



Murray Irrigation Limited

A.B.N. 23 067 197 933

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To:
Independent Pricing and Regulatory Tribunal

Review of Rural Water Charging Systems

10 July 2012

Prepared by:
Murray Irrigation Limited
PO Box 528
Deniliquin NSW 2710

Executive Summary

Murray Irrigation welcomes the opportunity to make a submission to the review of water charging systems. Murray Irrigation supports the review and considers the outcomes to be critical to the next determination for State Water Corporation's (SWC) regulated water charges.

Murray Irrigation would prefer that IPART continue to regulate SWC's charges; however, understanding that the ACCC will have a role to play in the future, we believe this review provides a critical opportunity for the NSW Government to continue to influence, in a positive way, the next determination for bulk water charges.

In our view, it is critical that the NSW Government resolves its position in relation to cost shares prior to SWC making their first submission to the ACCC. It is also our view that IPART influences the direction taken by SWC in their submission, particularly in relation to tariff design, including large customer rebates.

Bulk water charges made up of SWC and NSW Office of Water (NOW) charges are a major cost to our business and as a result make up a large component of the charges to our customer shareholders.

Murray Irrigation supports a continuing tariff structure that combines fixed and variable charge components. During the recent drought it became obvious to Murray Irrigation that there was a need to minimise fixed charges for customers facing low or negative cash flow.

Further, with an increasing demand on limited water resources by both non-paying consumptive and environmental users, Murray Irrigation submits that IPART should review opportunities within the SWC and NOW tariff design to enable remuneration to be captured from some of these users.

While recognising that the introduction of water trading has now provided farm businesses with another possible mechanism to generate income and manage business cash flows, the participation of the Commonwealth in the market has had a marked impact on Murray Irrigation. At this point in time this impact is material in terms of the volume of water available, through the allocation process to our customers.

Prior to the Commonwealth's entry into the water market, Murray Irrigation held 70 percent of the NSW Murray General Security water entitlements on our licence. We now hold approximately 54 percent with the difference having been transferred to environmental holdings.

We recognise that through this acquisition process, the Commonwealth Environmental Water Holder (CEWH) is now a significant holder of NSW water products. It is our understanding that the CEWH would like to be considered for a large customer rebate, however, we do not believe this is appropriate due to the complex nature of managing and coordinating environmental water delivery compared to meeting the needs of Murray Irrigation. Further, we believe that we provide a service to customers that, in our absence, would need to be met by SWC. The same cannot be said for the CEWH who provide no service to anyone or anything other than their prescribed environmental needs.

With the further changes and increased administrative burdens being placed on Irrigation Corporations through the Water Charge and Infrastructure Rules (WCIR) we ask that IPART ensure that irrigators in the Murray Darling Basin pay only the fair share of costs that can be attributed to the Murray-Darling Basin Authority, including River Murray Water (RMW). RMW costs make up a significant portion of SWC's costs yet under the WCIR the ACCC may not be able to regulate this component of the charges due to a loophole exempting the MDBA – who do not strike a charge themselves, but have their costs paid for by State Governments.

Murray Irrigation support's IPART's proposal to review cost share ratios every eight years.

While recognising the current cost share ratios are the product of previous IPART reviews, Murray Irrigation considers the irrigation sector is currently more than meeting their share of the efficient costs of SWC and NSW Office of Water.

Murray Irrigation encourages IPART to consider how tariff reform and changes to cost shares could be altered to more equitably share bulk water costs with beneficiaries of the regulated river system.

Background

Murray Irrigation Limited is an unlisted public company that provides irrigation water and associated services to 2,389 landholdings owned by around 1,200 family farm businesses over an area of 748,000 ha through around 3000km of channels in the NSW southern Riverina. In 2011/12 our customers diverted 900,000ML.

Murray Irrigation's source of water is via two offtakes from the regulated River Murray and the company's water supply is almost exclusively NSW Murray General Security Water.

We are governed by a Board of Directors which includes six shareholder directors elected by our irrigator shareholders and two independent directors appointed by the Board.

Murray Irrigation's shareholders are farmers with food and livestock being the focus of regional production for both domestic and international markets. Irrigated agriculture is the foundation of the social and economic wellbeing of our towns and businesses, which has a regional population of 33,000.

Significance of Government Fees

Bulk water charges made up of State Water and NSW Office of Water are a major cost to our business and therefore our irrigator customers.

In 2012/13, government fees will represent;

- 20 percent of our fixed fee revenue
- 56 percent of our variable fee revenue and
- 35 percent of our total revenue

Total Government costs are forecast to be nearly \$10M in 2012/13 and along with our wages cost, are our two largest costs.

The Murray Irrigation strategic plan has been developed to account for 69 percent of our income to be achieved through fixed fees and 31 percent through variable fees (including government charges). Our fees and prices schedule is accessible on our website: www.murrayirrigation.com.au.

Questions posed by IPART

It needs to be recognised how little time is available for stakeholders to develop their responses to this review and that these responses have been prepared outside of Murray Irrigation's normal governance and decision making processes and timeframes.

Murray Irrigation has considered the discussion paper and has prepared this response to issues relevant to our business.

Assessment Criteria

Murray Irrigation considers the proposed assessment criteria to be appropriate for the task of assessing options for tariff structures and cost shares; however, with regards to criterion four – consistency with ACCC's pricing principles and WCIR – we would like to place on record our view that the WCIR fails to achieve the objectives of the Water Act 2007 which included achieving pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management.

The water charge principles also require consistency across sectors and jurisdictions where entitlements are able to be traded yet under the WCIR the ACCC is not able to regulate MDBA – RMW costs because the MDBA does not strike a charge. Nor will they regulate the bulk water charges paid by South Australian irrigators because they do not pay.

Instead we have the ACCC regulating NSW and Victoria who were already regulated prior to the Water Act.

At the same time, RMW may not be regulated by the ACCC at all. RMW costs are in effect the single largest component of Murray Irrigation's government bulk water charges, although, you can only reach this conclusion by a convoluted path as there is no transparency in the present arrangements and there is no way to see the extent to which RMW is actually separated from the MDBA.

What we do know is that their business costs have increased enormously.

At the same time Murray Irrigation is required under these same Rules to provide:

- Detailed historical information about costs;
- Five years of forecast expenditure and revenue ;
- Five years forecast fees and prices;
- A description of our services;
- Five year planned capital investments; and
- A consultation process to provide our customers with an opportunity to comment on all of this.

It is remarkable that a not for profit company, with directors elected by our customers has to go through this process while we have a Government authority that results indirectly in a bill to our customers in the order of more than \$6M but is subject to minimal scrutiny.

Murray Irrigation seeks the continued support from IPART to elevate our concerns in relation to the WCIR and the anomalies surrounding their implementation with the NSW Government.

Murray Irrigation also seeks IPART's support to ensure that water users in the Basin only pay their fair share of the efficient costs associated with RMW.

Water availability and customer cash flow

During the millennium drought, the overriding message from our customers was the imperative to reduce fixed costs to farm businesses experiencing low to negative cash flows. As our customers are almost exclusively NSW General Security Entitlement holders, they are more susceptible to variability in water availability.

Assumptions about forecast deliveries are important to fees, particularly where a large proportion of the revenue recovery is from variable fees. The change to a 20 year rolling average at the last determination reduced forecast consumption in the Murray Valley significantly. Murray Irrigation in principle supports a rolling average, however it is important with significant use by the environment, this water use is included in the consumption forecast.

At the moment environmental water is not forecast as consumption yet given the CEWH is managing this water, as an irrigator manages their demands on water, the use of the yield on their entitlements should still be considered a diversion for the purposes of calculating the rolling average consumption.

Understanding that Murray Irrigation is essentially a wholesale customer to State Water, it must be recognised that the cost pressures on individual farm businesses places pressure on our business. We accept it is our responsibility to manage risk within our own business, Murray Irrigation would assert that if a trigger level, at whatever basis is applied, at which hardship provisions is reached in the NSW Murray, then those hardship provisions should also be applicable to Murray Irrigation.

Murray Irrigation would propose that a “trigger” of two consecutive years of zero allocations is too low considering the impact on farm business cashflow. The ability to trade water notwithstanding, as allocations decrease, a farm businesses options to generate income also decrease. Murray Irrigation would suggest a more realistic “trigger” for hardship would be when general security allocations fall below five percent for two consecutive years.

Tariff Structures

Murray Irrigation supports SWC maintaining the current tariff structure (40:60 fixed to variable) as it is an approach that is more likely to match Murray region irrigation farmers’ cash flows. Murray Irrigation supports the development of hardship triggers in the price determination process and believes IPART is the right organisation to recommend these triggers as they have the ability to consider community impacts and Government cost shares when making recommendations.

While Murray Irrigation recognises that under the WCIR variable usage charges will be subject to annual review which could see them adjusted according to forecast water availability, we still believe our customers would prefer lower fixed charges and support the continuation of the two part tariff structure. We also see this as another reason why developing adequate hardship provision triggers should form part of the IPART recommendation.

Murray Irrigation understands that there are some who support offering customers tariff structure options prior to finalising the determination. While Murray Irrigation is not against such a policy, consideration must be given to the impact on irrigation corporations who, despite being an individual customer to SWC, must consider the views of their customers and shareholders. Given the time constraints, Murray Irrigation has not had an opportunity to consider tariff structure options for SWC customers and would need to better understand the implications for our business and how we would pass those options, if at all, onto our customers.

Murray Irrigation requests that subject to the outcome of this review irrigation corporations be provided with the opportunity to consider whether implementation of different tariff structures would be effective for their businesses.

Government cost shares

Murray Irrigation supports continuation of the cost shares as proposed by IPART and the inclusion of these cost shares in State Water's submission to the ACCC, along with NSW Government contribution for the Government share.

Whilst Murray Irrigation supports continuation of these cost shares we note there are a large number of "free riders" who are not paying for the services received from the regulated river system. By free riders we refer to stock and domestic, riparian, floodplain protection, tourism and recreation 'users'. We understand that there is to be a future review of these users, as indicated by Amanda Chadwick at the IPART hearing in Sydney on 3 July, we believe this review provides an opportunity for at least a preliminary assessment of the ability to identify and charge these users through the SWC and NOW tariff design.

Murray Irrigation supports the need for continued participation of IPART in reviewing and determining Government cost shares and therefore supports Option 3 as contained in the discussion paper.

Murray Irrigation supports cost shares being determined on a valley and user basis. We have no issue with continuing Government support for valleys that do not meet full cost recovery. We would not support any move to shift that cost recovery onto other water resource users.

Large Customer Rebates

IPART introduced large customer rebates (or a form of them) when it first commenced regulation of bulk water. The case for large customer rebates has been put and argued through various determinations.

The rebate to Murray Irrigation is significant. The removal of this rebate would result in significant fee increases to our customers.

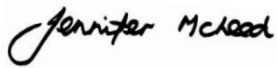
We believe that Murray Irrigation provides a service to customers that, in our absence, would have to be met by SWC and therefore, the argument for reduced costs and efficiency savings as a result of the establishment of our business to both SEC and NOW remain. Further, the complexity of SWC's business, including water management and billing is significantly reduced by our aggregation.

While the CEWH could also argue they are a large customer worthy of a rebate, they cannot claim to provide the same service to customers, or simplicity of delivery as Murray Irrigation. For example, we only have two points of supply (diversion) and therefore meeting our irrigation demand is significantly less complex than managing and co-ordinating the complex delivery of environmental water. Further, if Murray Irrigation did not exist, SWC would have to service our customers and deliver water to almost 2,400 separate landholdings. If the CEWH did not exist there would be a decreased burden on the SWC business as meeting the demands of the various environmental orders placed by the CEWH would be removed.

Conclusion

Murray Irrigation supports the IPART review process and believes that it is imperative that IPART remain able to make determinations to government cost shares and fair water charges into the future to assist SWC prepare submissions for the future ACCC determination process.

Murray Irrigation encourages IPART to elevate with the NSW Government the significant failings of the WCIR with the aiming of achieving improved arrangements in the future.

A handwritten signature in black ink that reads "Jennifer Mcleod". The signature is written in a cursive, flowing style.

Jennifer Mcleod
Acting General Manager