# High Security Irrigators-Murrumbidgee

# Submission to IPART on NSW Office of Water

# 2010-2014 Price Determination

Roger Hoare, Corporate Affairs Manager

Level 1, 381 Banna Avenue, Griffith NSW 2680

Phone 0269642420

High Security Irrigators –Murrumbidgee (HSI-M) represents the high security water users of the Murrumbidgee Valley. Members of this organisation produce many different crops ranging from Citrus, Wine grapes, Vegetables, Dried and other fruits, Nuts and Olives to field and seed crops. They come from communities spread over the length of the river from Tumut at the head to Balranald near the confluence of the Murrumbidgee with the River Murray. The value of such crops is estimated to be 1-2 billon dollars.

## General Comments:

HSI-M is extremely disappointed with the submission from the NSW office of Water. The submission lacks detail in many areas. To be specific there is not enough detail of operating levels, efficiency levels and costing of various services provided. Data in the tables do not allow detailed analysis to be carried out to justify or refute the claims made for additional funding from users.

The Office of Water states at the beginning of their submission that they are still negotiating with the Commonwealth over "no additional net cost" provisions associated with the Murray Darling Basin Authority and the Basin Plan. HSI-M supports the office of Water in these negotiations but would point out that should these fail, we along with all other irrigator groups will not accept any additional cost being passed on to irrigators. HSI-M contends that the principle of "no additional net costs" applies equally to Irrigators as well as the NSW Government. Therefore the section of additional estimated costs associated with Commonwealth reforms is purely of academic interest only and should form no part of ongoing costs sought by the Office of Water.

## Length of the determination

HSI-M supports a four year determination period. To do otherwise puts the Office of Water out of kilter with State Water and creates an administrative nightmare of constantly responding to pricing submissions.

## Regional-based prices for ground water

HSI-M supports the continuation of valley by valley approach price setting for ground water as there is insufficient information on ground aquifers to adopt the coastal and inland proposal in the submission.

## Increased emphasis on fixed Charges

HIS-M supports a 70/30 percent fixed verses usage charge system as this is in line with State Water and the larger Irrigation Corporations pricing regime.

## Revenue required to fund capital expenditure

HSI-M would support the Office of Water depreciating assets as is the normal business practice but does not support a return on capital being charged.

## New types of licence

While HSI-M supports the licensing of all types of water harvesting only the direct administrative costs should be applied to these new types of licence. Any costs that are imposed because of a policy decision should not be included in the licence cost.

## Staffing numbers

In its submission the Office of Water states that it proposes 4% efficiency gains for 2010 and 2011. There is no mention of what efficiency gains have been achieved in the previous determination period. One would have thought that with such huge staff numbers and uptake of modern technology there should have been significant efficiency gains during that period.

In seeking to justify an additional 47.5 FTES, an increase of 18.5% for direct operations, it is not clear how the activities of State Water and the Office of Water are separated as there appears to be an overlap of activities and responsibilities that  are not clearly defined. In the areas of metering, data collection, ground water monitoring and supply of data to third parties (Bureau of Meteorology) there is a definite blurring of responsibility.

Under the section on water management planning the submission is for an additional 6.4 FTES to complete water sharing plans. Where these not to be completed during the previous determination period?

## Forecast Water Management operating and forecast capital expenditure

Tables 4 and 5 in the submission from the Office of Water give very little detail of how these figures have been arrived at other than simple maths of the cost of the extra FTES. There is nothing in the submission as to how these extra positions are to be allocated across the various areas of responsibility. In section 5.2 inputs into labour costs and non labour costs are mentioned, including service level agreement costs with State Water, yet in the two tables there is no breakdown of any of these costs.

## Additional costs associated with Commonwealth reform requirements

HSI-M has stated earlier in this submission that any additional costs associated with the MDBA should not be considered in this review. However there are a number of "additional activities" that require some questioning as to the need for the Office of Water to be undertaking activities in this area. For example:

Structural Adjustment, Basin Plan – Planning, ACCC development and implementation and Assessment of Water Purchase.

All up these activities would require an additional 32.9 FTES and all of which we would contend to be the direct responsibility of the Commonwealth through the MDBA and not something to be undertaken by the Office of Water. As far as the ACCC is concerned HSI-M considers that that organisation is quite capable of doing its own development and implementation.

## Consumption Forecasts

HSI-M rejects the principle behind the Office of Water moving to a 15 year rolling average to determine water use each year for the same reason a similar proposal was rejected in State Water's submission to IPART in November 2009. To quote from our submission to IPART in reply to State Water "HSI-M fails to see why State Water should move away from the IQQM model of forecasting water availability just because climatic conditions do not suit their budgetary expectations. On page 9-2 of State Water's submission the third dot point states:"Historical records adjusted for climate change and assessed through IQQM models will continue to be the basis for the longer term water resource planning, however for the purposes of predicting likely revenue of the next four years using the dry sequence of the last 15 years will reduce the risks of under-recovery in the event that the dry sequence continues" This is a clear bid by state Water to bolster their bottom line at the expense of water users who have no way of being able to insulate themselves from the same dry conditions."

## Pricing Structure

In the Office of Water's Submission in section 12.1 six dot points outline proposed changes to tariff structures. Some of these this submission has addressed earlier, groundwater, 100% v 70/30% fixed/variable cost recovery, return on capital and new types of licence. However HSI-M is opposed to the move to 100% of cost recovery from users until other state jurisdictions have reached the same level. In regard to the point about increased costs due to more "focus of water resource management activities" caused by increased MDBA costs, HSI-M is of the view that as this is the core business of the Office of Water it is difficult to see what has changed.

HSI-M will only accept price scenario 1 as the basis for this price determination as already out lined above in the comments about "no net increase of costs" as part of the negotiations between the Commonwealth and the Office of Water.

## Impacts of pricing

While it is easy for the Office of Water to justify large price increases in bulk water prices by saying that they are relatively small in total farm costs similar to the arguments put forward by State Water in their submission to IPART, the actual percentage of their combined charges to a high security water user in the MIA and CIA is now 20-30% /Ml of their total water charges. The outlook for most of the major commodities using high security water in the Murrumbidgee Valley is poor. The wine industry is currently facing hard times with the world economic decline and huge over supply problems estimated by industry sources to be in the vicinity of 400,000 tonnes or approximately 25% of current production which equates to 40,000 hectares. Prices on offer from wineries as low as $100/tonne this year coupled with heat extremes that have reduced yields by 20% will ensure most growers will not be meeting the cost of production this year. Many growers are expected to be forced out of the industry. Commodities that rely on exports such as Citrus and Olive Oil and other fresh fruits have been hard hit by the high value of the Australian Dollar, this teamed with the dominance of the domestic market by the two major chains has subdued the expectations of growers in these industries. Only those import replacement commodities such as nuts are looking forward confidently. With all of these industries the uncertainty of water supply is causing great concern, not only from the result of ongoing record dry periods but also the forthcoming new Sustainable Diversion Limits due to be announced mid-year by the Murray Darling Basin Authority in the Basin Plan.