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Submission to

Independent Pricing and Regulatory Tribunal

Review of prices for WaterNSW

Rural bulk water services from 1 July 2017

October 2016

Introduction

Coleambally Irrigation Co-operative Limited (CICL) welcomes the opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal (IPART) review of WaterNSW, Rural bulk water services from 1 July 2017.

CICL is a member of NSWIC which has made a detailed submission to IPART on this review and CICL provided input to the NSWIC submission. This submission provides brief comments on issues which are specific to CICL and the Murrumbidgee Valley. It does not include specific comment or feedback on the wide range of issues IPART seeks feedback on as CICL believes the NSWIC submission comprehensively addresses those issues.

Background

Coleambally has a dual governance arrangement, with CICL and Coleambally Irrigation Mutual Co-operative Limited (CIMCL) both being co-operatives registered under the Co-operatives Act 1992 (NSW).

The Co-operatives were formed on 21 January 2000 when ownership of the Government-owned Coleambally Irrigation Area was transferred to its irrigator customers/members. Each Co-operative has its own Rules, Boards and Finances.

CICL operates and maintains the irrigation supply and drainage system and delivers a range of corporate services on behalf of its members. CIMCL has responsibility for the future replacement of the major assets within/under/over the supply and drainage systems.

CICL's water supply is from the regulated Murrumbidgee River and in conjunction with the other large group irrigation scheme, Murrumbidgee Irrigation, the two companies collectively divert 70 percent of the regulated water use (i.e. that water diverted for the purpose of irrigation) in the Murrumbidgee Valley. CICL supplies approximately 500 farms with water and drainage services over an area of just over 450,000ha. In addition, CICL supplies water to a neighbouring irrigation company that is not connected to the Murrumbidgee River.

CICL has a single diversion point from the Murrumbidgee River, with the meter owned and operated by CICL. CICL also has three drainage discharge points utilised by WaterNSW; it also diverts water from its Main Canal into WaterNSW's Tombullen Storage.

Regulatory framework and services and Notional revenue requirement

Murray Darling Basin Authority (MDBA) costs, Pass-through costs

MDBA costs represent 22.1 percent of the proposed total annual user share of the notional revenue requirement for the Murrumbidgee valley.¹ CICL has a number of concerns with MDBA costs and encourages IPART to critically scrutinise these costs, especially the relative attribution of costs between water users and Government and the relative attribution to the Murrumbidgee Valley.

CICL emphasises the impact of River Murray Water cost increases on Murrumbidgee Irrigators are more significant than the actions of WaterNSW, with annual average increases of 13.3 percent²; hence CICL's encouragement to IPART that it closely scrutinise these costs. CICL does not

¹ IPART – Issues Paper, Murrumbidgee Valley Information Paper, 2016

² Ibid

accept that costs “agreed” to by the NSW Government should be automatically passed through to water users without adjustment for the following reasons:

- The costs have not been subject to external scrutiny for efficiency and transparency. Given 100 percent of capital costs are passed through, CICL considers that IPART and water users should be provided with an understanding of the asset management standard being applied and should be positioned to form a view on the appropriateness of the related costs. However, CICL has no detail on the services and other cost-drivers involved.
- There is no transparency on the basis of River Murray Water costs or their relative attribution to water users.
- There does not appear to be any sharing of these costs between Government and Water users as applies to WaterNSW costs.
- Water users have had no opportunity for input on the services being provided.

CICL is not suggesting WaterNSW absorb these costs, but it is suggesting that a 100 percent pass-through of the costs to irrigators is unreasonable especially given that River Murray Water describes its operations as follows:

*We store, manage, deliver and share water, operate salinity interception schemes, enable navigation, and support recreation and tourism. We regularly provide updates on rainfall, inflows, salinity and river operations.*³

CICL also contends that River Murray Water’s activities have shifted over time to include increased responsibility, and cost, associated with management of environmental water. This extends to the management as well as the operational and maintenance costs arising from Government investment in “works and measures.”

CICL questions the extent, if any, that there is a case for irrigators to contribute to costs related to enabling navigation, supporting tourism and recreation and the extent to which irrigators should have to contribute to salt water interception and water information services because clearly, other sectors also benefit from such services.

CICL notes that MDBA assets **are not** used to meet the regulated water supply requirements of Murrumbidgee Valley water users. The River Murray System includes Dartmouth and Hume dams, Lake Victoria, Lower Lakes and Barrages, weirs and locks from Yarrawonga in Victoria to Blanchetown in South Australia, as well as salt interception schemes, forest regulators, environmental works and the hydro-metric network.⁴

In sum, CICL requests the IPART to provide the evidence base and the rationale for allocating MDBA costs to regulated water users in the Murrumbidgee Valley.

³ www.mdba.gov.au/iorver-information/running-river-murray

⁴ Ibid

Notional revenue requirements

Capital costs

CICL has two primary concerns with the proposed capital costs in the Murrumbidgee Valley. The first concern relates to the proposed capital expenditure by WaterNSW in 2016/17 of \$5.19M compared to significantly lower actual capital expenditure in 2014/15 and 2015/16⁵. CICL requests that IPART identify, through its review of WaterNSW capital expenditure programs, whether there will be a significant and actual increase in capital expenditure in 2016/17. This question is important to prevent water users paying higher charges based on forecast capital expenditure for 2016/17 over the life of the next determination.

CICL notes that in both 2014/15 and 2015/16, WaterNSW capital expenditure was less than the ACCC regulatory allowance – another reason for CICL's questioning of whether or when the proposed capital expenditure will eventuate.

CICL's second concern is the large increase in the forecast capital expenditure for the Murrumbidgee Valley over the life of the next determination. The proposed expenditure increases the Notional Revenue Requirement and therefore prices paid by customers. The average user share of capital expenditure is \$8.6M per year over the next four years, with the majority of this expenditure for maintaining asset capability.

CICL is concerned that WaterNSW's approach to capital works is very 'top down' and seemingly unsupported by detailed asset management planning, prioritisation and project management. As a water infrastructure operator, CICL takes the view that capital plans must take account of projected asset life, the estimated cost of replacing assets with a modern engineering equivalent asset and the consideration of real annual capital and maintenance expenditures. CICL employs a five-yearly MEERA methodology (Modern Engineering Equivalent Replacement Asset Valuation) which is informed by, amongst other things, recent capital and maintenance expenditures but there is a lack of material provided to suggest that WaterNSW applies an equally robust methodology.

CICL requests IPART explore the merits of WaterNSW's capital program in the Murrumbidgee Valley and consider WaterNSW capability to deliver the programmed works and the efficiency and prudence of the related expenditure.

Finally, in relation to capital expenditure CICL encourages IPART to consider the efficiency of actual capital expenditure when adjusting the regulatory asset base if the *Water Charge Instructure Rules* allow this flexibility.

⁵ Appendices WaterNSW Pricing Proposal to IPART 1 July 2017- 30 June 2021, page 118.

Unders and Overs Balance and Volatility Allowance

While CICL understands the need for WaterNSW to have more revenue certainty and has not opposed a shift in the fixed versus variable pricing regime, it does not support the additional shift of risk to regulated water user charges that comes with WaterNSW having access to an Unders and Overs Balance and a Volatility Allowance. Were WaterNSW to have access to both allowances, it would mean that the benefits to water users of the 40:60 fixed to variable tariff structure would be eroded.

ICD Rebates

The case for ICD rebates has been contentious since the rebates were first introduced by IPART in 1997 with WaterNSW and its predecessors either argued for the removal or reduction of the rebate. CICL notes that when the ICD rebates were first introduced that cost recovery was based on customers' holdings of water entitlements, since the creation of bulk licences and subsequently conveyance licences in the mid-1990s to early 2000 the volume of entitlements upon which the revenue base of NSW Government water controlling entities. In the case of the Murrumbidgee Valley this is 375,968 entitlements which are now billed at \$1.56 per entitlement and usage at \$4.36.

CICL welcomes the continued support of the regulator for ICD rebates. However WaterNSW's proposed reduction in ICD rebates is significant, in both percentage and dollar terms. In CICL's case, the proposed rebate in 2017/18 is \$175,232 less than the 2016/17 rebate. WaterNSW justifies the reduction based on the avoided costs of metering and billing activities its forecast ongoing reduction in these costs⁶. WaterNSW's approach to setting the new rebate seems to assume that entitlement volume drives costs, where for some of the services, such as metering a billing cost, are driven by the number of metering points, licences and customers. CICL sees little evidence to justify the proposed scale of the reduction nor of WaterNSW's expectations of CICL in terms of the effort required of CICL to affect the recovery from its Members of WaterNSW's charges.

CICL submits that WaterNSW has not taken into account the wider benefits of the economies of scale offered by irrigation corporations where single licences represent a large proportion of both water entitlements and water use. These benefits include, but are not limited to, access to irrigator owned telemetry; simplified demand management for WaterNSW and simpler recovery of charges.

⁶ Pers. Comma David Harris, 27 September 2016

Other issues

CICL welcomes IPART's decision to review the current cost share framework and supports IPART engaging consultants to assist with this work. CICL's view is that there are opportunities to refine the cost sharing framework to reflect the range of impactors and beneficiaries of the regulated river system.

CICL notes that WaterNSW does not support reviewing cost sharing arrangements between Government and water users during this determination. However, WaterNSW has resourced exploration of risk management products such as the volatility allowance. CICL expects IPART will seek WaterNSW input into their review as WaterNSW should be able to provide data on the cost drivers of the services.

CICL understood from separate discussions with WaterNSW and DPI-Water that the decision to transfer functions from DPI-Water to WaterNSW was driven by a desire to provide more efficient service delivery and to generate cost savings. CICL therefore expects that a portion of the resulting cost savings will be passed onto customers. Accordingly, CICL is disappointed to see that it appears that at least for the period of this price determination, any savings will either accrue to consolidated Government revenues or be retained by WaterNSW.

Conclusion

There are a range of issues associated with WNSW's pricing submission that warrant deeper examination by IPART and CICL looks to the Tribunal to undertake that additional examination.

If you require clarification on any issues in this submission, please contact Jenny McLeod on [REDACTED]

Yours sincerely,

[REDACTED]
John Culleton
Chief Executive Officer