# Murray Irrigation Limited

A.C.N. 067 197 933

**Submission to**

**Independent Pricing and Regulatory Tribunal**
**Review of Bulk Water Prices**
**2001/02 – 2003/04**

**May 2001**

## Executive summary

Murray Irrigation is a large private irrigation company in southern NSW. The company and its shareholders are beneficiaries of the regulated Murray River system and therefore have a responsibility to contribute to the efficient costs of river regulation.

However, Murray Irrigation does not consider DLWC's proposed price increase is based on efficient river regulation costs and therefore cannot be justified.

Murray Irrigation believes the fundamental difficulty faced by water users and IPART in their efforts to establish efficient costs is the incomplete separation of State Water from DLWC. Murray Irrigation believes efficient costs will only be achieved by the development of explicit, audited service agreements between State Water and DLWC for all activities water users contribute to.

***Annuity costs***

More detailed valley specific information is required that details how the annuity is established for each valley.

The introduction of an annuity charge for future asset renewal contributes to the substantial price rise proposed. Murray Irrigation considers the proposed annuity charge for State Water and the MDBC should be subject to the rigorous scrutiny to ensure water users are only being asked to fund justified, efficient costs of asset refurbishment and that there is no duplication occurring between State Water and River Murray Water.

Murray Irrigation also recommends that as a minimum criteria DLWC and RMW financial statements should detail movement of funds to and from reserves allowing reconciliation of income and expenditure statements with annuity charges.

***MDBC costs***

Transparency of all MDBC costs is urgently required. It is the NSW Government's responsibility to access the information needed and provide it to water users.

Once this information is available IPART in association with water users has the important task of determining whether the MDBC costs are efficient costs and if duplication is occurring between DLWC and MDBC.

### *Rate of return*

Charging a rate of return on the water user share of capitalised major refurbishment and replacement expenditure cannot be justified. Murray Irrigation considers this charge is a direct form of taxation and should be revealed as such.

### *Consumer protection*

Murray Irrigation welcomes DLWC's proposal to continue the bulk water discounts established by IPART. DLWC costs are obviously substantially reduced by the creation of one bulk licence for our 2,500 shareholders.

### *Cost sharing for DLWC activities*

Murray Irrigation contends that the other beneficiaries of the regulated Murray River in the NSW Murray valley are so extensive that NSW Murray water users should contribute no more than 70% of the costs associated with rural water infrastructure and operations.

DLWC activity associated with Water Management Planning and Implementation is a core government responsibility and should have a water user share of zero.

If DLWC and State Water cannot manage their affairs so as to avoid bad and doubtful debts, then water users should not be required to pay for that management inefficiency.

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# 1 Introduction

This submission presents Murray Irrigation Limited’s views on the Department of Land and Water Conservation (DLWC) submission to the Independent Pricing and Regulatory Tribunal (IPART) on bulk water pricing for 2001/2002 to 2003/2004.

The DLWC submission proposes a significant bulk water price increase for the NSW Murray Valley water users with water prices increasing from current levels by the order of 65-70 percent by 2003/2004. Murray Irrigation considers this price increase cannot be justified for a number of reasons that will be detailed in this submission.

Whilst IPART has made progress with establishing bulk water pricing principles, opportunities for water users (customers) to influence the costs of DLWC services remain limited. This situation has resulted in little confidence amongst water users in DLWC costs. Exacerbating this situation is the fact that less information is available about DLWC costs within product areas than was available in 1998.

Murray Irrigation is particularly concerned by the continued ability of the Murray Darling Basin Commission (MDBC) to conduct River Murray Water’s (RMW) financial management in a shroud of secrecy. Given the dominant influence of MDBC costs on water prices, in the Murray, continuation of this situation is unacceptable. Transparency of MDBC costs is urgently needed to progress discussion about the costs associated with supplying water to NSW Murray water users.

The MDBC is not an independent organisation. Its institutional arrangements mean that it is a 'child' of the four states. The NSW Government is a partner in the MDBC. It is the NSW Government's responsibility to access and provide detailed information about RMW water costs to NSW Murray water users.

This submission focuses on the pricing issues of greatest concern to Murray Irrigation, namely, MDBC costs, rate of return on capital, efficient costs, protection from monopoly powers, DLWC resource management costs and the new product areas water users are being asked to contribute to.

# 2 Murray Irrigation Limited

Murray Irrigation is a private irrigation company in southern NSW that is owned and managed by its irrigator shareholders. The company supplies water to approximately 2,500 holdings operated by 1,600 predominantly family farm businesses. Each irrigator is a company member and shareholder.

Murray Irrigation supplies water by gravity to each holding through 3,600 kilometres of earthen channel. Our area of operation covers nearly 800,000 hectares of farmland.

Murray Irrigation has a bulk water entitlement of 1.5 million megalitres. This is 68% of NSW Murray licensed entitlement and 75% of the NSW Murray general security licensed entitlement.

Murray Irrigation's daily water diversions are the single largest NSW water diversion from the Murray River. Murray Irrigation provides daily diversion data to the DLWC who subsequently provide this information to RMW.

Murray Irrigation is closely linked to government through its licenses. Murray Irrigation's licensing arrangements have introduced a more robust regulatory framework to the company and its shareholders than applied at the time Murray Irrigation was privatised in 1995.

Murray Irrigation holds an Irrigation Corporation Water Management Works Licence with the Ministerial Corporation and an Environment Protection Licence with the Environment Protection Authority (EPA).

MDBC assets are used to regulate Murray Irrigation's bulk water supply. The annual water available to Murray Irrigation is determined by DLWC according to the DLWC's Annual Allocation Plan. MDBC's water resource assessment is the basis of this announcement and is fundamental to it.

## *2.1 Murray Land and Water Management Plans*

Murray Irrigation is the implementation authority for the Murray Land and Water Management Plans (LWMPs). These plans are an integrated natural resource management strategy. Their objectives are to achieve sustainable agricultural productivity, protection and enhancement of the regions's natural biodiversity and a stable community. Their focus has been to reduce groundwater recharge and avoid future salinity. Implicit to the Plans is an objective to minimise or avoid negative downstream impacts from irrigated agriculture in our region.

The Murray Plans have a 30- year timeframe and are a partnership between government and the local community. A ‘Heads of Agreement’ between the local community and the NSW Government underpins them. This cost sharing agreement commits $498 million over 30 years to the Murray Plans. The community, primarily landholders, will contribute the largest share at $382 million.

Implementation commenced in 1995, since then the Murray community have invested $153 million, supplemented by $28 million in government support. Key achievements include:

- 1,100,000 native trees planted.
- More efficient water use – 50% of irrigation land laser graded, 79% of landholders involved with farm planning and 67% building farm water reuse systems.
- 27% of landholders completing training in better irrigation management.

This information was collated from the annual survey of shareholders completed as part of the Murray LWMPs.

### *2.2 State Government charges paid by Murray Irrigation*

Murray Irrigation pays State Water the bulk water charges as determined by IPART. In addition each year the company pays to DLWC a fixed licensing fee of $93,000 and an annual licensing fee that varies. The annual licensing fee essentially funds DLWC staff costs involved in reviewing Murray Irrigation’s Annual Environment Report.

Murray Irrigation's Annual Environment Report extends to three volumes, including appendices. It provides detailed information about Murray Irrigation's activities and involves reporting against licence conditions for our licences held with government. A copy of our Environment Report is available for inspection. The appendix contains a copy of the Annual Environment Report summary, this document demonstrates the breadth of resource management issues being addressed by the Company.

In 1998/99 DLWC’s annual licensing fee was $47,400, it increased to $60,550 in 1999/00 and is $59,150 excluding GST for 2000/01.

# 3 Costs and efficiency

Murray Irrigation cannot judge from the cost information available if the costs incurred by DLWC and State Water are efficient costs and the Company is interested to know how IPART intends to determine the efficient costs of bulk water services.

Murray Irrigation finds the detail contained in the financial expenditure reports and cost estimates provided in the submission unacceptable.

Any attempt to determine whether costs are efficient costs requires, as a minimum, an objective description of the activities involved in each product area/sub product area, an expenditure breakdown and an assessment of the activities against key performance indicators.

Murray Irrigation has not had access to this type of information for DLWC costs.

Because of the monopoly service nature of both State Water and DLWC activities it is also difficult to identify similar services provided by other organisations against which costs could be compared.

One comparison that may be relevant is the costs associated with monitoring rice growing in the Murray Valley. Murray Irrigation charges its shareholders $170 per holding to regulate our rice growing policy. This charge meets all the costs associated with our rice policy. In contrast DLWC charge existing rice growers outside Murray Irrigation's area $550 for the first 100 hectares and $300 for every additional 50 hectares for the same service as provided by Murray Irrigation.

As discussed in earlier IPART submissions based on Murray Irrigation's experiences with privatisation there are likely to be significant opportunities to both reduce costs and improve service delivery within the DLWC.

Murray Irrigation believes the fundamental difficulty faced by water users and IPART in their endeavours to establish efficient costs is the incomplete separation of State Water from DLWC.

**Murray Irrigation is of the view that efficient costs will only be achieved through the development of explicit, audited service agreements between State Water and DLWC for all activities water users contribute to.**

IPART previously recommended this approach.

In addition, for State Water activities a similar level of performance monitoring and auditing is required combined with identification of areas where activities should be competitively tendered to reduce costs.

Murray Irrigation notes the financial statements for the Murray Valley includes operating expenditure of over $21 million and income of $17 million in the other services category. Whilst these costs are not charged to water users, given their size Murray Irrigation considers greater detail should be provided to explain this part of the valley financial report.

### *3.1 Annuity costs*

More detailed, valley specific information is required about how the annuity has been established. In particular exactly how the annuity is calculated including identification of individual assets and activities that are covered by the annuity.

From the information provided Murray Irrigation is not able to determine whether DLWC are charging water users depreciation and collecting an annuity for the same infrastructure. Murray Irrigation is concerned that over time water users will be paying depreciation on assets funded through the annuity.

This issue needs to be clarified by IPART.

It is also not possible from the information presented to reconcile how any annuity funds collected are expended. Perhaps because expenditure is greater than income, all water income is being expended, including the annuity component.

Of great concern to water users is that the funds collected by government from water users for future asset refurbishment will not be available when the funds are required to refurbish water infrastructure.

Murray Irrigation operates three reserves, infrastructure, supply variation and general. Our annual profit and loss account details the funds contributed to and transferred from these reserves.

Murray Irrigation considers NSW Treasury should be required to manage annuity funds with the same degree of transparency as required by publicly listed companies.

**Murray Irrigation recommends that as minimum criteria the DLWC valley by valley financial statement should detail the movement of funds to and from reserves.**

It should also be possible to reconcile movement of funds to and from reserves with the valley income and expenditure statement.

This recommendation also applies to RMW reserves.

The predicted renewal expenditure for the Murray of $9.0 million (DLWC 2001 Table 9, Appendix 4) is excessive given it appears this expenditure excludes MDBC expenditure. Clarification is required to ensure that the MDBC renewal costs have not been double counted in the Murray costs.

# 4 MDBC costs

Murray Irrigation continues to be concerned with the size and rate of increase in MDBC costs. Murray Irrigation is not satisfied that adequate information is available to establish whether the MDBC costs are efficient costs and based on economically defensible principles. From Murray Irrigation's perspective MDBC costs and the pricing principles used by RMW continue to be shrouded in secrecy:

- Details about how the annuity was determined are not available.
- The discount rate used by MDBC for the calculation of its annuity is not identified in the submission.
- Whether a rate of return is being charged by RMW is unclear.
- It is also not possible to identify how RMW intends to ensure capital contributed through the annuity is actually protected to fund future asset refurbishment.

Murray Irrigation understands that State Water and DLWC pricing unit have also had difficulty accessing detailed expenditure information from RMW. The NSW Government, in particular the MDBC Commissioners must accept responsibility for making sure this information is made available to water users.

Murray Irrigation considers the structure for operating RMW to be incestuous. The partnering governments are funded by RMW to undertake a range of activities on behalf of the MDBC. These arrangements, because of the absence of competition, are unlikely to result in RMW costs being efficient.

### *4.1 Comparison with Murrumbidgee costs*

Murray Irrigation draws IPART's attention to the high operating and capital costs of the Murray Region when compared to the Murrumbidgee Region and contends there should be little difference between the two.

Bulk Water Costs in 1999/2000 in 2001/2002 dollars for the Murray and Murrumbidgee valleys are outlined below.

| **Valley** | **$ '000 Operating** | **$ '000 Asset** | **$ '000 Total** |
|---|---|---|---|
| Murray | 14,217 | 7,473 | 21,690 |
| Murrumbidgee | 11,332 | 3,417 | 14,750 |

Source: (DLWC 2001, Table 4.1 pg. 15).

The operating expenditure in the Murray is higher than the Murrumbidgee by the order of three million dollars. This is caused by higher infrastructure and salinity management costs associated with the MDBC costs and also because Murray irrigators are paying for both the MDBC and the DLWC to manage the surface water database and allocation strategies for the Murray.

The asset costs based on the DLWC and MDBC annuities are also higher because of the size of the MDBC annuity.

Murray Irrigation notes that the costs of new works, such as enhanced spillways and environmental enhancements and new salt interception schemes are expressly not included in the MDBC annuity. The capital costs would be even higher for the Murray if there was an MDBC compliance annuity.

Murray Irrigation requires verification of whether the costs of compliance and environmental enhancement will be charged to water users and where these costs will be accounted in the DLWC financial statements.

Murray costs have been compared to Murrumbidgee costs because the Murrumbidgee valley is the NSW valley most similar to the Murray in terms of dam infrastructure and the volumes of water delivered.

The Murrumbidgee Valley has two major dams and a long term MDBC Cap volume of 2,521 ML. The Murray also has two major dams and a long term MDBC Cap volume for the NSW Murray of 1,877 ML and 4,245 ML for NSW, Victoria and South Australia (MDBC 2001).

Murray Irrigation assumes that the MDBC annuity is larger than the Murrumbidgee annuity because NSW Murray water users are being asked to contribute to all RMW infrastructure including the barrages and locks in South Australia. This infrastructure is many kilometres downstream of our offtake and is required regardless of Murray Irrigation's activities.

The recent changes to the way RMW water costs are shared between NSW, Victorian and South Australia in Murray Irrigation's opinion does not adequately address the substantial benefits South Australia receives from the regulated Murray. Whilst NSW does divert more water from the River, South Australia's water supply is the most secure. In addition no consideration is given to the 'large' river operational losses associated with supplying water to South Australia. For example one megalitre delivered into South Australia requires more water to be released from storage than one megalitre delivered to our off-take at Lake Mulwala.

Murray Irrigation accepts that the Murray Darling Basin Agreement is an elegant agreement that has provided Murray River water users and the wider community with enormous benefits.

However, Murray Irrigation considers that, as governments enter a mature phase of water resource management, including full cost recovery, the interests of NSW water users have not been adequately considered by some of the cost sharing decisions made at the Ministerial Council.

Murray Irrigation anticipates that the cost sharing percentages for MDBC costs, agreed to by the NSW Government are resulting in NSW Murray irrigators contributing the greatest share of MDBC costs. At the same time environmental flows in the Murray River are reducing NSW's relative share of the resource.

Significantly, the recently released report on Cap implementation (MDBC 2001) confirms the NSW Murray has diverted 869 GL less than their Cap target since 1997.

The net result to NSW Murray water users is both higher total costs and significantly higher unit costs.

The only constructive way to address the MDBC costs is to make available detailed information about MDBC pricing principles, costs and cost sharing. Once this information is available Murray Irrigation and other stakeholders will be able to provide more detailed comments on MDBC costs and how they should be shared.

**Murray Irrigation recommends:**

- **IPART establish a mechanism to obtain detailed RMW costs and provide the information to NSW Murray water users.**
- **IPART analyse these costs to identify areas of duplication between DLWC and RMW and determine whether these costs could be considered efficient costs.**
- **IPART identify whether the RMW annuity costs and the charge to NSW can be justified and is consistent with IPART bulk water principles.**
- **IPART comment on cost sharing for MDBC costs**
- **IPART justify the reasons for any differences between Murray and Murrumbidgee costs.**

### *4.2 Specific comment on MDBC costs in Appendix 5*

Murray Irrigation draws IPART's attention to appendix 5 of the DLWC submission, which provides an elementary breakdown of the MDBC expenditure for 1999/00. Investigations and construction expenditure includes $1.5 million as 'other' expenditure and operations and maintenance and $1.89 million of 'other' expenditure. Murray Irrigation considers these costs are too high to be listed as other expenditure and should be detailed. (This expenditure presumably is detailed in the statements referred to but not provided).

It is also not specified whether administration costs, directly related to programs are included in the program costs or whether the nearly $1.9 million of administration costs includes all administration costs. If administration costs, which can be allocated directly to programs are included in the program costs, then, in Murray Irrigation's opinion RMW administration costs at 5% of the $35 million are too high.

## 5. Rate of return

Murray Irrigation challenges IPART's determination that rate of return on the capitalised cost of major refurbishment and replacement expenditure on existing bulk water assets is justified.

Current water users are being asked to fund 90% of the cost of future asset refurbishment by paying an annuity each year. Establishment of the renewals annuity means that over time water users will provide 90% of the funds for major refurbishment and replacement expenditure. Murray Irrigation does not consider charging a rate of return on the water user share of capitalised major refurbishment and replacement expenditure can be justified.

Charging a rate of return on capitalised major refurbishment and replacement expenditure since 1997 will guarantee continued price increases over time in addition to inflation.

Murray Irrigation considers the proposed rate of return charge is a direct form of taxation. Murray Irrigation notes that COAG identified that a rate of return may be charged, it did not say a rate of return must be charged.

Acceptance of rate of return costs by IPART will, over time erode the relevance of IPART's stated position that existing assets are sunk costs and that a rate of return on sunk infrastructure assets is not a valid charge against current water users.

Murray Irrigation accepts that government is entitled to a return on its 10% contribution to new capital expenditure, provided State Water accounts demonstrate the government actually contributed the funds. Water users accept their return on capital invested in the annuity is paid through lower water prices.

### *5.1 State Water return on capital in the NSW Murray*

Murray Irrigation questions why the State Water return on capital in the Murray is the highest of all NSW valleys at an annual cost of $1.27 million when DLWC acknowledges that a rate of return has not been sought for funds provided to the MDBC (DLWC 2001, pg. 20).

## 6 Consumer protection

Murray Irrigation maintains that IPART has an important role to protect water users against the monopoly powers of DLWC and RMW. In particular poor performance, lax administration, inefficiency, duplication and cost shifting.

Since 1996 water users have argued with IPART about DLWC costs and whether they can be justified. Over this time, IPART has progressed development of bulk water pricing principles including identifying the activities that are legitimate charges against water users.

However, despite the efforts of IPART and water users and DLWC being subject to constant reform and restructure, substantial cost reductions have not been achieved.

Water users are concerned that they are being asked through water charges to help solve DLWC's perennial budget deficit problems. Murray Irrigation encourages IPART to maintain its critical approach to DLWC costs.

Murray Irrigation also supports the efforts of New South Wales Irrigators' Council to develop a structure for the delivery of bulk water services that will ensure water users are only paying their share of efficient costs.

IPART's introduction of a bulk water discount for bulk water diverters like Murray Irrigation has successfully protected water users that are members of these large private schemes. DLWC's costs are obviously substantially reduced by our separation from government and the creation of one bulk licence.

It is encouraging that DLWC does not propose any change to the discounts determined by IPART.

### *6.1 The effect of price increases*

Murray Irrigation believes the information provided by the DLWC in appendix 7 underestimates the impact of the proposed increase in water prices on gross margins.

Water costs are a higher percentage of the variable costs than identified by DLWC. More specific comment on the financial impact of the proposed increases will be provided to IPART at the hearings.
In addition Murray Irrigation encourages IPART to look at the private investment being made by water users in improved environmental management. The most concrete example being the Murray LWMPs discussed briefly in section 2.1 of this submission.

This investment has coincided with a period of significant change in water resource policy and three difficult water resource years. The MDBC Cap on diversions was introduced in 1995 and NSW announced its environmental flow reforms in 1997. In addition 1998/99 and 1999/2000 were Murray Irrigation's worst ever resource years. These circumstances have been confronting and difficult for our shareholders. The increases in bulk water prices proposed by DLWC, if accepted by IPART will cause further resentment of government in our community and will reduce the funds available for environmental works.

# 7 Environmental issues

Murray Irrigation accepts the importance of protecting the environment. However Murray Irrigation does not support water pricing being used to pursue environmental objectives for the following reasons:

- The demand for water is not very sensitive to delivery costs, consequently the burden of higher prices falls on farmers' incomes and their ability to make further investment, including investment in local environmental initiatives.
- Environmental problems such as salinity are related to problems both within and outside the irrigation areas.
- Higher prices do not discriminate between the causes and effects of salinity and other environmental problems.
- Higher prices reduce water users' enthusiasm to co-operate in environmental initiatives.

**Murray Irrigation recommends a mixture of incentives and regulation rather than pricing approaches to influence environmental management of water.**

This approach is working successfully in the Murray Irrigation region.

## *7.1 DLWC natural resource management costs*

Greater accountability needs to be introduced to DLWC's natural resource management costs. Murray Irrigation considers current management arrangements provide opportunities for DLWC to increase expenditure and/or shift costs from other DLWC areas to the natural resource management areas that water users contribute to.

In addition DLWC programs that water users contribute to, should require, an objective description of the activities involved in each product area/sub product area, an expenditure breakdown and an assessment of the activities against key performance indicators.

**The consultants report (recently tendered by IPART) to review DLWC and State Water's water resource management expenditure should be made public.**

**This review should also consider where natural resource management is being duplicated between DLWC and MDBC.**

Murray Irrigation notes the natural resource information that is available about Murray Irrigation's area of operation is more extensive and detailed than the information available about the other parts of the NSW Murray Region despite DLWC's expenditure on natural resource management.

The DLWC submission implies that environmental problems exist in NSW rivers because of water regulation. Whilst river regulation and extraction can be associated with decline in river health they are not the only factors involved. Other issues such as land management, management of the riparian zone and introduction of exotic aquatic species is also critical.

For example the Stressed Rivers report for unregulated streams in the NSW Murray Region identifies 12 streams with high environmental stress however only one of these streams is considered hydrologically stressed (DLWC 1999).

# 8 Cost sharing for DLWC activities

Murray Irrigation notes that in attributing cost shares the principle of beneficiary pays has been narrowed to user pays and/or impactor pays because of the difficulty of directly charging the beneficiary.

Murray Irrigation acknowledges that our shareholders are a beneficiary of the regulated Murray River system and a large water user. Therefore we have a responsibility to contribute to the efficient costs of river regulation.

However, Murray Irrigation draws IPART's attention to the evidence that the regulated Murray provides important recreational and tourism opportunities that have resulted in the development of an extensive commercial industry (DLWC 2001). These industries directly benefit from the highly regulated Murray River.

Murray Irrigation acknowledges that non-chargeable water users are not direct water consumers. However, Murray Irrigation considers the statewide, water user contribution of 90% for rural water operation and water infrastructure is biased against NSW Murray water users where the other beneficiaries of the regulated river system are so extensive when compared with other NSW regulated rivers.

Because of this bias combined with the excessively high costs of operating the regulated Murray River due to MDBC costs, Murray Irrigation shareholders believe they are being asked to contribute unfairly towards full cost recovery for water services.

**Murray Irrigation recommends that water users in the NSW Murray contribute no more than 70% of the costs associated with rural water infrastructure and rural water operations and government**

**contributes at least 30% in recognition of the many beneficiaries of the regulated Murray River.**

### *8.1 Proposed cost sharing for new product areas*

DLWC is seeking a water user contribution towards two product areas that previously were funded by government. DLWC is seeking a 50% regulated water user contribution to the product water management planning and annual implementation programs and reporting. This product area replaces River Quality/Flow reforms (PD1) that IPART previously determined the water user cost share at zero.

DLWC is also seeking a 100% water user contribution to the product area Provision for Doubtful Debts (PE1).

#### 8.1.1 Water management planning and annual implementation

Murray Irrigation considers that IPART's rationale for proposing a zero water user contribution to the Water Reforms in 1998 applies to the costs associated with water management planning and implementation.

The activities associated with this product area involve the implementation of government policy now reflected in legislation in the *Water Management Act 2000.* The primary beneficiaries of this work will be the general community. This work is also a core responsibility of government.

In addition water users are a minority on the committees established under the *Water Management Act 2000.*

Implementation of the water sharing plans including the bulk access regime required under the *Act* may result in Murray Irrigation shareholders having reduced access to water.

DLWC are effectively asking water users to pay half the operation, implementation and reporting costs of activities that are likely to reduce water availability to general security water users.

The water sharing plan may also recommend environmental enhancement infrastructure that DLWC are seeking a 50% water user contribution to, through the compliance annuity.

**Murray Irrigation recommends IPART determine a water user share for Water Management Planning and Implementation (PD1) of zero.**

#### 8.1.2 Provision for doubtful debts

Murray Irrigation accepts that it will be required to bear a reasonable and appropriate share of efficient costs. If DLWC and State Water cannot manage their affairs so as to avoid bad and doubtful debts, then water users should not be required to pay for that management inefficiency.

Furthermore why should Murray bear any cost which is directly attributable to some other region? A bad debt in relation to another part of the state has no relevance at all to Murray operations and IPART should confirm that bad debts are not being socialised between regions.

DLWC's proposal that water users meet 100% of the costs of doubtful debts will also not encourage State Water and DLWC improve their customer credit management.

In addition this category should not include costs on the basis of what may be considered to be doubtful, but rather only those that have been demonstrated to be bad.

**Murray Irrigation recommends the water user contribution to Provision for Doubtful Debts (PE1) be zero cost.**

# 9 Other issues

## *9.1 High security general security pricing*

Murray Irrigation understands DLWC has completed preliminary analysis of the long- run average costs of high security and general security water.

This information needs to be available to water users to allow them to judge whether the current premium for high security water is adequate or if any inequity in charges is significant. If this is the case the relativity between the fixed charges for high security and general security water should be changed.

Murray Irrigation notes that that a conversion factor of 50 percent is used to convert general security to high security water in the NSW Murray. This is an argument for making the fixed charge for high security water twice the general security fixed charge.

Also of relevance is the relative impact of environmental flows on water availability to general security licences in the NSW Murray Valley. To date environmental flow reforms and the introduction of the MDBC Cap have not reduced the water available to high security licences in the NSW Murray.

## 10 Conclusion

Murray Irrigation does not consider DLWC's proposed price increase to be justified for the following reasons:

- DLWC has not provided sufficient information to allow water users to be confident that DLWC costs are efficient costs and that DLWC has introduced rigorous project management and reporting procedures for activities water users contribute to.

- DLWC's organisational structure continues to allow them to camouflage costs and reduce accountability to customers.

- Sufficient information has not been provided about MDBC costs that allows Murray Irrigation to judge whether MDBC costs are efficient and based on the pricing principles developed by IPART.

- Murray Irrigation does not accept that DLWC's rate of return on capital expenditure is a legitimate charge against water users when, over time 90% of the capital will be contributed by water users.

- The proposed price increase includes charging water users 50% of the costs of implementing core government policy in the product area, Water Management Planning and Implementation.

## 11 Summary of recommendations

***In relation to annuity costs***

More detailed valley specific information is required that details how the annuity was established.

As a minimum criteria DLWC valley by valley financial statements should detail the annual movement of funds to and from reserves. Therefore allowing reconciliation of movement of funds to and from reserves with valley income and expenditure statements.

This recommendation also applies to RMW reserves.

***In relation to MDBC costs***

IPART establish a mechanism to obtain detailed RMW costs and provide the information to NSW Murray water users.

IPART analyse these costs to identify areas of duplication between DLWC and RMW and determine whether these costs could be considered efficient costs.

IPART identify whether the RMW annuity costs and the charges to NSW can be justified and are consistent with IPART bulk water principles.

IPART comment on cost sharing for MDBC costs

IPART justify the reasons for any differences between Murray and Murrumbidgee costs.

***In relation to rate of return***

Charging a rate of return on the water user share of capitalised major refurbishment and replacement expenditure cannot be justified.

***In relation to consumer protection***

Murray Irrigation supports continuation of bulk water discounts for large bulk water diverters.

***In relation to environmental issues***

Murray Irrigation recommends a mixture of targeted incentives and regulation rather than pricing approaches to address environmental issues.

***In relation to DLWC natural resource management costs***

The report from IPART's recently tendered consultancy to review DLWC and State Water's water resource management expenditure should be made public. This review should also consider where natural resource management is being duplicated between DLWC and MDBC.

***In relation to cost sharing for DLWC activities***

That water users in the NSW Murray contribute no more than 70% of the costs associated with rural water infrastructure and rural water operations and government contributes at least 30% in recognition of the many beneficiaries of the regulated Murray River.

That IPART determine a water user share for Water Management Planning and Implementation of zero.

That IPART determine the water user contribution to provision for doubtful debts be zero.

## References

DLWC, 1999. Stressed Rivers Assessment Report, Murray Region, Department of Land and Water Conservation, August 1999.

DLWC, 2001. Submission to IPART on bulk water pricing 2001/02 – 2003/04, Department of Land and Water Conservation, April 2001.

MDBC, 2001. Review of cap implementation 1999/00. Report of the Independent Audit Group, March 2001.

## Appendix

Murray Irrigation Limited, Annual Environment Report 2000 - Summary document