

***Review of Rural Water
Charging Systems –
Draft Recommendations***

Macquarie River Food and Fibre

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About MRFF

Macquarie River Food and Fibre represents the interests of irrigated food and fibre producers in the Macquarie Valley. Our membership comprises riparian irrigators along the regulated section of the Macquarie River downstream of Burrendong Dam, the groundwater irrigators of the Lower Macquarie Groundwater Sources, as well as the individual members of the Valley's seven off-river irrigation schemes being the Buddah Lake, Greenhide, Narromine, Nevertire, Marthaguy, Tenandra and Trangie Nevertire irrigation schemes. MRFF is supported by a number of associated local businesses.

About this Document

This paper has been prepared in response to the Draft Recommendations issued by the Independent Pricing and Regulatory Tribunal for their *Review of Rural Water Charging Systems*. The submission is provided on behalf of irrigated food and fibre producers in the Macquarie Valley however it is noted that our individual members may wish to provide their own submission in response to the Draft Recommendations.

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1. INTRODUCTION

Macquarie River Food and Fibre (MRFF) welcome the opportunity to provide feedback on the Independent Pricing and Regulatory Tribunal's (IPART's) Draft Recommendations for the *Review of Rural Water Charging Systems* being undertaken for the NSW Government.

MRFF is the peak industry group for irrigated agriculture in the Macquarie Valley representing over 500 water licence holders in the Macquarie regulated river system and the Lower Macquarie groundwater sources. We are a non-profit organisation assisting our members to develop and maintain efficient, productive and profitable irrigation enterprises.

As stated in MRFF's submission to the issues paper, our members consider the greatest impact on their cash flows to be the continuation of above inflationary price hikes for water management, storage and delivery services, despite the valley having reached full cost recovery many years ago. These impacts are largely driven by:

- A short-termed and flawed approach to consumption forecasting,
- A narrowly defined customer base,
- An overstatement of the business risk and performance expectations for the NSW water management and delivery businesses, and
- An abuse of the monopoly power by continuing to transfer this perceived business risk through a range of compensatory mechanisms rather than investigating innovative and efficient risk management solutions.

MRFF is of the view that each of these issues must be comprehensively addressed if the NSW Government is to meet their objective of maintaining the viable provision of bulk water delivery services and a profitable irrigation industry.

MRFF is so far disappointed that the review has focused on maintaining the status quo for the NSW Office of Water and State Water, in terms of how the current revenue requirement can be maintained under the ACCC rules, rather than addressing the impacts that this revenue requirement and cost share framework have on their narrow and captive customer base.

MRFF's response to the Draft Recommendations is provided below.

2. RESPONSE TO DRAFT RECOMMENDATIONS

Draft Recommendation 1 – Payment Terms

MRFF is generally supportive of IPART's recommendation to provide for a conditional deferral of payment of fixed charges, with interest, in times of low water availability for regulated river customers. MRFF notes that this approach strengthens existing hardship provisions without impacting on State Water or NSW Office of Water's notional revenue requirement.

MRFF is further supportive of the NSW Government's policy commitment that should more severe or extraordinary drought conditions prevail, fixed charges will be waived for affected licence holders. MRFF believes it appropriate that the provision of such a government subsidy would be through an explicit drought relief mechanism and will therefore not form part of the determination of the notional revenue requirement for State Water or the NSW Office of Water.

Draft Recommendation 2 – Tariff Structures

As outlined in our submission to the Discussion Paper for this review, MRFF supports the continuation of a two-part tariff with differential pricing based on water source and access rights.

It is our preference to maintain the current fixed:variable ratios, however, as previously presented to IPART we do not support the need for a volatility allowance. We believe that the volatility allowance effectively nullifies State Water's supply-side risk placing an undue cost burden on its customers and removing what should be an important efficiency incentive for operation of the water delivery business.

While MRFF is supportive of exploring options for 'price choice' for customers, there are equity concerns in providing this choice to only one customer, being the Commonwealth Environmental Water Holder, as recommended by IPART.

MRFF suggests the recommendation for State Water be amended to:

- *Explore the inclusion of a second pricing option for customers that allows for a higher fixed to variable tariff structure (e.g. 90:10) for the 2014 price determination.*

It should be noted that MRFF withholds our final support or otherwise for such an approach until the detailed modelling has been undertaken by State Water in consultation with customers ahead of the 2014 price determination, however, we welcome the willingness of State Water and IPART to consider price choice in the tariff structure.

Draft Recommendation 3 – Government Cost Shares

MRFF welcomes the recognition by IPART that there are “free riders” of NSW Office of Water and State Water services, in particular, Basic Landholder Rights and environmental contingency allowances. Given this recognition, IPART must now recommend to the NSW Government an urgent review of the cost shares framework.

As previously submitted, MRFF believes that there are two approaches that could be taken to incorporating a broader customer base in the pricing process, that is:

1. Through an additional government funded CSO in the cost shares framework, or
2. Through forecasting consumption and billing for additional categories of use.

In the case of Basic Landholder Rights, MRFF acknowledges that billing as individual customers would be administratively difficult and therefore submit that it would be appropriate to assess those activity codes that are impacted by Basic Landholder Rights and adjust the cost share ratios accordingly.

In the case of environmental contingency allowances, MRFF submits that there is sufficient information to include this type of water use as an additional customer. Volumes and conditions of environmental contingency allowance are specified in the relevant Water Sharing Plans, and while they may not be technically termed an “access licence” they do have separate water accounts against which consumption is managed and recorded. In the Macquarie, for example, the 160,000 ML Environmental Water Allowance account is managed in conjunction with the State and Commonwealth environmental water holdings, which are subject to State Water and NSW Office of Water charges.

As previously submitted, MRFF has calculated the impact on general security users in the Macquarie valley, who have the same characteristics of use as the Environmental Water Allowance, to be in the order of 20%.

Given the magnitude of impact on existing customers, MRFF submits that it is completely unacceptable for IPART not to recommend that this issue be addressed ahead of the 2014 determination. We submit that inadequate time to conduct this review is not sufficient reason for irrigators in this valley to be forced to pay a disproportionate share for water management and delivery services.

MRFF further notes that in rolling over the cost shares from the 2006 determination, IPART did not undertake a comprehensive review and analysis of the cost shares in the 2010 determination. Given that it has already been eight years since a comprehensive review of cost shares, MRFF submits that a review should occur before the 2014 determination.

Beyond this immediate review, MRFF concurs with IPART that it would be reasonable to review cost shares every second determination, i.e. every eight years.

Draft Recommendation 4 – Under Recovery of User Share of Costs

MRFF supports IPART’s recommendation that an explicit CSO be used to meet cost shortfalls in valleys not yet at full cost recovery.

MRFF makes no submission as to whether a progressive increase of 5% per annum toward full cost recovery is an appropriate threshold.

Draft Recommendation 5 – Financeability Allowance

MRFF would strongly oppose the introduction of a financeability allowance. MRFF is exceedingly disappointed that IPART would make this draft recommendation, which essentially provides yet another mechanism for the monopoly service provider to transfer risk onto its narrow and captive customer base. Continuing to provide these protectionist mechanisms for the state owned delivery business undermines the efficiency driver that the independent determination process must surely promote.

Draft Recommendation 6 – Regulatory Asset Base

MRFF concurs with IPART’s statement that there is potentially little scope for a change in State Water’s opening RAB value under the ACCC’s pricing approach. While IPART is concerned that there may be an impact on State Water’s revenue requirement in a move from a pre-tax to a post-tax framework, MRFF is also concerned that there may be an impact on customers in the move away from an approach that includes an assessment of efficiency of State Water’s capital expenditure program during the current determination. MRFF submits that both of these issues must be considered if IPART is to recommend that State Water submit a case to the ACCC for revaluation of the opening RAB.

3. FURTHER INFORMATION

MRFF once again thanks IPART for the opportunity to participate in the *Review of Rural Water Charging Systems* and looks forward to receiving IPART’s Final Recommendations.

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