevant valley. In the NSW Murray Customer Service Committee members continue to be frustrated by the level of information and reporting provided to members and the opportunities to influence any decisions.

The quality and quantity of financial information provided to Customer Service Committee members is blatantly inadequate. This situation will only be improved if DLWC and State Water are provided with a greater incentive to develop constructive working relationships with each Customer Service Committee.

I encourage IPART to continue their important work during the three years of this current determination, their role in providing an incentive for DLWC and State Water to change and improve is crucial. Vigilance during the next three years will be essential to prevent DLWC and State Water proposing another substantial price increase in 2004/05.

If you have questions about this submission please ring Mrs Jenny McLeod on 03 5881 9348.

Yours sincerely



Bill Hetherington
Chairman