

19 October 2020

Independent Pricing and Regulatory Tribunal (IPART)
Review of WaterNSW' Rural bulk water prices
E: ipart@ipart.nsw.gov.au

Dear Tribunal Members

CICL Submission Review of Bulk Water Prices from 1 July 2021

Coleambally Irrigation Co-operative Limited (CICL) welcomes the opportunity to participate in IPART's Pricing Determination for WaterNSW bulk water prices from 1 July 2021. CICL is a member of NSWIC and has contributed to NSWIC's submission to this review.

This submission does not address all our concerns with the WaterNSW Pricing Proposal or all the questions asked by IPART in its issues paper, these are covered by the NSWIC submission.

CICL is a member of WaterNSW Customer Advisory Group (CAG) and a member of the newly formed River Operations Stakeholder Consultative Committee (ROSCCo).

The content of this submission is informed by our experience as a member of these two forums operated by WaterNSW and as an Irrigation Infrastructure Operator (IIO) serviced by the regulated Murrumbidgee.

About CICL

CICL is based in the Riverina and supplies irrigation and drainage services to nearly 500 farms via an open, earthen, gravity fed, channel network. Coleambally Irrigation has a dual governance arrangement, CICL and Coleambally Irrigation Mutual Co-operative Limited (CIMCL). CICL's infrastructure (excluding its earthen channel and drainage network) has a modern engineering equivalent asset value of \$168M.¹

The CICL area of operations is 456,821 ha including 317,281 ha which is serviced by the West Coleambally Outfall Channel. The intensively irrigated area is approximately 80,000 ha. We supply water to nearly 500 farms operated by approximately 325 businesses.

Our members grow a range of irrigated crops. Their farming systems are predominately annual production, and there is some investment in permanent plantings.

CICL operates and maintains the irrigation supply and drainage system and delivers a range of corporate services on behalf of its members. CICL's diversions are measured at our off take from the Murrumbidgee River. Our metering technology is owned, operated and maintained by CICL along with all our internal measurement.

CICL was previously government owned and on separation from government our customers' 'statutory water' rights were converted to contractual rights or 'irrigation rights' (CICL water entitlements). CICL's Water Access Licences include water entitlements of different types with holdings of general security and conveyance entitlements collectively equal to 98 percent of our total water entitlements. Our [website](#) contains more detailed information about our operations.

Customer Advisory Group (CAG) input into pricing submissions

¹ Jacobs Coleambally Irrigation MEERA Valuation, November 2016.

WaterNSW has known since June 2017 that its next four year pricing proposal for 2021-2025 was anticipated by 1 July 2020. CICL does not understand why WaterNSW has chosen, given the length of time it has known of IPART's expectation, to ask for a single year determination.

In November 2019 WaterNSW proposed a one year delay to the pricing determination. Then in March 2020, discussion at the CAG indicated WaterNSW would be seeking a two year determination. Between March and June 2020, this became a one year determination with no explanation of the changed rationale.

Presentations on pricing at the Murrumbidgee CAG initially focussed on the merits of engaging newDemocracy™ to run customer juries, with the intention of bringing a group of citizens/customers together to answer the following questions.

- *How can we best meet your water needs and what is the fair way to pay for it?*²

From CICL's perspective, as customers and major contributors to the user share of WaterNSW' revenue in the Murrumbidgee catchment, the CAG was informed of this approach and not asked for input on its merits. WaterNSW has defended their proposed new approach and assured CAGs their input would be valued and form part of their new approach. It is CICL's view WaterNSW will need to change its approach to engaging with the CAG for this outcome to eventuate.

CICL believes the use of newDemocracy is likely to be a costly approach to gaining input to the WaterNSW pricing submissions and it will cloud the contributions of stakeholders whose charges contribute to most of WaterNSW' water user share of revenue with input from citizens with no or limited financial contribution or knowledge of water operations.

It is CICL's view WaterNSW' approach to customer engagement for the current pricing determinations through the Murrumbidgee CAG has been ineffective with no meaningful discussion on any issues that are important to customers. For example, the prudent and efficient funding required to ensure maintenance of the capability of existing infrastructure. This is extremely disappointing.

Capital and operating expenditure

WaterNSW has regularly provided updates of its actual operational and capital expenditure against the IPART allowances to the CAG and provided details of its routine maintenance activities and priorities.

In November 2019 WaterNSW asset managers indicated to the CAG it was preparing a two year pricing submission and its capital budget for FY22-25, with an estimated total of \$30.8M for the regulated Murrumbidgee. The final capital budget to be available in March 2020.³

In March 2020 WaterNSW said a two year pricing submission was being prepared and that the Murrumbidgee valley capital budget will be reduced due to lower volume renewals and replacement works being proposed than the current period.⁴

In July 2020 WaterNSW indicated a capital plan requiring \$39.6M with prioritisation works with internal stakeholders to develop the FY22-26 capital plan⁵. What caused/drove this increase was not explained. This compares with an allowance of \$29.1M for the previous determination.

Consequently, CICL is concerned with the effectiveness of WaterNSW asset management planning. Water users have contributed to improvements in WaterNSW management and

² Murrumbidgee Customer Advisory Group Meeting August 2019

³ Murrumbidgee Customer Advisory Group Meeting November 2019

⁴ Murrumbidgee Customer Advisory Group Meeting March 2020

⁵ Murrumbidgee Customer Advisory Group Meeting July 2020

planning systems through their regulated water charges. How does such a large variation in proposed capital expenditure requirements with no detailed explanation occur?

CICL also needs confidence that capital expenditure in the LowBidgee is appropriate for the level of service required by regulated water users. Given most of the water use in this section of the Murrumbidgee is environmental water use, with different supply requirements, CICL seeks confidence the investment is not providing an enhanced level of service for the benefit of one type of water user. To this end it is important that LowBidgee charges reflect the cost of investment in the LowBidgee.

CICL requests IPART explore the effectiveness of WaterNSW' processes for determining its capital requirements. IPART also need to seek evidence of the justification for the additional capital expenditure proposed for the Murrumbidgee to determine whether the expenditure proposed is efficient, within WaterNSW capability to deliver, and is required to ensure the ongoing capability of WaterNSW' infrastructure to supply its customers in the Murrumbidgee.

WaterNSW' operating costs are significantly higher than the IPART allowance in the 2017 determination, with an estimated variance of \$51.4M or 33 percent.⁶ At the CAG, whilst reports are presented on operating expenditure, there has not been any discussion of the detail or why certain cost areas exceed the determination allowance.

The explanation of the drivers for increased operational expenditure in the WaterNSW Rural Valleys Pricing Proposal on pages 80-89 are not satisfactory.

The WaterNSW submission does not, on a valley basis, explain the reasons or justification for the extent of increased expenditure. CICL believes valley specific information is required on WaterNSW' proposed operating expenditure, including an explanation of the drivers of higher costs than allowed by IPART.

WaterNSW refers to their advice and input to the Sustainable Diversion Limit Adjustment (SDLAM) Projects. Our experience is WaterNSW, until recently, was not participating in the Yanco SDLAM projects.

WaterNSW refers to work that will be required in the Murrumbidgee for critical human needs. The Murrumbidgee Valley regulated river water source has remained in Stage 1 drought criticality, meaning all allocated water could be delivered under normal regulated river operations in 2019/20. CICL has not observed any evidence of how WaterNSW' costs have increased to secure critical human needs in the Murrumbidgee.

WaterNSW argues corporate overheads have increased, why is this the case? Water users need confidence that rural customers are not unfairly contributing to increased corporate overheads. The formation of WaterNSW, which merged the former Sydney Catchment Authority and State Water Corporation, should have provided efficiencies and reduced costs.

WaterNSW argues increased costs because of water management reforms. How these increased costs should flow through to higher costs for CICL is not explained. CICL owns its meter, provides real-time data access to WaterNSW and CICL understands WaterNSW' SCADA system is operating as previously.

CICL requests IPART seeks evidence on a valley-by-valley basis to confirm WaterNSW' past operating expenditure was efficient.

CICL requests IPART scrutinise the attribution of corporate overheads to rural valleys to ensure this allocation reflects the services provided and that costs are efficient.

⁶ WaterNSW 2021 Rural Valleys Pricing Proposal pg. 75.

Customer input into WaterNSW' 20 Year Infrastructure Projects and levels of service

WaterNSW' 20 year Infrastructure Options Study was initiated and completed with limited opportunities for input from the CAG. CICL supports the need for WaterNSW to have sound planning frameworks which support infrastructure investment in water supply. However, we are concerned WaterNSW' approach is in isolation from the policy framework and work of the Department of Planning, Industry and Environment. It is not acceptable for water users to be paying for uncoordinated investigations between WaterNSW and the NSW Government. This work appears to have progressed without any reference to the Regional Water Strategies being led by the Department of Planning, Industry and Environment (DPIE). Some observations on the 20 Year Infrastructure Projects for the Murrumbidgee:

- This project assumed contentious projects like the SDLAM projects in the Murrumbidgee are complete. This project was an opportunity to identify the benefits of improved water management options for the Yanco Creeks relative to other infrastructure options.
- The projects are developed without reference to the regulatory regime, for example the Basin Plan and sustainable diversion limits, which limit take, i.e. there is no new water.
- WaterNSW has built a Source Model for the Murrumbidgee, duplicating efforts to invest in improved modelling with the DPIE (noting water users are expected to fund both models). This is inefficient.

Large customer rebates

CICL welcomes WaterNSW' proposed continuation of its large customer rebates. CICL notes WaterNSW, in the last determination, argued for a reduction in the size of the large customer rebate because of their reduced operating costs. CICL notes WaterNSW is proposing higher rebates in 2020/21. The proposed rebate is still substantially less than the rebate which applied in 2016/17⁷. It is important IPART ensures any increased operating costs allowed by IPART translate fairly to the ICD rebate.

CICL continues to hold the view that the large customer rebate does not fully account for the wider benefits of the economies of scale offered by irrigation corporations. These benefits include, but are not limited to, access to customer owned telemetry and SCADA which provides real-time monitoring of diversions, simpler and timely recovery of charges, and simplified demand management.

Murray-Darling Basin Authority costs

CICL does not support the proposed increase in user contributions to the Murray-Darling Basin Authority (MDBA) of \$9.2M per annum or 58 percent as proposed in the WaterNSW 2021 Rural Valleys Pricing Proposal.⁸

CICL rejects the proposition that costs agreed to by NSW as a partner government in the MDBA should automatically be passed onto water users. CICL believes there is a strong case, given the governance around MDBA costs, that these costs are subject to a much higher government share than WaterNSW costs for the following reasons:

- Water users have no input into the services provided.
- The governance framework associated with MDBA is complex and therefore more expensive than if the governance framework was straight forward.
- River Murray Water costs are not subject to independent review.

⁷ Water NSW 2021 Rural Valley's Pricing Proposal pg. 114.

⁸ WaterNSW 2021 Rural Valley's Pricing Proposal pg. 40.

- There is no detail provided on the components of the joint program to be included in water users' charges. The letter to WaterNSW outlining the WaterNSW funding requirements for MDBA costs, agreed by the Department of Planning, Industry and Environment⁹ is inadequate when the Department is seeking funding of \$22.57M from water users in 2021/22.

CICL does not support the proposal to attribute in 2021/22 \$4.10M of MDBA costs to water users in the regulated Murrumbidgee, a 46 percent increase on the 2020/21 contribution¹⁰. WaterNSW has not provided any rationale for the attribution of these costs to Murrumbidgee water users, which are costs incurred to operate the River Murray not the Murrumbidgee River.

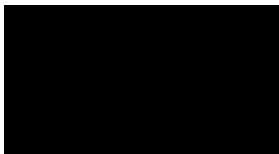
CICL notes DPIE propose shifting cost recovery for Living Murray and Salt Interception from the WAMC charges to WaterNSW for cost recovery. CICL questions why these costs are proposed to be included in the river management basket of costs? CICL also believes these costs, if IPART believes they should be included in water user charges, should be subject to a lower water user share because of the public good outcomes being delivered. In addition, the impactors causing the requirement for salt interception include dryland agriculture.

Conclusion

CICL acknowledges the challenging operating environment that has faced WaterNSW in recent years as they faced the deepening drought. We appreciate the efforts of regional operations and WaterNSW leadership to improve the efficiency of their river operations. WaterNSW have also established sound processes with ourselves as a key customer which have worked well to meet our service needs and to improve communications between ourselves, WaterNSW and other large customers in the Murrumbidgee.

For further information about CICL and this submission please contact Jenny McLeod - Policy and Communications Manager on [REDACTED].

Yours sincerely



Clifford Ashby
Chief Executive Officer

⁹ Water NSW 2021 Rural Valleys Pricing Proposal Attachment A.

¹⁰ WaterNSW 2021 Rural Valleys Pricing Proposal pg.40.