



**Murrumbidgee  
Irrigation**

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21 October 2016

Independent Pricing & Regulatory Tribunal  
Level 15, 2-24 Rawson Pl  
Sydney NSW 2000

By email: [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

### **Re: Review of prices for Water NSW's Rural Bulk Water Services from 1 July 2017**

Murrumbidgee Irrigation is one of the largest private irrigation companies in Australia servicing over 3,000 landholdings owned by over 2,500 customers, the majority of whom are shareholders in the Company. Our core business is water distribution. We provide irrigation water and drainage services to the Murrumbidgee Irrigation Area (660,000 Ha). We are pleased to make a submission to IPART on the proposed Water NSW Regulated Water Charges for 2017-221. In addition we acknowledge the Tribunal's approval of an extension to enable us to do so.

Murrumbidgee Irrigation is a member of NSW Irrigators' Council and actively supports the submission lodged by that Council. We note that the NSWIC submission is substantial and covers in detail areas of concern to irrigators across the State. We will not be reiterating all of those concerns in this submission. However, we would like to emphasise the following issues that are of particular concern to us as an Irrigation Corporation and our customer members.

#### **ICD Rebates**

It is disappointing that Water NSW has again significantly reduced the ICD rebates with no clear justification or transparency with regard to how the avoided costs are calculated. We note also that some Water NSW customer service operational costs have actually increased.

In the previous pricing determination, State Water proposed a similar drastic reduction in the rebate. Through the then regulator (ACCC) we were able to obtain the calculation formula for the rebate and identify clear anomalies resulting in a revision of the rebate quantum.

Attached for the information of the Tribunal is a copy of the additional information provided by Murrumbidgee Irrigation to the ACCC under the last determination. The information is still current and demonstrates the scale of our business (in excess of 4000 metered outlets and over 3000 landholdings which receive water accounts).

We request that IPART review the calculation formula and assumptions for avoided costs provided by Water NSW to justify such a large reduction in the ICD rebate. It is not sensible that the avoided costs have been so drastically reduced. We are concerned that similar assumptions to the last proposal have been followed, based on volume of water entitlement, and not actual avoided costs.

It is also not clear whether the operational reductions claimed by Water NSW directly translate to avoided costs in the Murrumbidgee Valley and whether or not the metering charge component has been considered as part of the avoided costs calculation.

We note that the ICD rebate is not transferred costs to other Water NSW customers. By definition it is avoided costs. Customers in our irrigation district should not be expected to fund Water NSW for services actually delivered and funded by Murrumbidgee Irrigation.

#### **Volatility Allowance, Unders and Overs Mechanism and Risk Transfer Product**

Murrumbidgee Irrigation supports the NSWIC position that the addition of a volatility allowance to the existing unders and overs mechanism as well as proposing an additional risk transfer product is simply risk shifting to customers to meet government dividends. Water NSW appears to be seeking to ensure a 100% recover of revenue despite a 40:60 fixed to variable agreed split amongst users and a guaranteed government cost share. Such a level of risk protection is inequitable and must be reviewed in a monopoly situation.

#### **CAPEX calculation method**

Murrumbidgee Irrigation supports the NSWIC request that IPART scrutinize Water NSW's proposed CAPEX program to ensure that it includes only necessary capital. Using the MEERA approach provides maximum capital allowance, maximum flexibility for spending and minimum transparency. This is a significant change to Water NSW's previous capital programs.

Water NSW has been operating this infrastructure for many decades – it is not reasonable to take a blank page approach to managing its capital assets using only theoretical upper limit benchmarks. Customers expect at least clear business cases for major capital works as we have seen in the past.

We note that Water NSW has partially justified the increase in proposed CAPEX by referencing past determinations. It is our understanding that the approved CAPEX in these determinations was significantly underspent. Actual expenditure would be a more appropriate reference point.

NSWIC has identified the potential for perverse outcomes from renaming some CAPEX categories (dam safety compliance and environmental planning and protection). We support the Council's request for IPART investigate this potential for inadvertent cost shifting.

#### **MDBA transfer of costs to the Murrumbidgee**

Murrumbidgee Irrigation along with NSWIC and its other irrigator members has previously identified a concern at the lack of transparency of MDBA pass through costs.

The Murrumbidgee share of these costs continues to increase and has increase again in this determination. We are still unable to assess the efficiency and validity of these pass through costs in a Valley where the costs are not even used to deliver the regulated water supply. This is not acceptable.

We strongly support the NSWIC request that IPART determine a further deduction to MDBA charges to reflect the lack of transparency and clarity around them, and, as far as possible, conduct an efficiency review of the MDBA costs and apply the previous cost sharing approach to these charges.

## **Cost Share Framework**

Murrumbidgee Irrigation supports an IPART lead review of the current cost share framework. An increasing proportion of Water NSW's notional revenue is being allocated to users despite no material change to customer demands on services. The changing needs of environmental water delivery must be considered in determining government contributions to costs.

Similarly all beneficiaries of Water NSW's infrastructure and services should contribute to the cost of maintenance of infrastructure. We note that NSWIC has provided a detailed discussion paper on the cost share framework methodology as part of its submission.

## **Summary**

Murrumbidgee Irrigation is a member of NSW Irrigators' Council and actively supports the submission lodged by that Council. We note that the NSWIC submission is substantial and covers in detail areas of concern to irrigators across the State. We have identified issues of particular concern to us and our customer members including the significant reduction in the ICD rebate, lack of transparency regarding MDBA pass through costs, questionable equity of the cost share framework, transparency around CAPEX calculations and risk shifting through volatility allowances and other measures. We would be pleased to assist IPART with more information if required throughout the review process.

Yours sincerely

A black rectangular redaction box covering the signature of Brett Jones.

**Brett Jones**  
Managing Director

**Encl:** Letter to Mr Sebastian Roberts, ACCC - *Supplementary Information on State Water Cooperation Pricing Review 2014-15*



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13 May 2014

Mr Sebastian Roberts  
General Manager - Water Branch  
Australian Competition and Consumer Commission  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Roberts

### **SUPPLEMENTARY INFORMATION ON STATE WATER CORPORATION PRICING REVIEW 2014-15**

I refer to recent communications with your staff on the calculation of rebates for Irrigation Corporations and Districts (ICDs) reflected in the ACCC draft decision on State Water Pricing Application 2014-15 published on 5 March 2014 (**Draft Determination**). The following information is provided to support a request by Murrumbidgee Irrigation Limited (**MI**) for your office to review the proposed bulk water rebate applicable to MI as a matter of urgency. I note that, in accordance with the *Water Charge (Infrastructure) Rules 2010*, the timeframe for MI to publish a Schedule of Charges to take effect on 1 July 2014 requires our documentation to be sent to customers in early June.

#### **Calculation of ICD rebates**

In relation to the annual ICD rebates proposed in the Draft Determination, the rebate listed in Table 8-16 for MI in 2014-15 represents a 58 percent reduction from the prior year, which falls in the current regulatory period. It does not seem likely that a continuation of the same methodology for calculating the rebate would generate such a dramatic drop in the regulatory pricing and I respectfully suggest that a calculation error has been made.

On review of the Draft Determination, the spreadsheet 'ICD Rebates – ACCC Draft Decision PV' contains a value for the 'Av no of customers in ICDs', that represents a 54 percent reduction for MI from 1,764.19 in 2010 to only 812.59 customers in 2014. It is not logical to claim the avoided costs (and customers) for State Water Corporation (**State Water**) that are borne by MI have halved between 2013-14 and 2014-15 (ie. 1 year) without providing further evidence that this has indeed occurred. Either this represents an error in the calculation or the methodology for determining the 'Av no of customers in ICD's' has changed from the previous determination of 2006 and 2010, and I request greater transparency of the revised methodology, if this is the case.

For comparison, MI provides irrigation and drainage services to 3,285 landholdings (with 4,802 serviced outlets). It would be of significant concern if the avoided costs that are intended to be reflected in the rebate for MI are grossly disproportionate with the cost savings to State Water that result from billing, metering, compliance and real-time monitoring functions performed by MI for its customers.

#### **Additional avoided costs borne by MI**

I also bring to your attention a number of costs which are avoided by State Water in operating its works to supply MI that are not currently recognised in the ICD rebates applied to MI. Our State Water charges are based on diversions through two metered diversion sites. These meters were installed at MI's expense and continue to be maintained and calibrated by MI.

As background, the NSW Office of Water (**NOW**) has authorised water supply works for State Water at the Berembed Offtake Regulator water extraction site to capture, store and release water within the Bundidgerry Creek water source. State Water use this regulator to supply water to their various customers located along Bundidgerry Creek. State Water also use this regulator to supply water to MI from the Murrumbidgee River through the Bundidgerry Creek system.

In addition, NOW has authorised water supply works for MI at the Main Canal diversion channel at the Narrandera Regulator water extraction site to extract and convey water from Bundidgerry Creek which is not an extraction site located on the Murrumbidgee River.

The authorised water supply works for MI also list a regulator on Bundidgerry Creek, located around 8km upstream of MI's Narrandera Regulator water extraction site, with an extraction capacity of 6,600 ML/day. NOW impose conditions on these water supply works that prohibit MI from modification of this regulator to alter the existing design extraction capacity or location of the works without approval in writing from the relevant Minister.

The ability for MI to receive and convey this extraction capacity of 6,600 ML/day is at the discretion of State Water. Changes in the operating parameters set by State Water for the Bundidgerry Creek system (including Bundidgerry Storage) and their maintenance regime directly limit our extraction capacity. Restrictions in this system occur frequently and have direct impacts on our ability to service our customer's peak season requirements.

Because of the critical nature of this infrastructure, MI has formally requested a service level agreement with State Water. State Water has rejected this request claiming that they have no statutory obligation to enter into such an agreement. Accordingly, MI has little choice but to undertake annual maintenance and refurbishment works upstream of our Narrandera Regulator water extraction site in order to improve certainty of our level of service from State Water. This includes visual inspections, removal of debris by heavy plant, rock beaching and erosion protection as well as the replacement of ageing assets, such as Bundidgerry Escape. The cost to MI amounts to some \$0.250 million annually. These costs are avoided costs for State Water.

MI continues to incur these costs for the sole purpose of maintaining State Water's ability to convey the extraction capacity of 6,600 ML/day as authorised by NOW. MI currently has no mechanism available to avoid these costs or to ensure that our economically efficient costs are recovered from State Water. We submit that these avoided costs should be recognised in the ICD rebates applied to MI.

### **Summary**

In view of the above, MI is seeking an urgent review of the ICD rebates listed in the draft determination as they are well below reasonable levels. We believe that there is an error or change in methodology in the calculation of the rebates resulting in a significant and unintended impact on MI. In addition, the rebate does not currently recognise significant avoided costs incurred by MI in the maintenance of infrastructure owned by State Water.

Yours sincerely



**Matt Thorpe**  
A/ Chief Executive Officer