



Murray Irrigation

Submission on the NSW DPI Water pricing application 2015

Submission to the Independent Pricing
and Regulatory Tribunal.

October 2015

Contents

| | |
|--------------------------------------|----------|
| Executive summary | 2 |
| 1 Background | 3 |
| 1.1 Background | 3 |
| 2 Submission | 4 |
| 2.1 Cost shares | 4 |
| 2.2 Agency reform | 4 |
| 2.3 Water management planning | 5 |
| 2.4 Regulated v unregulated | 5 |
| 2.5 MDBA charges | 6 |
| 2.6 Valley based pricing and tariffs | 6 |
| 3 Conclusion | 7 |

Executive summary

Murray Irrigation is concerned that regulated surface water users in particular are subsidising other beneficiaries of water planning and management activities in NSW.

Murray Irrigation supports continuation of Government and user cost shares, however, we note that for the purposes of charges, 'users' are irrigators. Murray Irrigation has long held concerns that 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 planned environmental water, basic landholder rights, riparian, floodplain protection, tourism and recreation 'users'.

Further, the increasing burden of reporting requirements to meet both State and Federal regulatory requirements is a result of Government policy, the cost of which should not be borne by 'users' alone.

Bulk water charges made up of Water NSW and Department of Primary Industries – Water (DPIW) are a major cost to our business and therefore our irrigator customers.

In 2014/15, government fees will represent:

- 24 percent of our fixed fee revenue
- 58 percent of our variable fee revenue and
- 37 percent of our total revenue

Total Government costs are forecast to be nearly \$12.6M in 2015/16 and along with our wages cost, are our two largest costs.

Murray Irrigation supports the proposed length of determination as suggested by DPIW to allow eventual alignment with the WaterNSW pricing period; however, remain concerned that there is still considerable reform and restructure occurring within the relevant water agencies in NSW. DPIW expects "substantial realignment of the functions currently delivered by DPI Water and WaterNSW"¹.

These reforms will impact on chargeable activities delivered by these agencies. Murray Irrigation supports the ACCC granting IPART accreditation to undertake the next determination of WaterNSW charges which will allow IPART to scrutinise the application to ensure that, where functions have been transferred between Government owned entities, there is no "double dipping" into the pockets of irrigators. If functions are transferred between determinations there must be capacity built into the system to allow one entity to pass on the fees collected for the function to the other agency.

In the NSW Murray, Murray Darling Basin Authority (MDBA) costs are major component of bulk water and water planning and management charges. While the DPIW application says there has been significant analysis and review of the MDBA operating and capital costs², however, this analysis occurred entirely behind closed doors and there has been no opportunity for customers to review the MDBA component of the charges.

In 2011 IPART determined not to allow full user share contribution to be applied to the MDBA charges due to concerns about transparency and lack of independent examination of its efficiency³. Murray Irrigation contends that, despite an analysis being conducted to the satisfaction of the Murray-Darling Basin Ministerial Council, this was not a transparent process and there has still been no independent scrutiny applied.

Murray Irrigation recommends:

- i. An equitable fee structure that recognises and recovers costs from all 'users';
- ii. More transparency regarding how costs are forecast and charges applied; and
- iii. An alignment with sustainable pricing for our industry.

¹ *DPI Water Submission to IPART, September 2015, p2*

² *DPI Water Submission to IPART, September 2015, Section 6.4*

³ *IPART, Review of bulk water charges for SWC from 1 July 2010 to 30 June 2014; Final Report, June 2010, p17*

1 Background

Murray Irrigation is pleased to provide this submission to the IPART on the pricing application of the NSW Department of Primary Industries - Water on behalf of the Water Administration Ministerial Corporation.

1.1 Background

Murray Irrigation holds five water access licences with the NSW Government and has issued contractual water rights to its members. Murray Irrigation's NSW Murray general security licence is equal to 62 percent⁴ of the total NSW Murray general security water entitlements. The company supplies irrigation water and associated services to 2,037 landholdings servicing 1,299 farm businesses over an area of 748,000ha in the southern Riverina.

Murray Irrigation is 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.

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.

Currently Murray Irrigation aims to recover 30 percent of our costs through variable charges with the remaining 70 percent received from fixed costs. In 2014/15 the actual ratio was 40:60 fixed to variable.

Further information about the company and its operation is available at: www.murrayirrigation.com.au.

⁴ Murray Irrigation NSW general security licence as a percentage of total NSW general security entitlements has reduced as a result of government entitlement purchases for environmental use.

2 Submission

2 Submission

Murray Irrigation's submission focuses on the issues and priorities from the company's and its customers' perspectives; it does not address all of the issues that arise from the DPIW submission, which have been addressed in the NSW Irrigators' Council response.

While on the surface it would appear that the charges proposed for the NSW Murray Valley do not reflect a significant increase in current charges, DPIW's application does not allow water users to easily dissect and understand the drivers for charges on a valley by valley and licence type basis.

Murray Irrigation supports the continuation of the three service categories for pricing purposes.

2.1 Cost shares

Murray Irrigation strongly supports the intent of a cost share framework, however, it is our view that the current structure places significant burden on 'users' who are predominantly regulated river irrigators while other impactors and beneficiaries of NSW water planning and management do not contribute. These include basic landholder rights, riparian and floodplain protection and tourism and recreational users. Murray Irrigation believes DPIW should be required to identify these other classes of users and assign a cost share to them. Where the DPIW determines it cannot recover the costs from the users, the Government should bear the cost as a community service obligation.

Murray Irrigation is concerned that the new cost code structure may result in some activities that had lower user cost shares now being bundled into new cost codes with higher user cost shares. Unfortunately the way the price application is presented, it is difficult to fully assess if there is cost shifting that results in higher user cost shares.

Further, there are cost codes identified as 100 percent user share, when the impactor (under the impactor pays principle) is not solely the user.

For example, cost codes W03-02 and W04-03: water take data management and reporting and water resource accounting respectively are allocated 100 percent user share despite the fact that "*water resource accounting, relates to the development of annual general purpose water resource accounts to meet the NSW Government's commitments for water resource accounting*"⁵ to meet various regulatory obligations. Murray Irrigation fails to see why users should pay 100 percent of the cost of resource accounting when the impact is caused by government (Federal and State) regulations and the benefit is mainly to government agencies who require the information therefore they are also the main user. That is to say, whichever pricing principle that you apply – impactor pays, user pays, beneficiary pays, it always falls back to the Government.

Recommendation: IPART closely scrutinise the user share ratio to ensure it is equitable and applied to all 'users' so as to avoid irrigators subsidising other beneficiaries of water planning and management activities. DPIW must be encouraged to identify and charge other users.

2.2 Agency reform

NSW is currently implementing Bulk Water Reforms with stage one being the amalgamation of State Water Corporation and the Sydney Catchment Authority. On 3 July 2015, the Minister for Lands and Water, the Hon Niall Blair indicated further reform with the DPIW to focus on water planning and policy⁶ implying other functions may be transferred to WaterNSW.

Murray Irrigation is concerned that the current pricing application does not clearly identify what functions may be transferred in the future, or what functions may be inherited from elsewhere. The concern is that during

⁵ *DPI Water Submission to IPART, September 2015, p119*

⁶ http://www.water.nsw.gov.au/__data/assets/pdf_file/0007/566737/Media_release-dpi_water_established.pdf

2 Submission

the transition to the final water agency arrangements, and while both organisations are under different determination periods, there may be inadvertent “double dipping” occurring with both agencies recovering costs for the same activity.

Where a transfer of functions occurs, if the cost recovery mechanism cannot also be transferred within the rules of the determination, there must be an ability for the Government agency collecting fees against the cost code to transfer it to the Government agency conducting the activity.

Recommendation: IPART develop a transitional mechanism to allow Government agencies to transfer recovered costs to the agency conducting the transferred function to avoid double dipping.

2.3 Water management planning

The previous determination for the Water Administration Ministerial Corporation (then administered by the NSW Office of Water) included cost recovery for the preparation, review and rewrite of Water Sharing Plans.

The NSW Murray Water Sharing Plan was implemented in 2004 and reviewed by the Natural Resources Commission and the NSW Office of Water in 2012 who recommended the WSP be rewritten. An extension was granted to 1 July 2015 to allow this to happen; however, as at October 2015, the NSW Murray and Lower Darling are still operating under the 2004 plan.

Murray Irrigation believes the funds set aside for this activity in the previous determination should be rolled over into this determination to meet any costs associated. It is our view that the delay of the finalisation of the WSP should not penalise irrigators who have committed significant time and resources of our own to the process and are frustrated by the lack of consultation and progress from the DPIW.

Further, any water management planning activities that are undertaken to meet the requirements of the Murray Darling Basin Plan, should not be funded by users. The Commonwealth Government committed to fund the implementation of the Basin Plan and this commitment should extend to all activities, including reporting and planning requirements, undertaken to comply with the Plan.

Recommendation: IPART must carefully consider the funding allocated to cost code W06 activities to ensure it is fairly allocated to new activities and not those that were funded under the previous work plan. IPART must scrutinise all management planning cost codes to ensure regulatory requirements of the Basin Plan are not being funded by users.

2.4 Regulated v unregulated

In the previous determination period 2011/12 – 2014/15 the percentage of revenue from regulated rivers exceeded that from unregulated and groundwater while the overall revenue variance was negative 1.7 percent⁷. In commercial terms, while regulated rivers are running at a profit, that profit is then subsidising losses in other business units.

In the NSW Murray, regulated rivers returned a positive revenue variance (between actual and IPART determination) of \$660,000 while revenue from the unregulated Murray returned a negative variance of - \$121,000⁸.

Recommendation: IPART should ensure regulated users are not subsidising other water users.

⁷ DPI Water Submission to IPART, September 2015, T5.3, p90

⁸ DPI Water Submission to IPART, September 2015, T5.4, p89

2 Submission

2.5 MDBA charges

In the 2011 determination, IPART determined that DPIW could not recover the full MDBA contribution from users⁹.

In the 2010 determination for State Water Bulk Charges, IPART found:

*“The lack of information and transparency of MDBA costs and activities continues to be an area of concern for us for the 2010 determination. It is our opinion that it is unsatisfactory to pass through unspecified costs to users without an independent review of efficiency.”*¹⁰

Despite DPIW’s claim that the operating and capital costs of the MDBA have undergone “a significant level of analysis and review”¹¹, water users have not been afforded an opportunity to scrutinise MDBA costs or activities or to provide comment. Therefore, the “scrutiny and analysis” has not been transparent and Murray Irrigation questions the independence of an efficiency review conducted by the MDBA into themselves.

In the period of the last determination, the NSW Government reduced its contribution to the MDBA for joint programs from \$35.8m in 2011/12 to \$12.4m in 2012/13, \$9.3m in 2013/14 and back to \$18.9m in 2014/15, however at no stage in this period were water user charges adjusted accordingly (WaterNSW or DPIW). That means Government agencies were recovering the full amount of MDBA charges allowable but only paying a fraction of the amount that was the basis for calculating the user share and revenue allowable.

This is evidenced in the DPIW price application which shows that in 2012/13 the determination for water planning and management component that was considered an MDBA contribution was \$13,359,000 while the entire NSW Government contribution to the MDBA (WaterNSW and DPIW) was \$13,500,000¹². Meanwhile users were still paying the full (then) State Water charges as per the 2010 determination and the full 2011 determination charges via (then) NSW Office of Water.

Recommendation: IPART restrict the amount of MDBA charges to be recovered from users due to a lack of transparency and independent review. IPART consider if it is feasible to refund to users the MDBA contribution that would be considered over and above the allowable ratio of user share from the past determination.

2.6 Valley based pricing and tariffs

Murray Irrigation strongly supports valley based pricing as the only fair means to recover costs incurred in each relevant valley and prevent cross subsidisation.

Murray Irrigation supports the retention of a two-part tariff structure. It is our experience that two-part tariffs are a mechanism to address the variable incomes associated with irrigation industries and variable water availability. During the Millennium Drought it became clear to Murray Irrigation that there was a need to minimise fixed charges for customers facing low or negative cash flows.

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 and the removal of water from the productive pool has had a marked impact on Murray Irrigation and its customers.

Two-part tariff structures are designed to respond to water availability. The reality is that the temporary market provides a mechanism to manage water holdings when water is available, but has limited benefit with regards to low to zero allocation years when irrigators have challenging financial circumstances.

⁹ DPI Water Submission to IPART, September 2015, p106

¹⁰ 2010-14 IPART determination of State Water Bulk Water Charges, Chapter 4.5.3, p63

¹¹ DPI Water Submission to IPART, September 2015, p106

¹² DPI Water Submission to IPART, September 2015, T5.27, p106

3 Conclusion

Murray Irrigation does not accept the need for risk management functions to address variations between forecasts and actual water deliveries. We believe doing so would lead to less efficiency because there would be no obligation on DPIW to respond to fluctuating water availability or demand. At the same time there would be less incentive for water users to improve their water use efficiency when faced with predominantly fixed charges.

The previous determination, including the two year extension, shows there is no need to implement price control or risk management mechanisms. As a monopoly operator, the DPIW is at far less risk than water licence holders in NSW.

Recommendation: IPART retain the valley based pricing mechanism and the two-part tariff structure where currently available.

3 Conclusion

Murray Irrigation supports, in principle, the proposed reduction in charges for customers in the Murray Valley; however, request the IPART to give greater scrutiny to charges associated with the MDBA and the user share of those charges.

Murray Irrigation supports the retention of cost shares but believes the IPART must carefully consider where activities have been parcelled under the new cost code system to ensure that the ratio of cost shares is maintained.

There must also be adequate scrutiny of water management and planning cost codes to ensure activities that are undertaken to meet regulatory requirements or Basin Planning activities are not being subsidised by users.

There remain concerns that DPIW is still undergoing significant reform, as are all NSW water agencies which makes price forecasting difficult. Murray Irrigation would like to have some certainty that there will be no inadvertent double-dipping in the future as functions are transferred between agencies during determination periods.

Murray Irrigation supports the retention of the two-part tariff structure and valley based pricing to avoid cross subsidisation. We believe there needs to be further scrutiny to ensure that regulated river licence holders are not subsidising other water licence holders.

Michael Renehan
Chief Executive Officer