

**Toonumbar Water Users Group**

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**Submission to the IPART  
Water NSW's Rural Bulk Water Pricing Review  
Re Draft Determination Report**

Dear Tribunal Members,

On behalf of Toonumbar Water Users Group I thank you for the opportunity to provide feedback on IPART's draft Report. We are very pleased that IPART has recognised that Full Cost Recovery (FCR) is not attainable for Toonumbar and Brogo Dams and that a new approach is proposed. In this submission we will provide feedback on the new approach, use the suggested methodology to find a more appropriate price and provide comment on the current North Coast Structural Review Pilot Project. We would also like to support the submissions from Richmond Wilson Combined Water Users Association and Bega Valley Water Users Association Ltd.

We note and commend your support of Aithers (Aither Pty Ltd) Final Report to IPART in which they give pricing principles for valleys below FCR.

The second principle from Aither's report concerns customer's capacity to pay and WaterNSW's avoided costs. The critical issue here is how the "capacity to pay" is calculated. Agripath provided a comprehensive report on the cost of irrigated pasture production and the cost of bought-in feed. We commend the work done on this report in so far as it goes. However, we do not agree that the comparison to bought in feed can be used to estimate capacity to pay for bulk water. Economic survival depends upon profitability not just the ability to find an alternative source of feed. As the Agripath Report comments "The economics of dairy farming is such that generally speaking, home grown grass is the cheapest form of feed." As a result the upper limit of "the efficient pricing band" needs to consider not just the cost of bought in feed but also the profitability of using that feed. We believe a far better indicator of capacity to pay would be the marginal profit from using an extra ML of water. A business should continue to increase its water usage to a point where the marginal revenue is equal to the marginal cost. At this point the marginal profit is 0 and any further use of water will create a negative return.

Using figures from the Agripath Report and the Dairy Farm Monitor Project NSW 2015/16, the marginal revenue per ML of water is \$574 and the marginal cost at current water rates is

\$577 (average). The marginal profit is therefore \$0 at the current water rates and is the upper limit at which a farmer can pay for the water.

Details of the calculations for 1 ML of Irrigation are as follows:

1 ML = 1 tDM (IPART Report p139)

1 tDM = 75 kg Milk Solids (MS) (Dairy Farm Monitor Project, Individual Report, pg 11, 13)

@ \$7.65 / KG MS = \$574 **Marginal Revenue** (DFMP, pg 14)

Variable Costs not including irrigation = \$4.09c / KG MS x 75 = \$307 (DFMP pg 17)

Add Cost of Irrigation 25-29c/KG x 1000 = (Average) \$270 (Agripath Report, pg 16)

**Marginal Cost** is \$307 + \$270 = \$ 577

**Marginal Profit** = Marginal Revenue – Marginal Cost

= \$ 574 - \$577 = approx \$0 at this level of Irrigation Costs.

This shows that at current prices there is no incentive to continue to irrigate. From these figures the upper level of the Efficient Price Band is the current cost. Using the approach adopted by IPART and finding the midpoint of the efficient pricing band would result in the following:

\* Upper limit or Capacity to Pay Price is the current price and is calculated below.

\* Lower Price is the Water NSW Avoided Costs and is close to zero. (IPART Report pg138)

Calculating Current Price:

Usage Price WaterNSW	\$45.04
Usage Price DPI	5.54
Add Fixed Price WaterNSW	7.25
Fixed Price DPI	<u>5.58</u>
Total Current Price	\$ 63.41

To find the midpoint divide the current Price by 2 and subtract the fixed costs:

Midpoint:  $\$63.41 / 2 = \$31.70 - \$12.83$   
= **\$18.87** This becomes the recommended usage price for Toonumbar.

Whilst this price is much lower than the current price, we believe there is evidence that it is near the correct value. As part of the Pilot Review of Toonumbar Dam, WaterNSW has modelled merging prices for all regulated coastal valleys. The modelled usage price of

\$18.65 is a relevant comparison to check the appropriateness of our suggested price of \$18.87. The difference of only 22cents suggests we are on the right track.

#### Water NSW Fixed Cost

We would also like to make comment on the fixed cost ratio. Toonumbar fixed to variable costs are currently calculated using the ratio 60:40. However, due to the method of calculation and the current small number of users compared to the total number of licence holders, the fixed cost remains relatively low compared to the usage cost. The figures are \$7.25 fixed to \$45.04 variable. Whilst we are advocating lower usage costs we appreciate that a set revenue is required. We suggest a compromise is a small rise in fixed cost (GS entitlement) allowing a large decrease in usage costs. The figure we suggest is \$8.91 for the fixed cost. This figure will maintain WaterNSW's proposed recovery from customer share of costs when usage prices are decreased to \$18.87. The calculations for these figures are detailed in the Richmond Wilson Combined Water Users Association's submission. In checking that the prices discussed are reasonable we again use the WaterNSW "Modelled prices of merging Coastal Valleys" document as evidence. The modelled price for GS charges is \$9.21. This is a difference of 31 cents which we believe represents a reasonable price.

#### North Coast Structural Review Pilot Project:

WaterNSW is currently undertaking a review process in an attempt to find options to address the problem of low usage and high prices of Toonumbar water. A number of options have been put forward but the 2 options that WaterNSW believe provide the most opportunity are to:

- \* Transfer Ownership of the Dam
- \* Introduce new water users in the regulated system.

Current users do not favour the first option but are keen for WaterNSW to follow up the second option and speak to local Councils and businesses. A reduction in usage price would improve the likelihood of success for this option.

#### Conclusion:

We commend the approach that IPART has adopted and believe that with correct analysis of the Capacity to Pay that it will provide price stability and certainty for the customers both now and into the future. It will give us the confidence we need to make longer term investment decisions in water infrastructure and for WaterNSW to find the additional water users it needs for improved sustainability.

Fleur Tonge for

Toonumbar Water Users Group