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12th April 2017

WaterNSW rural price review 2017
Independent Pricing and Regulatory Tribunal (IPART)
PO Box K35
Haymarket Post Shop NSW 1240

Dear Tribunal,

Subject: CICL Submission to the IPART Review of Prices for WaterNSW, 1 July 2017-June 2021

Coleambally Irrigation Co-operative Limited (CICL) welcomes the opportunity to participate in IPART's review of WaterNSW's bulk water prices. CICL acknowledges the rigour applied by IPART to scrutinise WaterNSW's pricing proposal and the associated capital and operating costs.

CICL also wishes to specifically acknowledge the following:

- WaterNSW's effort to transform its business and its customer engagement;
- WaterNSW's proposal for lower operating costs across Murray- Darling Basin valleys, including the Murrumbidgee Valley, compared to the regulatory allowance allowed by the ACCC; and
- IPART's and WaterNSW's continued support for valley-based pricing and the sharing of bulk water costs between water users and government.

Notwithstanding the above positive developments, CICL does have some primary concerns in the draft determination and they relate to:

- the reduction and in the irrigation corporation rebates;
- the expected Murrumbidgee Valley contribution to Murray-Darling Basin Authority (MDBA) costs; and
- the significant increase in WNSW's proposed capital expenditure in the Murrumbidgee Valley.

CICL makes the following observations around matters of detail in the draft determination:

- **Form of regulation**

    - ***Four-year determination:*** CICL supports the proposal for a four-year determination as the determination process is 'consuming' for all parties, and especially WaterNSW, and a four-year determination provides all parties with some certainty.

    - ***Annual price reviews:*** CICL acknowledges that IPART is obligated by the *Water Charge (Infrastructure)* Rules 2010 to review WaterNSW's prices annually. CICL however submits that IPART needs to bear in mind that WaterNSW will benefit from the proposed volatility allowance and that there is no volatility associated with government's share of costs.

In relation to the method of calculation that applies in such annual reviews, CICL seeks clarification of the circumstances where entitlement numbers in a valley would materially change – put simply, CICL is having difficulty in understanding what impact that would have because such entitlements don't simply disappear and any new owner of the entitlements would still be required to pay the related charges.

- **Efficiency carryover mechanism*:*** CICL supports the establishment of an efficiency carryover mechanism to provide an incentive to WaterNSW to continue to innovate and reduce costs. CICL also supports IPART's view that this mechanism should apply to WaterNSW's operating expenditure but not its capital expenditure (at least until WaterNSW's capital budgeting becomes more mature and more transparent and until planned and actual capital expenditures are more closely aligned).

- **Operating Expenditure:** CICL supports the proposed operating expenditure for WaterNSW on the basis that the operating expenditure is largely consistent with WaterNSW's actual expenditure from July 2014-December 2016.[1]

- **Capital Expenditure:** CICL notes the draft determination proposes a 22.9% reduction compared to WaterNSW's proposed capital budget for the Murrumbidgee Valley. It also notes Aither's supporting advice in relation to WaterNSW's proposed approach to capital, particularly renewals - for example:

  The review team believes this (WaterNSW approach) results in significant potential for inflated expenditure, risking over investment or higher than necessary revenue requirements, which could impact customers pg. xiii[2]

  The evidence provided by WaterNSW did not demonstrate capital expenditure of $186.6 million was prudent and efficient, with the review team recommending instead approximately $153.2 million as being the prudent and efficient expenditure required, a difference of $33.4 million. The average recommended capital expenditure by the review team is $38.3 million per annum which is higher than WaterNSW actual forecast expenditure in the current determination period… pg. 74[3]*.*

  While CICL operates at a different scale to WaterNSW, it does appreciate the challenges of rolling out capital works on time and on budget. CICL would have more confidence in WaterNSW's capital program if it was articulated in terms that were valley-specific and if its (WaterNSW's) recent track record was not one of capital underspends. In the absence of real visibility of what works are planned in the Murrumbidgee Valley and how those works were evaluated and costed, CICL supports the reduction proposed by IPART.

[1] WaterNSW CSC Meeting Papers, Operating Statement – Murrumbidgee Valley, 14/03/2107.
[2] Aither 2017 WaterNSW rural bulk water services expenditure review (" A review of capital and operating expenditure")
[3] Ibid

- **Allowance for return on assets, regulatory depreciation and tax obligations**

  CICL is a member of the NSW Irrigators' Council (NSWIC) and supports the observations made by Council in relation to the above matters.

- **MDBA 1.25% efficiency allowance:** CICL supports IPART's proposal to apply a 1.25% efficiency allowance but considers the MDBA customer contribution should be further reduced because end-users have not had any opportunity to provide input on these costs or services. Indeed, CICL has little visibility of what services the MDBA is actually providing within the Murrumbidgee Valley and how the associated charges to irrigators are being determined.

- **Discontinuation of the unders and over mechanism and smooth recovery of the current balance over the 2017 determination:** CICL understands that purpose of the 'unders and over' mechanism and it could be argued that this mechanism did not operate for long enough to prove its worth. Irrespective, CICL questions the appropriateness of recovering the unders and over balance when WaterNSW's actual expenditure during the last determination was substantially less than the regulatory allowance made by the ACCC (the customer share being 16%, or $20.5M less[4]). In addition, the capital expenditure is a further $29.78M or 24.8% less than allowed. This under-expenditure exceeds the total unders and over balance of $19.6M.[5]

  In short, CICL supports the proposal to replace the under and overs mechanism with a volatility allowance but it does not support the recovery of the outstanding unders and over balance because this recovery would seem to be, in effect, a reward for under-expenditure.

- **Revenue volatility allowance:** CICL supports IPART's decision not to allow WaterNSW to have both an unders and over mechanism <u>and</u> a volatility allowance.

- **Cost sharing:** In the absence of a comprehensive review of cost shares, CICL supports a continuation with the current cost shares. However, CICL considers there are impactor costs and public benefits associated with the regulated river system which are not adequately captured by a cost-sharing arrangement that has been in place since 2006. There have been significant changes in the water sector since 2006 bought about by the Millennium drought, water reform, water trading, and the Basin Plan and cost attribution needs to be revisited in the light of these changes and increased community expectation on the regulated river systems in particular. CICL also notes Aither has reported that 12 of NSW's 14 regulated valleys are expected to reach full upper bound pricing under the National Water Initiative.[6] This will result in a dividend to government largely from the irrigation sector and reinforces CICL's view that it may be time to revisit the contribution being made by other sectors.

  CICL looks forward to participating in a review of cost shares and seeks a greater understanding of the timing and process, including opportunities for stakeholder input.

- **MDBA Costs:** The Aither report prepared for IPART refers to the MDBA's charges as those *"….applied to customers who benefit from MDBA shared activities in the Murray and Murrumbidgee Valleys[7].* CICL and its Members have very limited visibility of what the MDBA

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[4] IPART 2017 Review of prices for rural bulk water services from 1 July 2017-30 June 2021, Draft Report.
[5] Ibid.
[6] Aither 2016 Water Services for Rural Bulk Water Services, Cost recovery scoping study pg. iv.
[7] Aither 2016 MDBA expenditure review. A review of MDBA expenditure and cost sharing in NSW pg. 11

does within the Murrumbidgee Valley and even less sense of the benefit they (CICL and its Members) are supposed to be deriving. CICL notes that Aither was also unable to determine the *'"appropriate source or point of truth regarding how the valley based split should be executed, and therefore cannot make comment as to whether these calculations are in accordance with regulatory obligations or other requirements….*[8]

In short, CICL submits that there is no satisfactory explanation as to why 18% of the charges levied on NSW by the MDBA, or $11.28M, should be passed on to Murrumbidgee water users over the next determination.

- **Annual transfer fees:** CICL welcomes the fact that no increase is proposed, however it notes revenue has exceeded costs since 2011-2012[9]. CICL supports Aither's recommendation for a fixed trade processing charge that decreases over the determination period and especially so while WaterNSW's related processes are as 'handrolic' as they are.[10]

- **Irrigation Corporation Rebates:** CICL appreciates IPART's adjustment of the proposed rebate based on a revised number of customer sites provided by CICL. That said, CICL cannot understand why WaterNSW's metering costs in the Murray are proportionally so much higher and therefore why the proposed rebate to the Murrumbidgee Valley based Irrigation Corporations is proportionally so much lower.

  CICL notes that the Irrigation Corporation rebates applied by the ACCC at the last determination under-estimated WaterNSW's costs for metering and compliance, with the actual expenditure for July 2014-December 2016 on metering and compliance being 60% higher than the amount allowed in that determination.[11] CICL is therefore concerned that the projected savings estimated by WaterNSW for the determination period now under consideration may not be realised. CICL further submits that the addition of the Irrigation Corporation Rebate to the Notional Revenue Requirement, leads to an expectation that all customers are contributing to the rebate where, in fact the justification for the rebate is avoided costs. The impacts of the rebates should be accounted for within WaterNSW's operating expenditure and not as a separate building 'block'.

  CICL encourages IPART to revisit their consideration of the Irrigation Corporation Rebates.

In the event IPART wishes to clarify any of the comments in this submission, please do not hesitate to contact Ms Jenny McLeod on 02 6950 2824 or at jmcleod@colyirr.com.au

Yours sincerely,

[redacted]

John Culleton
CEO CICL

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[8] Ibid pg. 52.
[9] Aither 2017 WaterNSW rural bulk water services expenditure review (" A review of capital and operating expenditure"). pg. 134.
[10] CICL cites the Victorian processes as being more fit for purpose.
[11] WaterNSW CSC Meeting Papers, Murrumbidgee valley operating statement, March 2017.