

MURRUMBIDGEE IRRIGATION

ABN 39 084 943 037



8th November, 2001.

Professor Tom Parry,
Chairman,
Independent Pricing & Regulatory Tribunal of N.S.W.,
P.O. Box Q290,
QVB Post Office, NSW 1230

Location: Leeton
Contact Name: J. Chant
Our Reference: L95/4135
Your Reference:

Facsimile No: 02-92902061

Dear Professor Parry,

RE: DRAFT DETERMINATION OF BULK WATER PRICES FOR 2001

The key issues identified by the Tribunal are;

◆ the adoption of "impactor pays" approach to allocating costs

The industry and the Company have not had time to fully understand the equity and appropriateness of this new approach. This must be co-operatively addressed during the next three years.

◆ an emphasis on two part tariff with a strong demand management message

We look forward to further discussions on this approach over the next cycle.

◆ the rejection of claims for costs of other agencies to be included in charges to water users

We agree with the Tribunal's views on this element.

◆ a reassignment of some MDBC costs to Murrumbidgee users,

We suggest that no change to past regimes is warranted, and seek reversion to the status quo for this determination. There has been insufficient time and discussion, and certainly insufficient disclosure of the basis of any change to the apportionment of these costs.

There are also offsets, including the benefits from Murrumbidgee Environmental Flows that would need to be factored in to any review.

◆ the allowance of a rate of return on post 1997 assets, again with some contradiction in flow on effects

We continue to maintain that the approach to this element is flawed. Effectively the rate of return is to offset the borrowing interest cost of capital provided.

By way of example we suggest that if DLWC, State Water or Treasury put up funds to replace an existing water management work, then the cost of servicing that capital cost should be met by users, for their share.



By complementary example we also suggest that if irrigators in a valley have over the years accumulated by specific payment, the funds to finance the replacement of an existing work, then there is no economic justification for any cost of capital financing to be recovered from users.

We suggest that the simplest way to resolve this continuing argument, is for the assets to be handed over to the Valley, in a similar way to the transfer of responsibility for Irrigation Areas & Districts infrastructure. The handover should recognise the existing shares of responsibility. Individual Valleys would then be responsible for finding their own cost of replacement, including sourcing finance and meeting the costs of that finance, or making annuity provisions for the future.

- ◆ **the assignment of legacy costs of past practices and decisions to the community rather than to users, although the full flow on is not properly understood**
- ◆ **the assignment of costs related to raised community standards above 1997 levels, or repair costs for the environment to a standard above the 1997 level to the community generally, rather than to users**

We do not accept that if new information is uncovered, then the legacy cost principle should not apply. Clearly if someone has failed to exercise due care in the past, or failed to do their job properly, this cannot be cost blamed on present user generations.

We add, that in respect of Occupations Health and Safety standards, there is no analogy with a mine. With any mine the operators have control over (especially) public access to sites. Dams and rivers are clearly public access sites with substantial public risk for which the public community should pay.

The key future issues, which we expect to have an early and substantial influence over are;

- ◆ the threat of reassignment of more MDBC costs from Murray to Murrumbidgee in later reviews (see above)
- ◆ a suggestion that the cost of new systems and procedures required by the new Water Management Act may be passed on to users
- ◆ a suggestion of future change to the differential in fixed charge between high and general security
- ◆ a suggestion of future change between the quantum of fixed and usage based charges
- ◆ review of discounts for wholesale customers (like us)
- ◆ review of the capital program progress compared to the submitted program on which the charges were based
- ◆ the need for real separation of State Water from DLWC through licensing and service contracts for works done
- ◆ making Customer Service Committees work and empowering them to have meaningful input

As always we are available and willing to discuss these or other issues in whatever forum the Tribunal may see as appropriate. We trust that these matters will receive due regard and that a relative caution will prevail over the introduction of new ways of cost apportionment.

Yours sincerely,


John Chant
Company Secretary