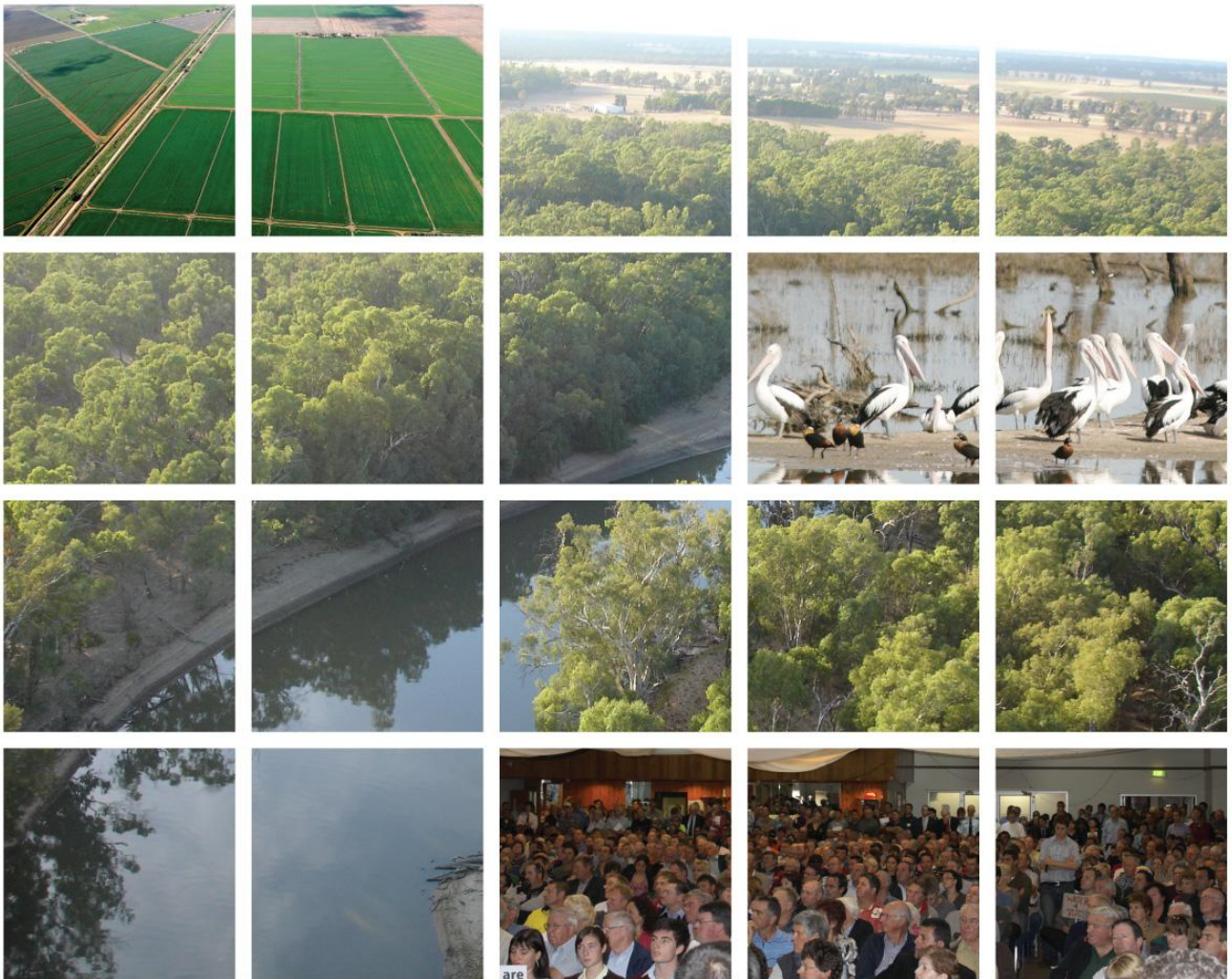


SUBMISSION TO IPART

“Review of Rural Water Charging Systems” Draft Recommendations, July 2012



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Introduction

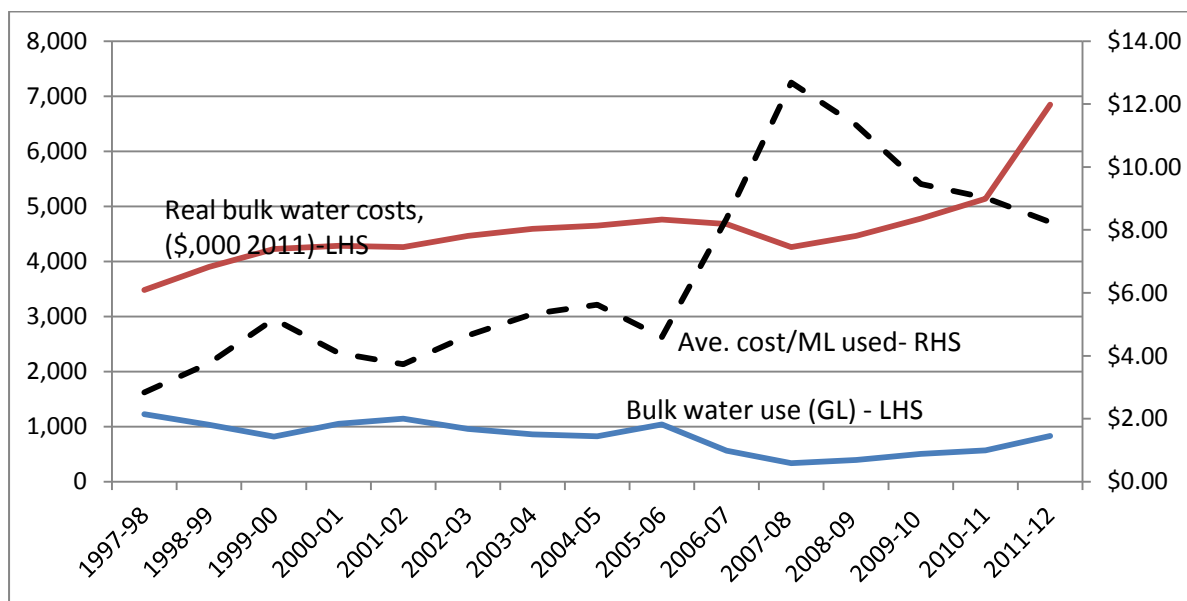
The main aims of the IPART review are to identify the best ways to: match bulk water charges with customer cash flows, ensure appropriate cost sharing of bulk water costs under the ACCC regime, and maintain viable and economically sustainable services to customers.

The review and its recommendations focus heavily on the first two aims while neglecting the latter. In MI’s view this is the major shortcoming of the review and the draft recommendations. The result is that the recommendations are too sanguine about the current situation – which has delivered ongoing and sustained increases in bulk water prices at a time when affected communities have faced the dual socioeconomic shocks of the worst drought in recorded history and the Basin Plan (see Figure 1).

Without acknowledging these real and potential threats to regional welfare the IPART review cannot be said to have met its stated assessment criterion of ensuring “effectiveness in addressing customer impacts and community impacts”.

MI has the following comments on this matter and the draft recommendations that it would like IPART and the NSW Government to consider in taking this review forward.

Figure 1: Bulk water costs and use to MI, 1998-2012



Sources: Murrumbidgee Irrigation Annual Reports, and nominal bulk water costs have been converted to 2011 prices using the ABS CPI deflator for tradeables. Data for 2012 is actual for 10 months to April.

i. Overview of the effectiveness in addressing customer impacts and community impacts

The main factor impacting on customers in terms of cash flow and real income under the current regime is the sustained growth in bulk water costs – even after valleys have been acknowledged to exceed full cost recovery.¹ There is nothing in this review that addresses this issue.

IPART – as part of this review – needs to inform the NSW Government of the increases in bulk water prices that it has recommended under its period as regulator, and explain how it considers that such sustained growth in pricing can be restrained within the current pricing regulation system in future (whether regulated by IPART or by the ACCC).

ii. IPART’s recommendation 1: Payment terms

MI support s the NSW Irrigators’ Council submission on this matter. Specifically, a deferral of payments instead of waiving fixed charges due to low water availability is an inappropriate drought relief measure. Fixed charges should be treated as a Community Service Obligation in the case of extreme and continued low water availability.

iii. IPART’s recommendation 2: Tariff structures

MI supports the retention of current tariff structures for both NOW and State Water. However, we continue to question the need for a volatility allowance to deal with State Water’s revenue volatility. We believe that this risk for State Water is significantly overstated with respect to both the outcomes during the worst drought in recorded history, and relative to the risks faced by State Water’s farm business customers.

In addition, we do not believe that it is appropriate to address such a risk by introducing an ‘insurance cost’ in target revenue. MI maintains that it should be addressed through cost control measures within drought management strategies by State Water, and the potential for these responses is currently significantly understated or neglected entirely.

iv. IPART’s recommendation 3: Cost shares

MI supports the NSWIC position with respect to cost shares. In particular we support an independent and transparent process for cost share apportionment and a review of the current cost shares to include all those who benefit from the provision of bulk water services. The cost of provision of bulk water services should be shared between all bulk water users of now and SWC services.

v. IPART’s recommendation 4: Under-recovery in the Peel Valley

MI is of the view that the very high prices being paid by the Peel suggests that the Government has invested at a level in the Peel that is beyond what would be justified on commercial grounds. We see no difference in this than, say, an investment in a toll road that required a toll charge that is beyond the customer base and required a charge that would be unreasonable to users. On this basis we

¹ Murrumbidgee regulated water users were ranked by IPART at about 120% of cost recovery in 2004-05. Since then bulk water costs (for both State Water and NOW) have increased by about 65% or 35% after adjusting for inflation.

would suggest that the paying customers be declared as being at full cost recovery and that Government meet the difference with a specific and ongoing cost share – which is quite small to the Government but obviously large to the paying customers in the Peel.

vi. IPART’s recommendation 5: State Water to apply for a financeability allowance

MI cannot support this proposal. If IPART’s intention is to contain future growth in bulk water pricing within current levels in real terms MI would have no problem in supporting whatever methods that would be consistent with achieving such an outcome. However, we cannot support the inclusion of a further potential cost ‘block’ in the building block approach that could be used to deliver further real cost increases through gaming and advocacy without tangible increases in services.

vii. IPART’s recommendation 6: State Water to apply for an increase in the RAB

MI cannot support the proposal to alter the RAB. In our view the RAB – accompanied by guaranteed rates of return at market rates without being subject to the same market risks and disciplines – is a major incentive to continue budget gaming and ‘gold plating’ of expenditure and investment plans. This alone presents unacceptable risks to customers – who face genuine market risks through trade exposure along with steepening costs and charges for bulk water and with most other utilities.