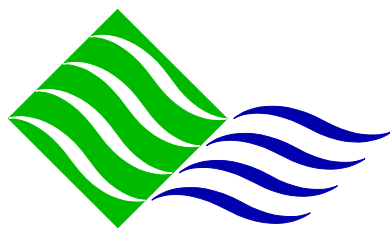


Murray Irrigation Limited
Response to NSW Water Administration
Ministerial Corporation
IPART 2010 Bulk Water Prices Determination
Submission to IPART



Murray Irrigation Limited

Wednesday 16 June 2010

1. Key points

Murray Irrigation does not support the NSW Office of Water's (NOW) argument for significant increases in Water Administration Ministerial Corporation charges.

NOW has not provided sufficient evidence to support the price increases proposed. NOW's approach to the IPART determination process has made it virtually impossible for water users to dissect and understand the drivers for charge increases on either a valley by valley and or licence type basis.

NOW is seeking enormous increases in water users' contributions to Murray Darling Basin Authority (MDBA) costs. The NSW Government negotiated a "no net costs" agreement with the Commonwealth in relation to the Basin Plan and Commonwealth reform. It is entirely inappropriate for NOW to seek to pass cost increases that have subsequently arisen onto water users, this claim should be dismissed without question by IPART.

The MDBA's governance arrangements exclude water users from any input that is substantive or material in nature. There is no disclosure or scrutiny of its costs or activities available for water users who are being asked by NOW to make a massive contribution to the MDBA's costs.

IPART should not allow the inclusion of MDBA costs in the charges paid by water users.

Murray Irrigation supports a four year determination.

Murray Irrigation recommends this determination apply from 1 July 2011 to the 2011/12 water year.

Murray Irrigation requests IPART revisit some of its assumptions about the level of NOW costs that are recovered from water users. IPART's current approach places NSW water users at a commercial disadvantage compared to water users in South Australia and Victoria, where recovery of water management and planning charges from water users are significantly lower. This inequity will not be addressed by the Water Management and Planning Charge Rules to be made under the *Water Act 2007* (Cth).

Murray Irrigation requests IPART ensures that regulated surface water licence holders are not subsidising NOW costs driven by unregulated and groundwater licence holders. Murray Irrigation could not confirm this is the case from the NOW submission.

As a result of the Water Market Rules and Water Charge (Termination Fee) Rules Murray Irrigation is highly regulated and faced with the risk that customers may transform, purely

to reduce their Government fixed charges. This situation arises because Murray Irrigation holds a separate conveyance licence. Murray Irrigation requests IPART consider re-introducing the large customer rebate to NOW charges to mitigate potential government charge differences driven by our conveyance licence.

2. Introduction

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 66%¹ of the total NSW Murray general security water entitlements. The company supplies irrigation water and associated services to 2,389 landholdings over an area of 748,000ha in the southern Riverina. Further information about the company and its operation is available at www.murrayirrigation.com.au.

Murray Irrigation welcomes the opportunity to respond to the NOW submission to IPART's 2010 review of prices for the Water Administration Ministerial Corporation. Murray Irrigation appreciates IPART's approach to date to this determination which has required increased disclosure by NOW and extensions to IPART's review timetable.

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

Since the 2006 determination there has been significant Commonwealth intervention into water policy, governance and management. This intervention is expected to drive significant and fundamental changes to the irrigation sector in the Murray Darling Basin, through the Intergovernmental Agreement on Murray-Darling Basin Reform (IGA 2008) and the *Water Act 2007* (Cth). Murray Irrigation contends that these fundamental changes warrant IPART taking a different approach towards the allocation of NOW costs to water users. A different approach is required to ensure that NSW irrigators remain competitive in the market place; this is particularly significant because of escalation in Murray-Darling Basin Authority (MDBA) costs and the reality that NSW is the only state in the Murray-Darling Basin recovering a significant proportion of water resource management and planning costs from water users.

In addition to regulation through the *Corporations Act 2001* (Cth) Murray Irrigation's business operations are heavily regulated by governments through its licences with the NSW government (water management works licence, environmental protection licence and operating licence) and by the Water Market and Water Charge Rules made or in the process of being made under the *Water Act 2007* (Cth).

Increasing regulation is imposing increased costs on Murray Irrigation's business operation which by necessity are passed on to our customers. These costs are additional to the costs incurred by private diverters. Through this determination Murray Irrigation seeks IPART's diligence to ensure that revenue collected from large customers does not subsidise the costs driven by individual licence holders or unregulated and or groundwater users.

In the 2006 determination the large customer rebate was to be phased out from the Water Administration Ministerial Corporation determination. In this submission Murray Irrigation

¹ 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.

argues that the principles behind the large customer rebate for Water Administration Ministerial Corporation charges needs to be revisited.

Murray Irrigation is not in a position to comment about the efficiency of NOW's operational expenditure and capital costs from a NSW Murray perspective because of the way the information has been provided.

The initial information provided to IPART was inadequate and the subsequent information extremely difficult (virtually impossible) to comprehend. Murray Irrigation considers the work completed by PriceWaterHouse Coopers (PwC) and Halcrow Pacific Pty Ltd in their review of NOW water management expenditure is comprehensive and given the limitations of information and data, this work should be used extensively by IPART to inform their decision making.

3. Key reforms and programs since the review

3.1 National changes

This section of the NOW submission details the raft of activities that constitute the changes being driven by the *Water Act 2007* (Cth), the Commonwealth's Water for the Future program and the Intergovernmental Agreement on Murray-Darling Basin reform (IGA 2008).

Murray Irrigation does not consider the information detailed in this section relevant to the determination.

The NOW submission notes that a substantial proportion of the new activities are funded by NSW Treasury and the Commonwealth and their costs are not included in water management charges.

NOW proposes these activities will provide substantial water management benefits to users and the environment (page 8), this statement is disputed by Murray Irrigation.

The NOW submission does not articulate or provide evidence of costs incurred, outputs or outcomes expected for the key reforms and programs listed, if any costs for these activities are to be recovered from water users, a business case needs to be presented.

Murray Irrigation notes that the Intergovernmental Agreement on Murray-Darling Basin reform includes agreement, that the Basin States will not bear additional costs as a consequence of the reforms agreed between the parties and the implementation of the Water Act. Murray Irrigation does not support any of these additional costs being passed on to NSW water users. It is imperative IPART identifies these costs and excludes them from the costs recovered from water users to maintain the intent of the Intergovernmental Agreement.

3.2 State changes and activities

The creation of the super agency the Department of Environment, Climate Change and Water (DECCW) and establishment of the NOW within the super department should have resulted in permanent administrative efficiency savings and the opportunity for NOW to be a highly focussed and efficient unit.

IPART should seek to identify and pass on any administrative cost savings to water users through the determination, if no efficiency savings have been made IPART should make assumptions about potential savings and include these assumptions when making their determination.

Murray Irrigation notes that the majority of the activities listed in this section of the NOW submission are not relevant to the NSW Murray, where the current water sharing plan was completed in 2003 and the majority of extractions by volume are associated with regulated surface water licences. There is no case for regulated surface water licence holders to be subsidising the regulation of other types of licence holders (unregulated and or groundwater).

4. Water management expenditure and service delivery over the current determination

There is no dispute with NOW's statement that their revenue, since the last determination is significantly less than forecast water user revenue.

Murray Irrigation also supports the initiatives and action taken by NOW since 2006 to introduce modified water sharing and water management arrangements in the face of successive years of reduced sales caused by extended drought.

Murray Irrigation's observation is that the substantive actions taken by NOW to address the complex and difficult issues confronting water resource managers have been undertaken by a relatively small team within NOW.

It is not possible to establish, how NOW has responded and changed their programs and expenditure in response to significant revenue shortfalls.

The source of the \$14.5M of NOW cash reserves used to fund the revenue shortfall with the assistance of \$5M from State Government reserves (page 22) needs to be explained.

NOW identifies \$13.5M of additional user share expenditure compared to forecast expenditure, of which \$2.9M is in the NSW Murray. The activities associated with this increased expenditure need to be identified for water users to comment on whether the costs incurred are justified or efficient and not the result of the governance arrangements with the MDBA.

5. Regulatory framework for the 2010 determination

5.1 Length of the determination

Murray Irrigation does not support NOW's proposition for a three year determination. Water users operate in a business environment that involves significant uncertainty. Opportunities to provide certainty are important.

IPART should make a four year determination.

The activities being regulated by IPART are monopoly activities performed by government. Apart from climatic influences, which have been significant in the current determination and are addressed separately through consumption forecasts and tariff structure, the major influences on NOW's operations are being driven by government policy, both State and

Commonwealth. In developing their own policy and negotiating with the Commonwealth NOW should be cognisant of any risk to their own revenue during policy development, including agreements with the Commonwealth.

Murray Irrigation considers the current determination should apply from 1 July 2011.

In the future, irrigation infrastructure operators, under the draft Water Charge Rules (Infrastructure Operators) will be required to establish their pricing schedule prior to the commencement of the new water year.. Murray Irrigation considers this good business practice. Murray Irrigation will also be required to provide a five year network service plan and associated charging schedule.

In Murray Irrigation's case government charges are passed on to customers and included in Murray Irrigation's pricing schedule, which is available publicly. Government charges are not separately billed by the company, but collected as part of Murray Irrigation's charges.

Murray Irrigation considers water entitlement holders are entitled to know the costs associated with ownership of entitlements and use of water at the start of the water year.

Murray Irrigation is currently setting its 2010/11 budget and associated charging schedule. To have to revisit Murray Irrigation's budget and charging schedule to accommodate a mid-year IPART determination for the Water Administration Ministerial Corporation charges would involve additional work by Murray Irrigation and result in less certainty for water users.

In addition the time and cost incurred by all stakeholders and IPART in the determination process are significant; therefore more frequent determinations should be avoided.

5.2 Price setting approach

Murray Irrigation supports valley based pricing for regulated and unregulated water resources and groundwater management unit based prices for groundwater.

This approach to price setting is most likely to align closest to cost reflective pricing which is supported by Murray Irrigation.

Fixed charges versus a two-part tariff

Murray Irrigation supports an approach to price setting that is reflective of costs, however, Murray Irrigation also considers it is essential that;

1. Monopoly service providers are not insulated from the commercial imperative of identifying mechanisms to reduce costs at any time. However this is particularly important when their customers are confronted with difficult financial circumstances as a result of low water availability. These are the conditions that have prevailed in at least the southern Murray-Darling Basin since the 2006 determination; and
2. Customer accounts are reduced in total when water sales are reduced.

A 100 percent fixed charge tariff does not satisfy either of these objectives and is detrimental to the irrigation sector in NSW regional communities.

Incorporation of new types of licences

Murray Irrigation supports NOW's proposition that new licence types incur costs that align with the costs applied to the closest equivalent of existing licences.

6. Additional resource requirements for core water management activities from 2010

Murray Irrigation does not support NOW's claim for significant additional resources to meet the demands for core water management activities because NOW has not provided sufficient evidence to justify that additional resources are essential or cannot be resourced by redeployment or efficiency gains.

The draft PricewaterhouseCoopers (PwC) and Halcrow Pacific Pty. Ltd. review of the efficiency of NOW actual and forecast water management costs is an excellent report which highlights the difficulties associated with determining NOW's efficient costs and the weaknesses in NOW's approach to seeking additional revenue.

The fundamental issue confronting water users and IPART is that from the information provided to date by NOW to justify their claims for additional resources;

1. It is not possible to establish the demand compared with current resources and performance or
2. To align the claims at either a state wide or regional level to assess their importance.

The demand for additional staff for core activities is just a list, it needs to be viewed in the context of existing staff resources, workplans, past expenditure, proposed future expenditure and expected outcomes and attribution of activities across valleys.

In the case of the NSW Murray some of the programs are either activities completed by the MDBA or are not relevant to the NSW Murray. IPART should protect water users from paying for services that cannot be delivered efficiently or are duplicated because of the governance structures established by government.

Murray Irrigation requests IPART investigate the veracity of NOW's claim that labour costs are 60 percent of the direct costs of water management activities, presumably State Water cost for metering and billing on behalf of NOW are a significant proportion of the other 40 percent of costs. Murray Irrigation is surprised that NOW's labour costs are not a higher proportion of total direct costs. As NOW is an organisation that does not have significant operational activities, when compared to irrigation infrastructure operators.

7. Forecast capital expenditure

NOW proposes forecast capital expenditure in four areas, where they are seeking a water user contribution, although it is impossible to identify how these costs are to be recovered.

Water Extraction Monitoring

This program is not relevant to Murray Irrigation which has two extraction points from the River Murray, both of which are owned by Murray Irrigation and which Murray Irrigation

pays for diversions to be audited on a monthly basis, with the information also provided to State Water.

Hydrometric gauging stations expansion and refurbishment

Murray Irrigation understands that the hydrometric stations essential to State Water and regulated water management are funded by State Water and the costs associated with these services are therefore included in State Water costs. Therefore Murray Irrigation argues that regulated water users should have a zero contribution to the hydrometric infrastructure required by NOW.

8. Murray Darling Basin Authority costs

IPART should reject the inclusion of the additional MDBA costs as proposed by NOW. An increase in water user contributions from \$1.6 to \$6.5M in a single year is unacceptable for the following reasons;

1. MDBA costs are monopoly costs that are not subject to any regulation or scrutiny. It is impossible to determine whether they are efficient costs or that the costs can be justified as legitimate costs that water users should contribute to.
2. Governments in July 2008 agreed to no net increase in costs as a result of the reforms agreed to in the Agreement on Murray-Darling Basin Reform (IGA 2008). The IGA also included agreement that the States would maintain their 2006/07 contribution in real terms to the MDBA. It is not acceptable therefore to expect to pass on additional costs to water users through the IPART process.
3. The extent to which costs and or activities are being duplicated by MDBA and NOW cannot be determined.
4. The contribution to costs of the governance arrangements cannot be quantified.
5. It is a four times increase in a single year.

Why NSW would accept an increase in their share of costs paid to the MDBA from \$3.7M to \$18M in 2010/11 is difficult to understand. Murray Irrigation can only conclude that NSW has been bullied into accepting additional costs associated with the MDBA by the Commonwealth Government and is now seeking to pass these costs onto water users.

An increase in costs of a monopoly service provider of the magnitude of that proposed by NOW for MDBA should result in public outcry. Particularly when the public information presented through the IGA suggests a no net cost increase.

The NSW Office of Water response to IPART when questioned further about MDBA costs is inadequate and provides no evidence that MDBA costs have been subject to appropriate scrutiny.

Murray Irrigation seeks IPART's support to exclude the increase in costs from the determination as the only protection of water users from the abuse of monopoly power at both a Commonwealth and State level which is occurring through the MDBA process.

9. Base level revenue needs for water management core activities

The case for an additional revenue of \$16.1M in 2010/11 or a 28 percent increase compared to 2009/10 is not clearly articulated. In fact the user share increases by 47 percent. Murray Irrigation is not able to improve on the comments provided in the PwC and Halcrow review.

10. Additional costs associated with Commonwealth reforms

Murray Irrigation does not support NOW's proposal that they require an additional 57 staff costing in the order of \$10.5M to implement the *Water Act 2007* (Cth).

Murray Irrigation makes the following specific comments;

- The Basin Plan is being prepared by the MDBA. The NSW Government have argued that they are not involved in the preparation of the Basin Plan, and where NOW have provided resources such as modelling it is Murray Irrigation's understanding this has been funded by the Commonwealth.
- The NSW Government is not responsible for implementation of the Water Charge and Water Market Rules to be made by the Minister for Water. The Australian Competition and Consumer Commission (ACCC) is responsible for monitoring compliance with the new rules. The only involvement of NOW in relation to the Rules is through consents, which if NOW costs were efficient would be a fully funded activity (i.e. recovered by transactions charges). NOW suggest that the Market Rules may require "NOW to licence all extractions within irrigation corporations..." This is incorrect. Transformation is a voluntary not a compulsory process. NOW in previous IPART determinations argued there was no justification for large customer rebates, because there were no water management savings associated with large customers. NOW cannot now argue they require additional staff in anticipation of transformation.
- Environmental water shepherding is the basis of a memorandum of understanding with the Commonwealth, with activities funded by the Commonwealth. In addition water users who are not beneficiaries of this policy should not be expected to contribute.
- Compliance with National Standards, Murray Irrigation would argue that regulated surface water users contribution to these initiatives is through either State Water or as a result of costs incurred as operators. Activities completed by NOW as the water resource manager to ensure compliance with these standards, is not at all relevant to regulated surface water users.
- Murray Irrigation understands the Commonwealth is providing significant funding for the development of the National Water Market Systems, there is not sufficient evidence presented by NOW to justify a contribution from water users.

11. Future water metering costs

Murray Irrigation supports more accurate metering of water use. Murray Irrigation seeks IPART's diligence to ensure that surface water users are not funding the development and implementation of improved metering of unregulated extractions and groundwater use.

Murray Irrigation has two extraction points from the River Murray, the Mulwala offtake and Wakool Canal offtake. Both of these offtakes have compliant meters which are owned, operated and maintained by Murray Irrigation. These meters are part of Murray Irrigation's asset and their capital and operational costs are recovered through our charges.

Murray Irrigation currently pays in the order of \$1,800 per month for Thiess to verify and audit Murray Irrigation's diversions; this information is also provided to State Water.

The way the information is presented in the NOW submission Murray Irrigation is not able ascertain whether the costs of this program are 100 percent attributed to unregulated and groundwater users.

Murray Irrigation should not be charged any costs for the implementation of more accurate metering in the river system.

12. Consumption forecasts and entitlement basis for water management charges

Murray Irrigation supports continuation of a two part tariff (refer section 4.2). Murray Irrigation acknowledges that debate about what assumptions should be made for consumption when determining prices has been inadequate.

Murray Irrigation also recommends IPART explore a tiered water use charge, where the first five megalitres of use are significantly more expensive than subsequent water use. This option is currently being considered by Murray Irrigation, after consideration of the volumes of water that are required to supply the first few megalitres of water use on a property.

NOW argue their costs increased significantly when implementing their critical water strategies in the Murray, Murrumbidgee and Lachlan valleys. Murray Irrigation has been a public supporter of the NOW's management in the face of limited water supplies in the southern Murray-Darling Basin. Murray Irrigation would argue that implementation of the critical water strategies increased the work loads of a small number of key staff. However, the extent to which costs were actually increased is not at all clear.

Murray Irrigation supports the usage charge only applying to supplementary water licences.

13. Water management charges

Murray Irrigation argues that scenario two proposed by NOW, which includes an allowance for Commonwealth activities should be rejected. The NSW Government agreed with the Commonwealth to a no net costs increase, this approach should also apply to water users.

Scenario one prices proposed by NOW represent significant increases compared to 2009/10 charges, which based on the 2006 determination would have had the NSW Murray at full cost recovery.

Murray Irrigation understands that the water industry has continued to mature and become more complex, with significantly increased regulation with successive IPART determinations. Murray Irrigation and its customers face the same operating environment. Murray Irrigation argues Government monopoly service providers should not be insulated from commercial

pressures. NOW needs to explore innovative ways or becoming an efficient and effective organisation. IPART with their knowledge and access to resource has an important role to play through this determination process to ensure that water users only pay the efficient costs.

The NSW Government is the only government in the Murray-Darling Basin that is recovering a significant proportion of their water resource management costs from water users. As part of the ACCC's consultation process for the Basin Water Planning and Management Charges Rules the ACCC investigated current cost recovery arrangements between Basin jurisdictions.

The ACCC concluded the degree of cost recovery for water planning and management activities varies widely across the Basin jurisdictions, with NSW having the highest level of cost recovery (ACCC 2008).

The NSW Government's approach places NSW water users at a significant commercial disadvantage compared to other water users. This is no more so than in the NSW Murray which is competing with Victorian and South Australian irrigators for access to River Murray water. South Australian water users are not contributing to water resource management costs and recovery of Victorian water resource management costs is lower than in NSW. Both Victoria and South Australia are signatories to the National Water Initiative, so NSW should not argue they are required to recover these costs because of the National Water Initiative.

The *Water Act 2007* (Cth), fails to address these inequities firstly because the ACCC cannot regulate where a charge is not struck and secondly because their approach to water planning and management charge rules is to adopt light handed approach to regulation and to only require disclosure of charges and the process and basis for setting charges (Wong 2010).

This inequity or commercial disadvantage that is being imposed on NSW water users is made more significant when combined with the reality the Victorian and South Australian Governments provide direct subsidies to water users as drought support strategies. In the Victorian Government's case it involved subsidising bulk water charges and in South Australia it extended to purchasing water on behalf of water users and the urban community, with no bulk water charge applied at all.

In Murray Irrigation's case, the combined State Water and NOW charges have been in the order of \$4.5 to \$5M per annum during the last determination period, this \$18-\$20M would have provided valuable financial relief to this region.

14. Transaction fees for water consents

Murray Irrigation supports transaction fees recovering the costs of water consents. NOW needs to consider in what ways their systems can be streamlined to be efficient. In 2009/10 year to date Murray Irrigation has completed 554 transactions through its share and entitlements registers with two full time effective staff.

15. Large customer rebates

Murray Irrigation requests IPART consider re-introduction of the large customer rebate for NOW water entitlement charges.

Under NOW's current entitlement structure where Murray Irrigation's 300,000 unit share conveyance water access licence attracts both fixed and usage charges² results in Murray Irrigation's water entitlement charge being 27 percent higher than the NSW Murray general security entitlement charge.

This situation, particularly if the State Water large customer rebate is reduced as proposed by IPART may encourage Murray Irrigation customers to transform, just to pay lower government charges. This would result in inefficiencies for both Murray Irrigation, State Water and NOW and is an outcome that should be avoided.

This volume, prior to the establishment of Murray Irrigation was accounted as river operational losses and not part of NOW's predecessors' revenue base.

Murray Irrigation and its licences which command such a large proportion of the volume of NSW Murray regulated entitlements and water use through two extraction points from the River Murray, must provide administrative efficiency to NSW and result in avoided costs particularly licensing, administration and policy development. Murray Irrigation seeks to have these avoided costs savings passed on through IPART's determination process.

² Assuming Murray Irrigation passes the fixed charge conveyance licence charge on to water entitlement holders through the water entitlement charge

References

ACCC (2008), Issues paper, Water charge rules for water planning and management, October 2008. Australian Competition and Consumer Commission.

IGA (2008) Agreement on Murray-Darling Basin Reform, 3 July 2008.

Wong, P. (2010) New Basin Water Planning and Management Charges Rules to Apply (Media Release, Senator Hon. P. Wong, Minister Climate Change, Energy Efficiency and Water 2 June 2010.