SUBMISSION

FOR

REVIEW OF PRICES FOR NSW OFFICE OF WATER

TO

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

JUNE 2010

SUBMITTED BY: **WESTERN MURRAY IRRIGATION LIMITED**
ACN: 067 197 853
5 TAPIO STREET
DARETON NSW 2717
PHONE: 03 50 274 953
CONTACT: Cheryl Rix – General Manager
EMAIL: rix@westernmurray.com.au

1. Background Information – Western Murray Irrigation Limited (WMI)

Western Murray Irrigation Limited (WMI) is a not for profit unlisted public company limited by shares. WMI customers hold a high security entitlement of 58,195ML. WMI manages three irrigation areas, Buronga, Coomealla and Curlwaa. The irrigated area represents 4,400 hectares.

The water is pumped directly from the River Murray via three separate pumping stations and delivered through fully pipelined delivery infrastructure. Each pumping station has its own meter, owned and operated by WMI and is supplied water under a bulk water licence arrangement.

WMI also undertakes extensive drainage water management, monitoring and reporting. Drainage schemes in each area ensure removal of hundreds of tonnes of salt each year and prevent drainage water from entering flood plains.

WMI is at full cost recovery and has a combination of fixed and variable pricing which has allowed the company to be self sustaining during the last three years where periods of drought has reduced allocation and usage. WMI prides itself on the company's strong financial performance since privatisation.

WMI supports the submission prepared by the New South Wales Irrigators Council but provides further details and arguments on those areas of the "review of prices for NSW Office of Water" which directly impact on WMI.

As a general comment WMI does not support cross-valley subsidies or cross licence subsidies. Unregulated and ground water users should be charged in such a way to ensure similar levels of cost recovery as sourced from licenced surface water entitlement holders.

WMI remains concerned that "competitive neutrality" between the States water charging regimes has not been addressed by the ACCC's water charging rules. It is apparent other Basin States continue to heavily subsidise their irrigator users. The NSW Office of Water variable component will need to be recovered from interstate users in a similar method to the State Water proposal. Many of the zero WAL's established merely represent a holding licence for allocation trades each season to interstate agricultural properties. IPART must remain mindful of NSW irrigators' competitive position.

WMI notes the past four years has resulted in a much higher level of planning for management of critical water needs. This has been due to the drought and WMI has publicly commended the NSW Office of Water for its key role in the management of the scarce water resource. While the drought is not over the high levels of carryover into the 2010/11 irrigation season should provide a greater level of confidence for higher water use in the coming year. Allocations are now more conservative using the "dry scenario" as the base in the models and permanent changes in water management have been enacted.

WMI supports consistency in the approach used by State Water and NSW Office of Water to revenue forecasting based on water use.

2. Timing of the Determination and Price Impacts 2010/11

Unfortunately this determination has been subject to "Stop the Clock" provision that has delayed the release of a draft determination. The final determination will not appear until well into the next financial year. WMI has just completed its budgetary process and set down

its 2010/11 prices. In accordance with the ACCC water charge rules this schedule of charges is to be provided to all customers at the start of the financial year.

WMI has included the 2009/10 price for the NSW Office of Water in its budget. It is not acceptable to WMI to have government charges that change half way through a financial year.

IPART should consider making the determination of new prices to apply from 1 July 2011. This would also signal to the NSW Office of Water that it is not acceptable to delay a process and provide inadequate information for stakeholders to comment on.

3. Length of Determination Period

WMI supports a four year determination period. This support is provided on the basis of the delay in the current determination process and the extra costs incurred to substantiate water management expenditure. It takes substantial NSW Office of Water and industry resource to participate in the determination period. The Water Sharing Plan is due for renegotiation in 2014. This will be the trigger for implementation of the Basin Plan. The determination period should be extended to four years to allow industry the ability to apply resources to the water sharing plan and the basin plan.

4. Balance between Fixed and Usage Charges and simplifying the billing process

WMI does not support a 100% recovery of fixed charges from its entitlement charges if the outcome is an increase in regulated water charges from 100% up to 267%. This provides no incentive for the NSW Office of Water to continually investigate the efficiency of the fixed charges and unduly penalises the irrigator user.

WMI supports the removal of the cap on the size of the bill increases given the complexity it adds to the billing process. A glide path approach is preferred.

5. Administering Water Licences and Approvals

WMI has had to conduct a number of dealings with the NSW Office of Water this season as water has been permanently removed from the WMI bulk licence. The current dealing administration fee of $116 appears to be on the low end and is resulting in partial cost recovery particularly if there are queries or if the applications have not been completed correctly. A number of new zero share licences have been established to transfer water entitlement from the bulk licences. The proposed fee for a zero share licence of $293 may still be inadequate given the processes outlined to complete the dealing and the agency comparison noted in the Price Waterhouse report.

The initial submission from the NSW Office of Water showed revenue collected from these fees of $9.2 million while costs were $24.3 million.

WMI would support an increase to these “user pays” transaction fees charged by the NSW Office of Water to ensure full cost recovery and retention of adequate resources to facilitate the transfer timeframes. Full overhead costs should be applied to these transaction fees and there should be no cross subsidisation from the entitlement holder who is not undertaking these transaction to those who are.

It is apparent there will continue to be a high demand for the administering of water licences and approval services as the water market matures and the Federal Government continues the buyback of water entitlement.

Improvement in the time taken to process water dealings is a key target of Government in facilitating a more efficient water market.

6. Minimum Annual Bill

WMI supports a higher minimum annual bill to encourage efficient use of licences and provide a true cost reflection of administration of these accounts. This includes stock and domestic licences where no metering is undertaken and no usage charge is applied.

7. Recovery of Murray Darling Basin Authority (MDBA) Costs

In the 2006 determination IPART expressed concern that there was no independent examination of the efficiency of the MDBA costs. It noted that Governments should consider initiating a study of the efficiency of the MDBA operations before agreeing to fund expenditures that are then passed onto irrigators. It is apparent the independent study has not been completed and irrigators cannot review an efficiency assessment of the MDBA. IPART must reject the NSW Office of Water's claim for recovery of MDBA costs until the independent assessment is completed. Irrigators need complete assurance that the basin plan preparation costs and Commonwealth water reform costs are not included in the claim. Irrigators need an independent opinion that the "no net costs" agreement that the NSW Government negotiated has been honoured.

8. Charging high security a premium

The 2006 determination noted the Departments proposal that its water management activities and costs were not affected by the security of the licences issued and that it was not appropriate to charge a high security premium to holders of high security entitlements. WMI believes this statement remains true and relevant for the 2010 determination. IPART in the 2006 determination removed the high security premium on the fixed entitlement charges for regulated rivers and there is no basis to reintroduce the premium in the 2010 determination. The NSW Office of Water has not sought an amendment to the way high security entitlement is charged. WMI does not agree with scarcity pricing based on capacity to pay.

9. Resources for Core Services

WMI notes the request for additional resources for core services and the target of a 4% efficiency target for the next two years on overheads and indirect costs. WMI has no concerns with the types of works set down in the core activities but notes there is to be new technology introduced which should reduce the need for staff rather than increase them. Examples include real-time monitoring. Tamper proof meters should assist with compliance needs. WMI supports the recommendations for staffing as outlined in the Price Waterhouse report.

10. Resources for Commonwealth Reform requirements

It has been identified an extra 57 staff at a cost of $10.5 million per year would be required to comply with Commonwealth reform requirements. This includes implementation of water trading, charge and market rules. Infrastructure operators such as WMI are already complying with the water market rules and the NSW Office of Water should seek full cost recovery through their administration charges as most of the dealings relate to transfers or transformations. The water charge rules largely reflect the current IPART process. The water trading rules draft to be provided in the Basin Plan will be subject to consultation but reflect the operational connectivity of the river that has been in place for many years.

Management of the Commonwealth's environmental holdings should be at full cost recovery from the Commonwealth Government including the shepherding of water. Environmental water management and monitoring at individual assets within NSW should be deemed to be a community service obligation, which is shared, by the Commonwealth and State Government.

It is critical to irrigators that water reform activities are covered by the "no additional net cost" provisions in the 2008 Murray Darling Basin Intergovernmental agreement. The irrigation community will be subject to financial pain and adjustment from the sustainable diversion limits set down in the Basin plan. It is not acceptable that the irrigators should also be required to pay for the implementation of the pain. Additional costs associated with Commonwealth reform requirements should be recognised as 100% Government share.

WMI does however support the employment of some additional skilled resources to deal with the basin plan and water-sharing plan. There has been a lack of quality submissions from the NSW Government to the various requests from the ACCC and the Commonwealth during the past three years and the responsibility to critique these reform changes has largely been left to industry bodies such as the NSW Irrigators Council. However, these resources related to high level policy development and do not necessarily constitute water planning and management activity and accordingly should not be recovered from irrigators.

11. Resources for State Priority Projects

WMI supports the implementation of the State Priority Projects and believes a 10% contribution from the State is reasonable. The Commonwealth must sign off a detailed business case supporting the project and the project should be completed before irrigators should be responsible for any component of the 10% and ongoing costs.

12. Metering Charges

Once a meter is installed for an individual landholder including groundwater users and previously unregulated users the annual charge should be applied. The ongoing cost of operation and maintenance of $426 per meter per year appears to be a reasonable charge in the longer term and it should be made clear any replacement due to malfunction is recovered as part of the $426. IPART could consider scaling in a lesser upfront charge and building up to the $426 charge. It has been WMI's experience that teething problems will occur with new meters and costs will be incurred. Some of these costs may be recovered through a warranty program. State Water is also introducing a meter charge which varies according to the level of technology employed.

In WMI's case there are three river pumping site meters that are owned and operated by WMI. WMI pays for the independent calibration of these meters and operation and maintenance. There should be no "double charging" arrangements where an irrigation corporation already has full responsibility for its meters.

13. Reintroduction of Irrigation Corporation rebates

WMI believes that it contributes to the operations of the NSW Office of Water in a positive and timely manner. WMI as an irrigation corporation simplifies the billing process through its bulk licence where the company retains all responsibility and costs associated with meter reading, billing of irrigators and recovery of fixed and variable Government charges. WMI also supplies water without any conveyance loss and receives no benefit for being efficient users. WMI has been actively involved in the critical water planning process with the NSW Office of Water.

WMI also contributes to the Commonwealth water reform process through its contribution of data and information as required (to MDBA, NWC, BOM etc) and providing comment on the various consultancies and issues papers. WMI has not increased its staffing levels and has had to find internal efficiencies to deal with an onerous compliance regime established by the ACCC through the water market and charge rules.

14. Impact of price increases on WMI irrigators and their ability to pay

A specific requirement of the IPART act is to maintain consumer protection. In particular:

- protecting customers from abuse of monopoly power;
- ensuring there are standards of quality, reliability and safety of the services concerned; and
- assessing the social and economic impact of its decisions.

Pricing must exhibit a sense of responsibility towards community regional development. If the NSW Office of Water were in a competitive market based environment, price increases of the proposed magnitudes (greater than 100%) would not be accepted by customers. Benefits associated with the price increases need to be quantified at the irrigator level to allow acceptance of a reasonable price rise.

15. Assessing the social and economic impact of its decisions

Increasing the prices will have a defined negative economic impact on the WMI region. The horticultural industry in general is suffering from poor returns and individual irrigators' profitability is at present marginal. All farming is under extreme cost pressures at present. Of note is the severe wine grape glut. Increases in government charges are passed directly to the irrigator. The increased water prices will mean there is less capital available for on farm investment and employment.

WMI irrigators are highly efficient water users with a high take up of the latest on farm technology. The irrigators in the WMI districts will not benefit from the Federal Government funding being offered for on farm works. The majority of the Government funds are clearly targeted at general security areas to improve water user efficiencies.

WMI recognises its growers need to be commercial and viable in the longer term but feel it is important for IPART to be aware of the situation in the WMI region at present.

Rising input costs and falling returns (declining terms of trade) along with the **cyclical** nature of prices are facts of life in agriculture and WMI irrigators have adapted to this by increasing efficiency, improving yields, adding value and expanding to achieve economics of scale. When terms of trade decline gradually or are confined to one crop then this can be managed. Irrigators respond by investing capital in expansion and new technology to remain competitive. At present it is more profitable to grow rice than wine grapes.

In 2010, across the board commodity price reductions combined with the drought and low water allocations are resulting in declining property values and high operating losses. This means that access to capital becomes difficult even for the most viable of businesses.

Addressing this problem is fundamental to the WMI region's recovery. The increase in bulk water prices needs to take into account the need for the irrigators and industries to recover to profitable levels.

SUBMISSION CONCLUDES