



**SUBMISSION TO THE IPART REVIEW OF
PRICES FOR NSW WATER ADMINISTRATION MINISTERIAL CORPORATION (WAMC)
by the NSW Office of Water, from 1 July 2010**

By MURRUMBIDGEE IRRIGATION (June 2010)

INTRODUCTION

Murrumbidgee Irrigation Ltd (MI) is an unlisted public company providing water supply, drainage and environmental services to approximately 3200 landholdings or 1800 customer/shareholders in the MIA. The Company employs 170 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 regions in Australia contributing over \$5 billion annually to the national economy. The MIA was first established in 1912 following the commissioning of Burrinjuck Dam. Further expansion occurred in the 1970's with the completion of the Snowy Mountains Scheme and construction of Blowering Dam. The region has played a significant role in fostering cultural diversity with over 50 different nationalities now resident in the region. The region also played a significant role during and after WW1 and WW2 in terms of national security and repatriation.

In making this submission to IPART, Murrumbidgee Irrigation Ltd (MI) continues to recognize its regional and national responsibilities to assist in meeting water reform objectives for water supply services, while maintaining regional production and welfare of shareholders and other stakeholders, as well as improving the environment for future generations.

MI also acknowledges its membership of the NSW Irrigators Council (NSWIC) and is happy to endorse NSWIC's submission to IPART in respect of the forthcoming determination of prices for the WAMC.

Some facts on MIA value adding

Chickens - \$120 million/year, 450,000 chickens/wk and 950 jobs,
Feedlots - \$450 million/year, 75,000 cattle (150,000 through abattoir) and 800 jobs,
Wine grapes – \$147 million/year (farmgate), 300,000 mt, 430 growers, #
Wineries – \$1,000 million/year, 13 wineries, 300,000 mt, 60 containers exported/day, 1,500 jobs.
Citrus - \$250 million/year 185,000 tonnes, 1500 jobs including juicing and packing,
Rice - \$360 million/year (farmgate), (normal year) #
Sunrice - \$800 million /year, high export orientation, 1,100 jobs (normal year),
Walnuts - \$35 million/year expected to expand to \$400 million in 10 years, #
Vegetables –\$79 million/year (farm gate). #
Livestock (non-feedlot) – \$350 million/year, 650,000 head #
Crops (excluding rice) - \$568 million/year #

Employment data is not available

SUBMISSION

The key recommendations of the NOW submission to IPART (on behalf of the WAMC) are a shift to 100 per cent fixed charges and a doubling of charges which – according to NOW – “while significant in percentage terms, the price increases equate on average to between \$2 and \$4 per megalitre”.

The resort to massive real increases in water charges, the lack of coherent strategies, insufficient regard for efficiency and cost effectiveness, and the lack of sensitivity to customers during the worst drought in history is extremely disappointing. It is in stark contrast to NOW's own observation that “the Victorian Government has reduced its water charges and does not apply a usage charge, and SA does not apply bulk water charges at all” (p61).

MI urges IPART to reject the massive increases requested by NOW for the WAMC because it has not provided a sound business case to justify additional charges to its customers (both paying water users and the Government which pays on behalf of the wider community that demands water management services).

- NOW has not clearly defined WAMC's expected outputs and the corresponding inputs needed to meet those deliverables.
- NOW has not demonstrated that WAMC has provided water management services efficiently, or can be expected to do so in future. In particular:
 - ⇒ There should be no real increase in the MDBA's IPART related charges unless they have been subject to a transparent efficiency audit.
 - ⇒ There should be no increase in IPART charges related to implementation of the Commonwealth Water Act (2007) unless a transparent business case is presented along with identification of the relevant cost drivers and appropriate charges within the context of the “no net costs” arrangement between NSW and the Commonwealth, and there is reasonable prospect that costs will be incurred during the relevant determination period.
 - ⇒ The increase in IPART charges for core WM services should be constrained within the maximum level recommended in the PwC review of NSW Office of Water's Water Management Expenditure. However, IPART should consider limiting growth in charges for core services to inflation until WAMC demonstrates a clear need for additional resources.

Further MI requests that IPART reject some key structural changes requested by NOW for the WAMC, including:

- NOW's request for a rate of return on its asset base. Such a proposal is inappropriate given WAMC's refusal over many years to adopt practices consistent with a going commercial entity. The analysis of NOW's proposed capital expenditure for WAMC by PwC demonstrates that WAMC is not ready to adopt an RAB approach to pricing.
- NOW's requests for inappropriate cost sharing arrangements for WAMC that involve cross-subsidization, unfair pricing, and inappropriate signals to water markets. These include:
 - ⇒ The request for consolidation of ground water prices to inland and coastal should be rejected until it is shown that efficient costs are equal between groundwater sources, and can be expected to remain so in perpetuity.

- ⇒ The acceptance of low recovery of costs for water consents in the past. This is a cross-subsidy from water users to water traders and should be removed. It is clear that the cost of processing water consent transactions is a much larger share of WM costs than initially anticipated. The PwC analysis shows significant under-delivery in some core services, and over-expenditure of about \$12m in processing water consents in the last determination period yet total WM expenditure was very close to initial estimates.
- ⇒ The exclusion of overheads costs in the calculation of the costs of water consent transactions is also a cross-subsidy from water users to traders. Users of water consent transaction services should meet their share of overhead costs in future. This would be accommodated through transfer of those costs to the water consent activity and out of the costs allocated to valley/water source (see figure 3.1 of the PwC report).
- ⇒ The recommendation of no change for minimum charges. MI is of the view that an analysis of the costs of licenses subject to minimum charges would show that unit costs would be very high. We therefore recommend that minimum charges be increased in line with the maximum increase in charges for any entitlement holder in this determination.
- ⇒ The proposed move to 100 per cent fixed charges. This would be an unnecessary incentive for the WAMC to (further) decouple its services and practices from the needs of paying customers.
- ⇒ The proposed move from 90 per cent to 100 per cent recovery of user costs. MI is of the view that a further increase in WM charges in NSW relative to other states is not justified on efficiency or equity grounds.
- ⇒ The proposal to change the method of consumption forecasting. The WAMC revenue base is not at significant risk using the current method and current financial practices in WAMC suggest that its revenue base is not under significant threat. If IPART decides that the financial risks for WAMC are too great then it should provide for an insurance cost similar to that suggested for State Water. The recovery could be equal to the shortfall in revenue during the last determination discounted by a reasonable discount rate. In the case of WAMC, MI would suggest that the real risk free rate would be appropriate.

Finally, MI requests that IPART ensure that the following issues are addressed in the process of making its determination:

- ⇒ That the apparent inclusion of costs associated with Metro water in WM costs must be met by Metro water users and not be passed to rural customers.
- ⇒ That the shortcomings in some of the methods used to allocate costs to water sources and valleys identified by PwC are addressed (especially where entitlement volumes are high and customer numbers are low).
- ⇒ The elimination of potential for double counting of measurement and monitoring charges for customers such as MI – which has been historically subject to and paid for state of the art metering – due to implementation of metering upgrades and additional monitoring elsewhere in the system.
- ⇒ That IPART consider ways to eliminate potential for transfer of budget resources between NOW's departmental budget and that which is subject to regulation by IPART (WAMC). The PwC report showed significant under-provision of IPART related services during the last determination yet expenditure was very close to initial estimates. Admittedly there was a

significant over runs in the consent transactions budget. However, even within the IPART regulated part of NOW's budget (WAMC) such large transfers of effective service provision without the potential for corresponding adjustment to customer charges is not acceptable.

- ⇒ That the glide path approach with appropriate capping of increases for valleys most affected be retained when setting charges in this determination.
- ⇒ That IPART adopt the performance indicators and measures recommended by PwC to enable quantifiable assessment of NOW's efficiency and performance over the next determination period.

In conclusion, the NOW submission on behalf of the WAMC exhibits all the characteristics of an ambit claim for resources. MI believes that it is time for IPART to draw a line in the sand and refuse to authorize any real increases in prices until there is genuine reform in the WAMC planning, work, and financial practices to bring them into line with, at least, the minimum expected under IPART methodology.