

# MURRAY VALLEY PRIVATE DIVERTERS (INC)

## PUBLIC SUBMISSION

### IPART – Draft Determination Prices for Rural Bulk Water Services 17<sup>th</sup> April 2017

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Murray Valley Private Diverters (MVPD) represents irrigation interests for private pumpers, trusts and other smaller water delivery organisations in the Southern Riverina of NSW.

We would like to thank IPART for its approach to stakeholder consultation in response to Water NSW Submission on pricing for rural bulk water services in NSW commencing 1<sup>st</sup> July 2017. Providing a number of opportunities for stakeholder input has been positive and the additional discussions in Sydney with IPART on the 4<sup>th</sup> April was most welcome.

We note with appreciation that Water NSW has progressed efficiencies and this has been reflected in their submission to IPART. However there are items that remain problematic and of concern both in this determination and potential risks in future determinations.

MVPD also reinforces concerns that the full cost recovery principle remains a major impediment to business stability for many irrigation enterprises where the capacity to continually absorb price increases has reached a tipping point.

#### **Bulk Water Charges/Full Cost Recovery:**

The National Water Initiative proposed the concept of full cost recovery and while this was not supported by a range of irrigation stakeholders, it remains the preferred model for Governments.

However the full cost recovery concept requires clearer boundaries about what type of charges can be applied to irrigators and it should not be a methodology for Governments to cost shift core business to private enterprise.

It is critical that those paying the fees should have the capacity for great scrutiny of costs, including history of capital assets including pricing and greater transparency associated with areas of costs Governments are passing onto irrigators.

This information should be readily available, the fact that it is not, even to major stakeholder organisations is alarming. In fact there was more transparency in earlier pricing determination periods, whereas in more recent times disclosure of information to stakeholders has decreased.

This applies to charges from the NSW Government including Department of Primary Industries (DPI) and Water NSW. There is even less transparency around what constitutes policy related charges and what are operational charges.

It is also concerning irrigators incur charges on projects of which they have no oversight capacity. A system should be developed that enables irrigation stakeholders some level of involvement on certain phases of project development and implementation to ensure that projects are efficient, include local knowledge and avoid major budgetary failures (eg such as Perricoota Koondrook Living Murray Project)

User pay principle should also have the capacity to consider whether projects are best delivered through private or Government bodies.

Water NSW charges for the Murray Valley are to increase in line with inflation. Australia's inflation rate in the latter period of the last determination was relatively low (2016 – 4<sup>th</sup> quarter , 1.5%)

It is not transparent how Water NSW accounts for the variability of inflation in previous and future determinations and how such differences affect charges.

#### **Recommendations:**

- **Water NSW enables stakeholder access and full transparency for current capital assets (including historical costs, charges, cost sharing)**
- **NSW Government ensures that full transparency is provided to irrigators on all MDBA pass through charges**
- **IPART recommends to the ACCC the development of a mechanisms for MDBA charges to be subject to external regulatory review**
- **IPART requires transparency from Water NSW on the application of inflation forecasts from previous determination periods and in future periods. (ie relative to actual inflation)**
- **Review Murray Valley prices in line with forecast inflation rates**

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#### **Miscellaneous Charges :**

##### **Southern Valleys Metering Project**

The Southern Basin Metering Project has particular significant for Murray Valley irrigators because of the precedence it could set with all other Sustainable Diversion Adjustment Mechanism Projects that will be rolled out by the NSW Government as part of its commitment to the Murray Darling Basin Plan.

It is critical therefore that IPART fully investigates the merits of proposed charges by Water NSW with the Southern Basin Metering projects and identify the appropriateness of irrigators paying for the budgetary failures of a Government department.

**Proposed Meter fee increases:**

The Southern Basin Metering Project was put forward by the NSW Government as an early phase Sustainable Diversion Adjustment Mechanism Project (SDL) under the Murray Darling Basin Plan.

Budgetary failures associated with the original project design are now being transferred to irrigators through increases in Water NSW submission to IPART.

This transfer of risk and failure by a Government department onto the private sector through increase in pricing should be unacceptable.

It also sends major warning signals to irrigators that if IPART accepts Water NSW proposal now, it will set the precedence for other SDL projects where similar budgetary failures are likely to occur.

In short, not only was original project poorly designed and the original budget inaccurate, there were numerous concerns with the roll out of the contract.

This was evidenced by the number of times private contractors had to revisit individual sites, often many times in the same week.

It was also common knowledge that some key components of the meters had to be replaced along with the relocation of a percentage of meters (because some has been incorrectly situated) .

When Water NSW was questioned at the IPART hearing in Coleambally, they identified that the original project was prepared and budgeted on approximately 9000 meters with an associated cost of \$200 million.

Water NSW reported the actual project was reduced in scope ending up with approximately 2000 meters and a budget of approximately \$20 or \$21 million.

The original meter service charge was developed on the basis of approximately 9000 meters.

All meters within the Southern Basin Metering project (surface and bore) will now incur substantial price rises to account for the project budget failures.

**Recommendation:**

- **IPART rejects Water NSW proposal to cost shift budgetary failures of the Southern Basin Metering Project to irrigators in the Murray Valley**
- **IPART raise with the NSW Government the appropriateness of the ‘user pay principle’ being applied when Government Departments have not done due diligence on project developments**

### **Meter Accuracy:**

The National Water Initiative required standardised metering with telemetry services to improve river operations and river information. However this requirement has been applied to the Southern Basin, whereas the Northern Basin is still not subject to these changes.

The application of the new meters in the Southern Basin Metering Project has created a loss of asset to many MVPD irrigators. This occurs when the new Southern Basin Project meters read higher usage than existing meters. In numerous cases, existing meters were compliant with Australian standards and often were relatively new.

There are a significant number of the new meters that read usage at up to 20% higher than previous meters. Not only is this a view of irrigators based on historical usage/water events, many individual areas have kept existing meters that also continue to read pumping rates. A direct on site comparison can occur between the new meters and those existing meters still on operating on site.

The only option available to irrigators questioning the accuracy of these new meters is to be subject to a test fee at a cost that is considered prohibitive to individual irrigators, particularly when multiple meters require review.

New meters not only incur higher usage, but can mean a loss of capital asset on the volume of water an irrigator can use impacting on business equity. (eg \$200,000)

Where meters are deemed by irrigators to be over reading, a substantial laboratory charge of up to approximately \$7000 per meter was required to check meter accuracy.

Irrigators were not provided any transparency about why costs have been so high in relation to accuracy testing, nor was there any real opportunity to have meters test in situ as opposed to ‘laboratory testing’ where this does not account for variances in real life circumstances, eg quality of water, pump sites, etc

The Southern (Murray Pilot) Murray Valley has resulted in major loss of water entitlements to a number of businesses.

Murray Valley pumpers (outside Murray Irrigation Limited) had existing meters that were recognised by Government and performed to business standards. A policy shift under the

National Water Initiative has resulted in an asset loss that has not been accompanied by any compensatory measures. This is contrary to compensatory rights recognised under the National Water Initiative, the subsequent Federal Water Act 2007 and water recovery process driven by the Murray Darling Basin Plan.

Water NSW submission (P 20 Table 12) is now proposing to increase meter accuracy charges including substantially higher laboratory charges where discrepancies in accuracy remain.

This price increase cannot be substantiated and was already considered to be excessive in the previous determination.

At no stage has Water NSW supplied a verification report on the original installation of the new meters. Nor is there evidence that meters had been sufficiently tested originally in the types of locations where the project was to be rolled out, ie the different types of pumping sites, quality of water and other influencing factors.

**Recommendation:**

- **IPART reject Water NSW propose increases in meter accuracy charges**
- **IPART enable a ‘test sample’ of meters across different location to demonstrate to irrigators accuracy of meters in situ (comparing new meters with in situ modern meters prior to southern basin metering project)**
- **IPART require Water NSW to supply verification reports on meters to individual irrigators**

**Environmental Gauging Stations/Other Environmental service charges**

Full Cost recovery principle is not supported by irrigators as there are many other beneficiaries of a regulated Murray River.

In particular benefits accrue to towns , tourism and the environment.

Without river regulation, many environments in the Murray system would have significantly more periods of low sequence flows or extended periods of flow reminiscent of drought. The costs of providing this service however, falls largely to irrigators.

Policies associated with the Basin Plan and within NSW itself (eg Office of Environment and Heritage) now mean that irrigators have less productive water, higher associated costs and an increasing expectation of Governments to cost shift more policies on the environment to irrigators.

This is not supported by MVPD members.

Provisions for the environment occur in planned environmental water (ie Water Sharing Plans), Government held entitlements (Commonwealth and NSW) and the environment also benefits from baseline flows and provision of irrigation water.

Monitoring and gauging of environmental flows or benefits should not be a cost transferred to irrigators as largely many of the decisions on the environment, stem from Government policy.

**Recommendation:**

- **Murray Valley irrigators are not subject to cost increases associated with environmental gauging stations,**
  - **Government should incur the costs associated with development and implementation of politically based policy on the environment**
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## **Murray Darling Basin Authority**

In July 2008, NSW Office of Water provided advice to IPART that the Intergovernmental Agreement on Murray Darling Basin Reforms – included a principle of no net cost to the states of implementing the Commonwealth Water Act 2007

The Federal Government provides funds to the States, but MVPD has raised concerns about the lack of transparency related to NSW Government's receipt of Commonwealth funds to implement the Water Act 2007. It is not clear what money was provided, how it was spent, whether funds remain and whether there has been a substantial funding shortfall to implement a more complicated Basin Plan process than originally envisaged.

It is widely assumed that the original cost estimates for preparation and implementation of the Basin Plan have been exceeded but it is not transparent how and where these additional costs have been attributed.

This includes:

- Transformation of licenses to meet ACCC rules
- Additional gauging sites
- Constraints Management Strategy – not an itemised/recognised consideration in 2007
- Community consultation
- Preparation and development of the Sustainable Diversion Adjustment Mechanism (project development/consultation)
- NSW Pre Requisite Policy measures/operational river changes

There are concerns on further costs incurred by NSW in relation to meeting the requirements under the Federal Water Act 2007 of:

- Water Sharing Plans – accreditation
- Water Resource Plans – preparation and accreditation

While a significant proportion of these costs are more relevant in pricing determinations that IPART may consider for NSW Department of Primary Industries (DPI), it assumed that there is a strong likelihood that Water NSW will incur some additional costs associated with these activities.

There is no transparency however around any potential costs , how these affect Water NSW and what if any associated costs are transferred to irrigators under the ‘user pays’ principle.

There is also no transparency around staffing and related policy costs within the Murray Darling Basin Authority (MDBA).

The former Murray Darling Basin Commission had substantially less staff to operate the Murray River system than staffing levels under the current Murray Darling Basin Authority (MDBA)

In addition prior to development of the Basin Plan, MVPD understand that staffing levels of the MDBA were relatively low (eg approximately 35)

The MDBA now has a staffing contingent of approximately 300 and a significant proportion of these are not involved in river operations. However it is not possible to clearly identify what components of the MDBA costs are directly related to river and dam operations and what is more applicable to policy and planning.

Without full transparency, the full cost recovery principle may be allocating significant price impacts to irrigators outside core river operations.

MVPD does not support the NSW Government applying non transparent MDBA pass through costs to irrigators.

MVPD also rejects the MDBA proposed 80:20 fixed /variable pricing structure changes which imposes significant risks to MVPD members.

A pricing structure of 40:60 reflects the capacity of irrigation water availability and therefore income generation enabling the capacity of irrigators to pay. This is the basis for the fee structure of Water NSW and should also be applicable to the MDBA.

IPART has the capacity to make firm recommendations in regard to how the Murray Darling Basin Authority (MDBA) charges are applied and the level of transparency that should be available to those who pay the fees.

**Recommendation:**

- **IPART recommend the NSW Government does not support MDBA pricing structure of 80:20 (fixed/variable)**
- **IPART recommend the NSW Government require full transparency of all MDBA operational charges to clearly define what is core MDBA planning costs and those of direct Murray River /Dam operations.**
- **IPART ensure full cost recovery principles do not include Government policy costs from the Water Act 2007 to either Water NSW /and or MDBA**
- **IPART ensures the NSW Government provides full transparency on Federal funding associated with the Water Act 2007, including the Basin Plan, Water Resource Plans, Consultation, Constraints Management Strategy and other related policy actions**

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## **Water NSW Regulated Asset Base**

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Water NSW submission to IPART proposes to increase its regulated asset base from \$647.3 million in 2013-2014 , to \$867.2 million in 2020 – 2021.

MVPD understands this scenario will mean an increase in the regulated asset base of approximately \$219.9 million. However without transparency it is not possible to determine whether this figure is accurate or what is attributing to the proposed asset value increase.

There is also concern that other infrastructure assets may be included that may not be described as ‘traditional regulated assets’, ie any other infrastructure associated with the Murray Darling Basin Plan (SDL projects).

MVPD members do not support continual cost shifting of broader community assets and policy onto a shrinking irrigation sector. This is unsustainable!

Such financial cost risks are increased further by any current or future Government policy that requires a ‘return on capital’ for Water NSW regulated assets.

### **Transparency on assets:**

Irrigation stakeholders have for some time requested access to a full Water NSW and MDBA asset list , including full pricing history on the capital assets.

It was former practice for a list of assets and cost shares to be made available at stakeholder discussions but this practice has been stopped.

MVPD argues that such information should be readily accessible. It is important that stakeholders have full transparency about core assets, likely lifespans, maintenance scenarios and future replacement scenarios.