



**Postal** PO Box 492, Griffith NSW 2680  
**Offices** Research Station Rd, Hanwood NSW 2680 | Dunn Ave, Leeton NSW 2705  
**Contact** T (02) 6962 0200 | F (02) 6962 0209 | E [info@mirrigation.com.au](mailto:info@mirrigation.com.au)  
[www.mirrigation.com.au](http://www.mirrigation.com.au) | ABN 39 084 943 037

Growing opportunity – water and beyond.

## **SUBMISSION TO IPART ON ITS DRAFT DETERMINATION OF PRICES FOR NSW WATER ADMINISTRATION MINISTERIAL CORPORATION (WAMC) 18 October 2010**

**By Murrumbidgee Irrigation (November, 2010)**

### **Introduction**

Murrumbidgee Irrigation Ltd (MI) is an unlisted public company providing water supply, drainage and environmental services to approximately 2600 customers across 3300 landholdings in the MIA. The Company employs 180 staff and manages \$500 million of infrastructure assets servicing over \$2.5 billion in water entitlements.

The Murrumbidgee Irrigation Area (MIA) is one of the most diverse and productive food bowls in Australia contributing over \$5 billion annually to the national economy.

### **General Comments**

Murrumbidgee Irrigation (MI) has been a long term supporter of the objectives of pricing reform in rural water supply, and of the IPART process. It has actively and constructively engaged with that process since its inception.

In that context MI is extremely concerned at the large price increases authorized by IPART that NSW Office of Water (NOW) can charge water users for water management activities.

MI recommends reductions to price increases outlined in the Draft Determination that would serve to limit the burden on already stressed farm businesses whilst still allowing NOW to perform its role adequately.

### **Detailed Comments**

The average real increase of about 35% to be paid by farmers in this determination follows a history of large price increases that have been and will continue to be met by the farmers for WAMC's water management activities. These increases have been approved despite ongoing questions about NOW's commitment to the IPART process, and its refusal to make changes to its operations consistent with a customer focused services entity.

These price increases have been approved during the longest and deepest drought in recorded history in the Murray-Darling Basin. ABARE data shows that profitability of farming has plummeted during the drought and farmers have struggled to generate positive returns on capital (ABARE, An Economic Survey of Irrigation farms in the Murray-Darling Basin, 2007-08). There has been no corresponding threat to growth in WAMC employment or wages over the same period.

The latest price hike follows hot on the heels of recommendations from the independent Murray-Darling Basin Authority (MDBA) that would have the effect of permanently locking in those levels of profitability and effectively destroying much activity on which regional irrigation communities in NSW are based. The impacts on community sentiment and outlook in regional areas across NSW have been overwhelming.

Murrumbidgee Irrigation would make one last simple appeal to IPART.

It is time to show some compassion and mitigate the relentless pressure on irrigators and their communities arising from the decisions of independent authorities. MI believes that this can be achieved within the IPART framework, without compromising progress to meeting the objectives of efficient and equitable pricing.

We believe that there are several areas that provide potential for reductions that would do much to benefit rural communities without harming NOW or the State of NSW Government finances.

- 1) Limit the real growth in WAMC's core (base) expenditure to that recommended by PwC, or to population growth for each year of the four year determination. This is likely well above what users/customers would be prepared to pay based on past performance, but allows NOW to maintain a real growth in WAMC expenditure.
- 2) Reallocate the overhead costs related to staff working on consent transactions from general user costs to the costs of consent transactions. This would lower charges to users and increase charges for consent transactions, and mitigate cross-subsidy. The resources used on consent transactions are about 20% of total costs (without overheads) but the employment ratio is much higher than that. In these circumstances it is difficult to justify a categorization that the consent services are a peripheral service. Making the adjustment would also be more consistent with other methods of cost allocation used by IPART in bulk water determinations, including the impactor pays approach.
- 3) The draft determination states that cost-recovery will increase from 88% to 94% of full user costs. This continues a steady increase reflecting the desire to achieve full cost recovery. However, NSW is well ahead of other States in this regard and it would not compromise the continued pursuit of that goal if a lower target were set for this determination. For example, an increase to just 90% would provide much needed relief and send an important signal to farmers that their contribution to society is valuable – without compromising the ultimate objective of full cost recovery.
- 4) Reconsideration of the decision to pass \$1.4m of scenario 2 costs related to implementation of the Commonwealth water Act. There is no need to pass these costs on in the context of the "no net costs" arrangement between NSW and the Commonwealth.

In addition, MI strongly opposes the approval of NOW's request for a rate of return on its asset base. Providing such a commercial framework for WAMC is very high risk for paying customers given WAMC's refusal over many years to adopt practices consistent with a going commercial entity, and propensity to lodge ambit claims for additional resources. We note that IPART has reduced that ambit claim significantly but a 35% real increase in budget resources over the next 4 years is likely much higher than average for a NSW government department.

MI further notes that IPART continues to be very understanding of every request by NOW to socialize costs, including the recent approval to consolidate ground water prices to two sources, inland and coastal. This follows removal of discounts for irrigation corporations based on cost and service reductions associated with massive consolidation of customers.

MI looks forward to the possibility that IPART will draw a line in the sand against future trends towards 'consolidation' by the WAMC, and mitigating the preparedness of NOW to allow cross-subsidies.