Murray Irrigation

Response to IPART Review of Rural Water Charging Systems

Water – Draft recommendations

July 2012

Introduction

Murray Irrigation welcomes the opportunity to make a submission to the review of water charging systems.

As previously stated, Murray Irrigation would prefer IPART continue to regulate the State Water Corporation's regulated water charges based on the principles established through successive pricing determinations.

Murray Irrigation supports IPART's recommendations in relation to cost shares and the retention of the large customer rebate.

Murray Irrigation also supports IPART's continued support for State Water having a tariff structure which includes a 40:60 fixed: variable tariff.

Murray Irrigation continues to be concerned with uncertainty associated with Murray Darling Basin Authority (MDBA) costs, particularly River Murray Water and how these costs will be regulated, if at all. Murray Irrigation notes the draft recommendations are silent on the issue of MDBA and River Murray Water costs. These costs are significant and require the attention of governments, including regulators.

Following are comments on each of the draft recommendations.

1 Billing of bulk water charges

1.1 Response to draft recommendations

Murray Irrigation's response to the billing recommendations that are relevant to Murray Irrigation is below.

1.1.1 Payment terms recommendation

For both State Water and NOW: in combination with the proposed tariff structures, provide for conditional deferral of payment of fixed charges, with interest, in times of low water availability for regulated river customers.

Murray Irrigation is disappointed that IPART has recommended an option that only provides for deferral of fixed charges. A waiver of fixed fees, in years where allocations are zero or exceptionally low, is what is being sought by industry. The proposed deferral does not provide the relief irrigators sought from fixed fees.

The recommendation will again result in a small number of customers (i.e. irrigators) continuing to pay for the fixed infrastructure costs of river regulation that is essential to providing water for critical human needs, industry and recreation at a time when their farm business is experiencing negative cash flows as a result of low water availability.

The trigger for deferral to be set at 2 consecutive years of less than 5% of the cumulative available water determinations at the end of the financial year when expressed as a percentage of the volume on a Water Access Licence.

Murray Irrigation's view is that in periods of exceptionally low water availability, Government should fund the fixed fees as a community service obligation. IPART's suggestion that providing a waiver of fixed fees should be considered in the context of Government's drought policy is not supported for the following reasons:

- Past experience indicates this approach will not result in effective assistance from the NSW Government.
- Government's drought policy involves a combination of State and Commonwealth assistance which renders specific assistance such as fixed fee relief an unlikely outcome.

Whilst a waiver is our preference, a deferral arrangement at least provides irrigators with an option to assist with cash flow management. The proposed deferral trigger of two consecutive years of less than five percent is supported in preference to a using a trigger of zero.

Interest to be set by the Supreme Court rate plus 2.5% (or an appropriate estimate of State Water's holding costs).

The recommendation should clarify whether the Supreme Court rate is the pre or post judgement rate, there is currently a two percent difference between the rates, with the pre judgement rate being 7.5 percent and the post judgement 9.5 percent.

The recommendation will only provide a cash flow benefit to irrigators who have limited alternative access to finance. Under the proposed arrangements many irrigators would be able to access finance at a lower effective rate than the interest rate proposed.

In addition allowing State Water a premium of 2.5 percent will more than compensate them for any additional cost of finance.

Murray Irrigation considers interest should be set at the Supreme Court post judgement rate. This is the rate applied by Murray Irrigation.

Additionally the *Water Management Act 2000* (NSW) restricts Murray Irrigation to charging interest on unpaid accounts to the Supreme Court rate.

Providing deferral with interest charged at a higher rate than what Murray Irrigation can charge its customers would result in either Murray Irrigation not being able to offer deferral to customers or other customers subsidising the 2.5 percent premium. Either option is not acceptable.

1.1.2 Tariff structure

For NOW:

- Maintain the existing tariff structure (key tariff feature being 70:30 fixed to variable for customers where a meter is installed and 100% fixed charges where no meter is installed).

For State Water:

- Maintain the current tariff structure (key tariff feature being 40:60 fixed to variable), combined with a volatility allowance. The volatility allowance should be calculated for the holding costs for an appropriate period, for example 1 year, under the ACCC's annual review process.
- Maintain the rebate to large users (irrigation corporations).
- Explore a higher fixed fee to variable tariff structure (90:10) with the Commonwealth Environmental Water Holder, before submitting the proposal to the ACCC for the 2014 determination. State Water also to explore extending the higher fixed to variable structure to other specified customers in time.

Murray Irrigation supports the recommendations. However, Murray Irrigation is concerned with the implications of a volatility allowance on fees when they are determined by the Australian Competition and Consumer Commission (ACCC) post 2014. Murray Irrigation considers there is merit in State Water continuing to explore a mixture of alternative tariff structures, so that irrigators can elect for alternatives including the benefits of a tariff structure based on a 40:60 fixed to variable with a volatility allowance compared to a higher fixed to variable fee structure.

Murray Irrigation draws IPART's attention to the implications on State Water charges including the rebate to large users (irrigation corporations) of the uncertainty associated with whether MDBA and or River Murray Water costs will be recovered through State Water charges. For example if historic arrangements for recovery of a portion of these costs from irrigators are changed in 2014, and these costs are recovered through NOW or some other arrangement, Murray Irrigation would seek to have both fixed and variable tariff structure and large customer rebate continue to apply to the costs previously recovered through the State Water charges.

2 Cost shares

2.1 Response to draft recommendations

Murray Irrigation's response to the draft recommendations that are relevant to Murray Irrigation is below.

2.1.1 Cost Shares

Government to pay State Water a community service obligation equivalent to the government's share of efficient costs as calculated using the same cost sharing rations determined by IPART in the 2010 price determination of State Water until 1 July 2017. After that IPART would review the cost share ratios and activities prior to every second ACCC determination (i.e. every 8 years), starting in 2017.

Murray Irrigation supports the recommendation.

Murray Irrigation supports the requirement for the NSW Government to determine the amount of the government contribution prior to the ACCC price review process.

3 Impact of future pricing arrangements

3.1 Response to draft recommendations

Murray Irrigation's response to the draft recommendations is below.

3.1 Financeability

State Water to perform financeability anlayis and if necessary, submit to the ACCC a case for a financeability allowance as an addtional notional reveune building block.

Murray Irrigation does not support State Water having a further opportunity to reduce its revenue risk by seeking a financeability allowance (advance) payment in the first ACCC determination.

State Water is a monopoly, the majority if its fee paying customers operate in a commercial environment, where there is no guarantee of a return on capital. It is Murray Irrigation's view that it is reasonable to expect the shareholders of State Water receive a lower return on capital when State Water's sales are lower.

Murray Irrigation acknowledges that IPART has flagged that anticipated revenue shortfalls to State Water as a result of a new regulator have the potential to be significant. However clarification of;

- the impact of this revenue shortfall? Is it a reduction in payments to shareholders, or does it have a material impact on the funds available to State Water for operating and capital programs?
- whether the revenue shortfall is expected to have a material impact on State Water's cost of finance?

State Water to submit a case to the ACCC to revalue its regulated asset base for the change from a pre-tax to a post-tax building block model.

Murray Irrigation supports a smooth transition to the new regulator.

Given that with the exception of the Peel Valley all Basins in the NSW Murray Darling Basin are at full cost recovery of their share of efficient costs, the transition to the new regulator should be smooth and not result in price shocks to irrigators.

This should be inclusive of not resulting in significant revenue changes to operators, not withstanding Murray Irrigation's views shareholder dividends in years of low water availability.

Murray Irrigation also supports transparency in the price determination process.

Whilst IPART's recommended approach may meet these expectations, Murray Irrigation considers further information is required to justify the case for State Water's regulatory asset base to be changed.