

Draft pricing determination: WaterNSW rural bulk water pricing

March 2017



Response to WaterNSW draft determination

Murray Irrigation is pleased to provide this brief submission to address the key areas of concern for our business in relation to the draft determination of WaterNSW's bulk rural water pricing from 2017.

Murray Irrigation is a member of NSW Irrigators' Council and we refer IPART to their submission for further comment on industry issues, particularly regarding the volatility allowance and the treatment of the payback of the Unders and Overs mechanism.

Murray Irrigation reserves the right to provide further written comment following the public hearing in Sydney on 4 April 2017.

Summary

Murray Irrigation commends IPART for giving due consideration to concerns raised through the review process and applying scrutiny over WaterNSW's original application.

Murray Irrigation is pleased to see a realisation of some of the efficiencies from the recent business restructure with the merger of State Water and Sydney Catchment Authority. We remain concerned, however, that efficiencies resulting from the Operating Licence Review and the transfer of responsibilities from the Department of Primary Industries – Water to WaterNSW, while taking effect during the life of this determination, are not being factored into this determination.

Murray Irrigation applauds IPART's decision to reject the drastic reductions in ICD rebates proposed by WaterNSW, however, we remain convinced that there is no justification for any reduction in rebates when considered in line with the fact that, whichever measure you use to calculate the rebates, real costs to ICDs have not reduced.

The key issue for Murray Irrigation is the MDBA charges, the lack of transparency around these charges and the significant increase on the bills for Murray valley water users.

MDBA Charges

Complexity of MDBA charges:

The NSW Government funds the MDBA's joint programs and river operations in accordance with the Murray-Darling Basin Agreement and under the Water Act 2007.

Unfortunately, information as to the funds provided by the signatory states and how each state funds those activities, by recovery or directly, is not open and transparent.

Overview

The NSW Government makes an annual contribution to the MDBA to cover River Operations, joint programs, planning and management costs.

In 2004, the Council of Australian Governments (COAG) signed up to the National Water Initiative (NWI) which established pricing principles for rural and urban water supply pricing practices. These principles specify full cost recovery for water storage and delivery and transparency to any community service obligation payments made. While the transparency principle applies to the WaterNSW pricing determination process, there is no relationship with MDBA services and charges, yet the NSW Government applies the cost recovery principle to them.

As such, in NSW, the Government recovers the majority of MDBA charges from irrigators through bulk water charges. How these charges are recovered in other signatory states varies. South Australia does not have a similar system of bulk water charge recovery but uses a rate-payer based natural resources levy system.

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In NSW, water delivery and supply services are provided by WaterNSW while planning and management functions are conducted by DPI Water. As such, the MDBA portions of these functions are recovered through those agencies.

IPART determination

Contained in the WaterNSW application to IPART was the request to make allowance to recover an unspecified (as at publication of the draft determination) an amount of MDBA charges in accordance with the *Public Finance and Audit Act (1983)* – which was expected to be higher than previous years.

As a result, IPART determined to apply an “efficiency adjustment of 1.25 percent to the customer share of MDBA charges”. While this efficiency adjustment is to be commended, it is less than the efficiency dividend the Federal Government applied to the budget in 2016-17.

IPART referred the MDBA costs to Aither consulting for independent review, however, yet again this review was conducted in isolation with no public consultation on the costs, regarding how they are established and distributed. It is our opinion that this is the key failing in the process.

The fact that Aither found issues with historical underspend, documentation supporting expenditures and processes should be indication that there needs to be far greater scrutiny of these charges which in NSW are passed straight through to irrigators.

Murray Irrigation supports Aither’s recommendation for periodic independent public review of MDBA charges and for greater transparency of cost sharing arrangements for MDBA pricing.

The costs resulting from this draft decision are broken down thus:

Table 8.1 Draft decision on MDBA/BRC pass through costs (\$’000, \$2016-17)

	2017-18	2018-19	2019-20	2020-21
MDBA				
Customer share ^a	17,936	13,564	12,858	12,685
Government share	2,647	4,330	4,306	4,248
Customer share %	87%	76%	75%	75%

*IPART draft decision for WaterNSW rural bulk water prices, 2017, p. 82.

The result of this decision for General Security Entitlement holders is a 103 percent increase in the MDBA fixed charges.

Table 3 Draft MDBA charges for Murray valley for 2017 Determination - \$/ML of entitlement and usage (\$2016-17 – ie, without inflation)

	↕↗	Current charge (2016-17)	IPART Draft Decision (2017-18)	IPART Draft Decision (2020-21)	% Change (2016-17 to 2020-21)
High security charge	↗	3.22	8.68	8.68	169.8%
General security charge	↗	1.74	3.54	3.54	103.1%
Usage charge	↘	4.17	1.56	1.56	-62.5%

Source: ACCC Final Report June 2014 and IPART calculations.

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The culmination of the decision to recover the UOM balance, to change the tariff structure to 80:20 fixed:variable and the increase in MDBA charges is resulting in a significant increase in customer bills that is unacceptable given the lack of public scrutiny.

Cost share

The decision to accept MDBA charges without question is taken by the NSW Government, yet the impact predominantly borne by NSW Murray irrigators.

According to previous determinations, the costs recovered through WaterNSW are for River Murray Operations and cover:

- Maintaining essential water storage and supply infrastructure including dams and weirs
- Operating the river
- Hydrometric services and modelling
- Maintaining water trade registers

Industry has been requesting a review of government/user cost shares for some years, but, despite IPART's willingness to consider the issue under this determination, it has not been undertaken and cost shares have been applied as per past determinations. In the absence of any new direction, IPART applied the historic user share model in accordance with the following table (shaded activities could fall into MDBA activities).

Activity code	Activity name	User share %	Government share %
10	Customer Support	100	0
11	Customer Billing	100	0
12	Metering and Compliance	100	0
14	Water Delivery and Ops	100	0
15	Water transfers	100	0
16	Flood operations	50	50
17	Hydrometric monitoring	90	10
18	Water quality monitoring	50	50
19	Public liability insurance	100	0
30	Corrective maintenance	100	0
31	Routine Maintenance	100	0
32	Asset management planning and replacement	100	0
33	Dam safety compliance – pre 1997	0	100
33	Dam safety compliance – post 1997	50	50
34	Environmental planning and protection	50	50
50	Renewal and replacement of assets	90	10
51	Structural and other enhancements	100	0
98	Corporate systems	100	0

A key issue is that there is increasing dependence on many of these areas from non-fee paying water users. These include riparian landholders, recreational users, local governments and more.

If the NSW Government continues to view MDBA charges as a cost recovery charge, then costs must be recovered from the breadth of beneficiaries (as opposed to "impactors") of the river system. Examples include recreational river users, riparian landholders and river based tourism operators.

Murray Irrigation is also of the view that the NSW Government should demand more transparency of MDBA joint program and river operations charges through a public determination process similar to that applied to bulk water service providers including WaterNSW.

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Transparency of cost recovery

As identified by Aither, the key issue regarding MDBA costs is the lack of transparency in what they are for and how they are determined.

Despite the *Water Charge (Infrastructure) Rules* applying to water charges in relation to Basin water resources, they do not capture the MDBA which is the agency responsible for coordination of River Murray operations and water sharing under the Murray-Darling Agreement. The MDBA receives funding from State Governments and the Commonwealth for river operations and joint programs. However, there is no transparency for irrigators in these cost sharing arrangements. The MDBA only reports against one outcome under the federal budget and there is no obvious distinction between plan costs, river operation costs and costs of other programs. The lack of transparency led the NSW Government to review the State's contribution to the MDBA that subsequently resulted in a Ministerial Council review of joint programs.

The MDBA produces a Corporate Plan which outlines internal business areas and costs, however, this document is sporadic in the level of information available.

For example, the MDBA Corporate Plan 2015-16 included details about joint program expenditure (from page 28) and breaks it down between States (from page 54); however, the Corporate Plan 2016-17 includes no such detail and directs readers to the budget statements for information about financial arrangements. The budget papers do not separate MDBA joint program costs and Commonwealth activities (such as Basin Plan).

Given the level of contributed funds (via bulk water charges) in NSW, the level of public scrutiny over these costs is insufficient.

In the absence of transparency, IPART should apply a higher efficiency dividend to user cost share. If the NSW Government is happy to accept the MDBA charges without public scrutiny, they should be willing to pay for them. When monopoly charges are applied to fee payers, it is only fair that said fees are put through a robust and transparent process such as a thorough pricing determination.

Conclusion

As mentioned in our original submission to IPART for the cost review, the burden on water users to bear the costs of river operations in an age when the priorities for river operators is shifting and there are competing demands must be reviewed. This is becoming even more evident as environmental works and measures are being commissioned and form a growing part of river management planning. We believe in the absence of transparency and a thorough review of cost shares, a higher share should be borne by the Government in the interim.

Murray Irrigation commends IPART for remaining committed to customer consultation and for making staff available to respond to stakeholders.

Michael Renehan
Chief Executive Officer