Murray Irrigation

Submission on the Rural Water Cost Share Review

Submission to the Independent Pricing and Regulatory Tribunal.

June 2018

Contents

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Executive summary

Murray Irrigation is concerned that regulated surface water users disproportionately subsidise other beneficiaries of water planning and management activities in NSW.

Indeed, the company has concerns at the very large number of *free riders* who do not pay services received from the regulated river system. Free rider categories include but are not necessarily limited to planned environmental water, basic landholder rights, riparian, floodplain protection, tourism and recreation 'users'.

The current user cost share model was developed in 2001 prior to the Water Sharing Plans and other water reform which have fundamentally changed the priorities of river management and, in some cases, increased the management requirements and associated costs which should not be borne by 'users' alone.

The "impactor pays" model applied by IPART is overly simplistic in a monopoly market. Rural water users cannot significantly influence the costs at an individual level nor change supplier. The current model assumes water delivery for consumptive use is the only 'impactor'.

In the NSW Murray, Murray Darling Basin Authority (MDBA) costs are a major component of bulk water and water planning and management charges. While the Aither review of MDBA charges conducted for the 2017 WaterNSW price application found that (then) DPI Water had applied IPART's existing cost share framework[1], Murray Irrigation believes this does not adequately consider the unique nature of the Shared Murray River Resource and the true purpose, and therefore "impactors" of the infrastructure.

Murray Irrigation recommends:

i. An equitable user share structure that recognises and recovers costs from all 'users'; and
ii. Recognition of the changing requirements of river regulation and the associated costs.

[1] *Final report WaterNSW Review of Prices for Rural Bulk Water Services from 1 July 2017, IPART, June 2017, p83*

1 Background

1.1 Background

Murray Irrigation holds five water access licences with the NSW Government and has issued contractual water rights to its members. Murray Irrigation operations comprise 62 percent2 of the total NSW Murray general security water entitlements. The company acts as custodian to the Mulwala Canal, a critical national asset in the delivery of both consumptive and environmental water. In the fully measured and metered environment towards which NSW is headed, the Mulwala Canal will be critical in providing dependable environmental and commercial water trading deliveries.

Today, the company supplies irrigation water and associated services to 2,037 landholdings servicing 1,299 farm businesses over an area of 748,000ha in the southern Riverina. It has 70 escape outlets to service the environment.

Murray Irrigation is governed by a Board of Directors which includes five shareholder directors elected by our irrigator shareholders and (now) three independent directors appointed by the Board.

Murray Irrigation's shareholders are farmers with food and livestock being the focus of regional production for both domestic and international markets. Irrigated agriculture is the foundation of the social and economic wellbeing of our towns and businesses, which has a regional population of 33,000.

Further information about the company and its operation is available at: www.murrayirrigation.com.au.

1.2 Membership

Murray Irrigation is a member of the NSW Irrigators' Council and refers IPART to the submission of the Council for matters relevant to State-wide issues.

[2] *Murray Irrigation NSW general security licence as a percentage of total NSW general security entitlements has reduced as a result of government entitlement purchases for environmental use.*

2 Submission

2 Submission

Murray Irrigation's submission focuses on issues and priorities that affect the company and its customers specifically. Wider industry issues have been addressed by industry's peak body: NSW Irrigators' Council

2.1 Reason for review

Critical issues:

Cost sharing principles, developed in 2001, no longer represent the cost burden of today. Much has changed in river operations and the impact on costs needs to be adjusted in accordance with newer river operating priorities. *Environmental management issues now have a significantly higher impact on costs than they did in 2001.*

In 2001, when ACIL conducted the last comprehensive review[3] there were no water sharing plans and there was less emphasis on the environment. Since the establishment of the water sharing plans, the increasing amounts of rules-based environmental water and the construction and operation of environmental works and measures, while constructed under funded programs, now contribute to the planning and management costs of the river. The argument that these measures would not be required were it not for water users is naive. In the NSW Murray it ignores the historic reasons for river regulation.

2.2 'Users'

Murray Irrigation strongly supports the principles of a cost share framework.

However, defining users are predominantly regulated river irrigators means other impactors and beneficiary categories like landholder rights, riparian and floodplain protection and tourism and recreational users do not contribute and the costs of supporting them are passed on to water users.

This inequity should cease. Where costs cannot be recovered from this wider coterie of users, then they should be socialised as a community service obligation.

[3] *Appendix C, Review of Prices for WaterNSW, Issues Paper, IPART, 2016*

2 Submission

2.3 Activity vs Service

In 2015, the Water Administration Ministerial Corporation (WAMC) price determination proposed a new cost code structure for activities. At the time Murray Irrigation raised concerns that the new structure would result in some activities that had lower user cost shares now being bundled into new cost codes with higher user cost shares. At the time it was difficult to determine if there actually was cost shifting that results in higher user cost shares.

The proposal, referred to in the issues paper, to investigate transitioning to a new cost share methodology cannot be immediately disregarded, however, it is yet to be established if there is either a need or a benefit in doing so. Suffice to say, Murray Irrigation does not believe either WaterNSW or WAMC are in a position at this stage to be able to build their costs at a service level as opposed to activity codes and to do so would require significant transition period. We also would not accept the costs of doing so being passed on to users who neither requested it, nor require it.

2.4 Cost share ratios

Murray Irrigation is concerned that are cost codes identified as 100 percent user share are inaccurate.

For example, water take data management (W03-02) and reporting and water resource accounting (W04-03) are allocated 100 percent user share. Yet water resource accounting relates to the development of annual general purpose water resource accounts to meet the NSW Government's commitments for water resource accounting"[4]. Murray Irrigation fails to see why users should pay 100 percent of resource accounting costs incurred by government agencies complying with various pieces of legislation.

Another example relates to the 100 percent user share for water delivery and other operations, yet part of that water delivery includes delivering planned environmental water in accordance with the rules of the Water Sharing Plan. This should not be paid for by users when the requirement to deliver is considered for the public good.

Further, corrective maintenance is not only caused by delivering water for irrigation purposes. The impact of delivering both base flows and environmental flows must be considered in the process. Asset management and planning, also 100 percent user share under the current regime, is now significantly influenced by planning for the environmental impact of river operations and, to a lesser extent, the impact on cultural heritage sites. These should all be recognised as public benefit and funded by a Government share.

There are many other impactors who do not contribute to the costs of operating the river. IPART should adjust the cost share ratios to better reflect the current river operation priorities and to recognise the public cost of impactors that are not captured under the current licence-based cost recovery regime.

[4] *DPI Water Submission to IPART, September 2015, p119*

2.5 Impactor, user or beneficiary

The current methodology for identifying costs and liability is inadequate. If the 'impactor pays' principle is to be maintained, then steps must be taken to ensure that water access licence holders do not subsidise activities undertaken to meet the needs of environmental watering or other regulated river requirements.

Put simply: costs incurred to ensure the safe delivery of environmental water (e.g. increased management, analysis modelling) should be met by environmental water holder funding.

Argument supporting the 'impactor pays' methodology is overly simplistic and fails to recognise the monopoly market environment. The assumption that "the impactor would only choose to consume the service if the benefit they receive exceeds the costs that arise from providing the service"[5] does not adequately consider the fact that water users do not have a choice of supplier and cannot pick and choose what level of service they require or need.

2.6 MDBA cost shares

The NSW Murray is part of the shared Murray River Resource regulated by the Murray-Darling Agreement (Schedule 1 of the Water Act 2007) and administered by the Murray-Darling Basin Authority. The Murray-Darling Agreement has evolved through inter-jurisdictional consensus since the original River Murray Waters Agreement in 1915 drafted to achieve the objectives of:

> *"…a view to the economical use of the waters of the River Murray and its tributaries for irrigation and navigation and to the reconciling of the interests of the Commonwealth and the riparian States."* Schedule to the River Murray Waters Act, 1915 (emphasis added).

The current agreement still requires the Locks and Weirs of the Murray to be operated in a way consistent with the facilitation of navigation (Section 68, Murray-Darling Agreement).

In their review of the MDBA charges and methods of pass through, conducted for the 2017 WaterNSW price determination, Aither found that (then) DPI-Water applied the same cost share ratios to MDBA charges as IPART used for bulk water charges.

The IPART ratios however, do not recognise the unique nature of Murray River infrastructure that was constructed, and is still operated, for the shared purpose of irrigation and navigation – notwithstanding the other modern beneficiaries of river operations including recreational users and planned environmental water.

With the exception of dam safety compliance pre-1997 construction, the current cost share ratios apportion 100 percent of water delivery and other operations, corrective and routine maintenance (Capex and Opex) to users, despite the legislated requirement for this infrastructure to be operated for water delivery and navigational purposes. Therefore, the impactor, user or beneficiary in this circumstance is not solely extractive water users and the user share of this component must be adjusted accordingly.

[5] *Issues paper on the review of rural water users cost shares, IPART, 2018, p7*

3 Conclusion

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- Current share ratios do not adequately recognise the increased burden on modern river management imposed by non-extractive water users.
- There are also many water users who cause an ‘impact’ and derive benefit from river regulation and management but who do not pay for including riparian landholders, basic landholder right holders, planned environmental water and recreational users. The definition of impactors must include these entities.

Michael Renehan
Chief Executive Officer