



**Submission to IPART's Review of prices for  
Water Administration Ministerial Corporation**

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**MACQUARIE RIVER FOOD & FIBRE**

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## **Introduction**

Macquarie River Food and Fibre (MRFF) thanks IPART for the opportunity to provide a submission on the review of prices for the Water Administration Ministerial Corporation, as currently undertaken by the NSW Office of Water.

MRFF is the peak industry group for irrigated agriculture in the Macquarie Valley. Our organisation represents the interests of around 600 irrigators, including riparian irrigators, the groundwater irrigators of the Lower Macquarie Groundwater Irrigators Association, and the individual members of the valley's seven off-river irrigation schemes, being the Buddah Lake, Greenhide, Marthaguy, Narromine, Nevertire, Tenandra and Trangie-Nevertire irrigation schemes.

As a member of the NSW Irrigators Council (NSWIC), MRFF has contributed to and supports the submission that they provide to this review. We provide our own submission to further highlight those points we believe to be of particular importance to MRFF members and, where we can, to provide further information and detail relevant to the Macquarie Valley. We must note, however, that due to the insufficient level of detail provided in the NSW Office of Water (NOW) submission, it has been very difficult to add much in the form of valley specific comment. We were pleased to see that the draft consultancy report prepared by PricewaterhouseCoopers-Halcrow (PwC) also calls into question the efficiency and transparency of information provided by NOW.

MRFF is confident of a consistent message from stakeholders, supported by the findings of the PwC consultancy, that there is insufficient detail in the information provided by NOW for IPART to assess the prudence and efficiency of their expenditure. Until such information is provided, we submit that IPART cannot recommend more than CPI increases on current charges.

## **Comments on specific issues raised by IPART**

### ***The efficiency of NOW's operating costs over the 2006 determination period and the efficiency of its proposed operating costs over 2010/11 to 2014/15***

MRFF has serious questions over the performance of NOW during the 2006 determination period. Major inefficiencies in NOW's operations are evidenced by the following:

- Thirty-eight of sixty Water Sharing Plans (WSPs) are still to be finalised, yet the PwC report found that the activity code relating to the development of WSPs had the greatest level of over-expenditure for the 2006 determination period.
- Instances of water transfers that have taken in excess of 12 months to process.
- Entitlement holders in the Lower Macquarie Groundwater Sources have gone full water years without receiving bills and have now recently received bills that have accumulated to up to 3-years worth of charges.

- Policies such as Floodplain Harvesting and Reasonable Use Guidelines are yet to be finalised.
- MRFF has repeatedly called for a need for increased compliance around stock and domestic and environmental flows in the Macquarie Marshes, and while NOW has indicated that compliance efforts are resource constrained, the PwC report notes considerable underspend in NOW's compliance activities.
- There is considerable difference that requires further explanation in the allowed vs actual expenditure for the Macquarie in the illustration of "Variation by valley for groundwater source" in Figure 6.4 on page 99 of the PwC report.

It has been the experience of a number of stakeholders in our valley that the operations of NOW have been far from efficient over the current determination period. The insufficient detail in NOW's submission to IPART does little to allay our concerns, and the findings of the PwC consultancy adds weight to our submission that NOW has not operated efficiently over the 2006 determination period.

Given NOW has not been able to demonstrate that they have performed current administrative and management roles in an efficient manner, additional rigour must be applied to ensure the efficiency of operating costs going forward.

MRFF outrightly opposes the so-called "Scenario 2" pricing which has been developed in relation to 'new' MDBA costs for the upcoming determination period. We are supportive of the NSWIC submissions in this regard, in particular, that "no net costs" negotiations had occurred with the Commonwealth and must be upheld, and that in any case, surely IPART cannot rule on costs for which they are unable to assess efficiency.

MRFF also urges IPART to look into that proportion of costs that relates to 'old' Murray Darling Basin Commission and Border Rivers Commission costs that may now be incorporated under MDBA costs. We would be concerned that:

- a) there is no double-up in costs incurred by State Water, and
- b) that the Macquarie is not charged disproportionately given that we are essentially a terminal system and therefore are neither responsible for, nor receive any benefit from, MDBC/BRC activities.

***Whether there is scope for NOW to achieve efficiency gains over the upcoming determination period***

We believe that there is certainly scope for efficiency improvements and support the recommendations made by PwC and the submissions of NSWIC.

***NOW's current and forecast capital expenditure over the 2006 determination period, taking into account drivers of this expenditure and WM outcomes achieved***

Again we support recommendations by PwC and the submissions of NSWIC.

MRFF submits that detailed business cases must be prepared for any new capital expenditure, which includes cost/benefit analysis as per NSW Treasury guidelines.

***The appropriateness of NOW's proposed depreciation allowance, including the assumptions (eg, asset values and asset lives) underpinning the calculation of this allowance***

MRFF acknowledges that it is reasonable to include a depreciation allowance and would support the method applied in the 2006 Determination.

***Whether NOW should earn a rate of return and, if so, the appropriate rate of return to apply on NOW's assets and the means of determining this rate***

MRFF concurs with the submission of NSWIC on this issue. NOW is clearly a different entity to that of State Water, which operates in the water delivery business and as such owns major infrastructure that it can reasonably expect to earn some return on. NOW is an arm of government with administrative duties and a low regulatory asset base. We submit that it is entirely inappropriate that NOW request a rate of return on assets.

***Appropriate WM output measures, performance indicators and/or reporting obligations for NOW***

MRFF submits that customers should have access valley-based reports from NOW on a six-monthly, or at least annual, basis.

MRFF further submits that customers should have guaranteed performance standards on services for which they are required to pay. In line with this expectation, MRFF supports the recommendations of PwC in relation to performance indicators. In particular, we reiterate our concerns with the current *timeliness* of NOW's performance.

***Whether the cost sharing approach and ratios used in the 2006 determination remain appropriate. If not, the adjustments that are required***

MRFF concurs with the submissions of NSWIC in relation to user share expenditure, that is, we are dismayed by the lack of information provided by NOW in this respect and believe that a proper Determination cannot proceed until such time as this information is made available.

### ***The robustness of NOW's water usage (extraction) forecasts, as outlined in its submission***

MRFF notes that if a fixed/variable charge is maintained, NOW is seeking a change to the consumption forecasting approach for regulated river pricing that is consistent with the CIE approach (15-year rolling average) previously advanced by State Water Corporation (SWC).

MRFF believes that we presented a valid case for our opposition to the 15-year average approach in our response to State Water's initial proposal. Our reasoning has not changed:

- The 15-year average approach is ineffective at addressing the issue that was used to justify abandonment of IQQM – i.e. the notion of a “structural break” in the availability of water for extractive purposes – as the so-called evidence for the structural break is only applicable in the southern valleys, while the impact of the proposed change in approach is felt in the northern valley.
- IPART seemed to support our view that the “structural break” argument doesn't hold in their draft report for the SWC Determination (pg 113) noting that “evidence of this break is inconclusive at the valley level”.
- Given the “structural break” argument does not hold, then it must really be called into question what new argument there is for a move away from IQQM particularly given IPART rejected such a move at the last Determination? (Interestingly this was on the advice of The CIE who were at that time advising IPART.)

MRFF submits that IPART reject the proposal to move to a 15-year average methodology for consumption forecasting and instead, retains the Long Run Average approach, based on IQQM, as used in previous determinations. Failing this, we challenge IPART to address the question raised in dot point 3 above.

### ***Groundwater Sources***

In relation to water usage figures used for groundwater, MRFF wishes to take this opportunity to raise with IPART a discrepancy that has occurred in relation to charging for supplementary aquifer access licences.

Supplementary access licences were made available to qualifying entitlement holders in the Lower Macquarie Groundwater Sources as an adjustment mechanism as part of the Achieving Sustainable Groundwater Entitlements Program. As IPART would be aware, the actual volume of water available through these supplementary licences is to be reduced, through annual Available Water Determinations, to zero over the 10-year term of the Water Sharing Plan. A discrepancy has occurred, however, where licence holders are being charged the starting amount of their supplementary access licence rather than the amount that corresponds to the actual water that has been made available to them. MRFF raises this issue with IPART in the hope that they are able to address the over-recovery that has resulted from this discrepancy. MRFF is able to provide further information and explanation on this issue should it be required.

### ***The appropriate balance between NOW's fixed and usage charges***

MRFF is strongly opposed to the request by NOW to move to 100% fixed charges.

MRFF is already concerned that there are not sufficient drivers in place for NOW to operate efficiently and to avoid the abuse of their monopoly power. It is our view that allowing 100% fixed charges, would serve to further negate the need for NOW to operate efficiently and in response to the risk profile of its customers.

In considering this issue, MRFF urges IPART to also consider the impact of variable water supply on NOW's customers. It is neither reasonable nor affordable for customers to have to pay hefty entitlement charges during repeated periods of low allocation.

### ***The merits of having regulated river, unregulated river and groundwater entitlement and extraction charges that are valley specific, as opposed to being uniform throughout the State or regions***

MRFF opposes the proposal to amalgamate groundwater regions to 'inland' and 'coastal' for the purposes of charging. This proposal lacks transparency and must surely result in cross-subsidisation between valleys. MRFF is opposed to any such cross-subsidisation.

### ***Mechanisms to address risk associated with variations between forecasts used in setting prices and actual levels of water availability and extractions***

MRFF submits that NOW must be in a position to determine essential and non-essential activities during periods of low water availability and where appropriate, defer non-essential activities and redeploy staff accordingly. MRFF notes that NOW have made mention in their submission (pg 2) of the "concerted effort focused on managing, prioritising, sharing and delivering limited water supplies to meet critical needs". MRFF submits that much of this activity would extend beyond the paying customer base of NOW and therefore cannot reasonably be expected to be reflected in increased charges to irrigators.

### ***Potential regulatory mechanisms to link NOW's performance to its prices over the upcoming determination period***

MRFF submits that if NOW is unable to provide detailed business cases to support increased prices the current prices should remain unchanged, other than adjustments made for CPI.

MRFF submits that if there are significant variations between planned expenditure and actual expenditure as a result of non-delivery of water management activities, charges should be suspended until such time as the planned activities are undertaken.

### ***The appropriate length of NOW's upcoming determination period***

MRFF remains in support of a four year determination period.

***The impact of NOW's proposed prices (as set out in its submission) on water users***

MRFF is dismayed by the notion that has been put forward by both NOW and State Water, and seemingly supported by IPART, that because water charges make up a small percentage of total farm costs, major increases in these charges will have little impact on customers.

Firstly MRFF would like to oppose the notion that water charges have little impact on farm profitability, and this has particularly been the case in recent years of very low allocation. In these dry years the percentage contribution of water charges to total farm costs rises significantly and in many cases contributes to losses.

Secondly, even if water charges did have little impact, this is not a good enough reason to accept ongoing price hikes that are well in excess of CPI. Where would the industry be if all suppliers were so frivolous with their costs?

MRFF further notes that water charges have an adverse impact on farm budgeting when bills are not issued in a timely manner and delays result in several years' worth of charges being issued at once. Groundwater irrigators in the Macquarie Valley have recently been issued with bills equating to 3-years worth of charges in one hit. Such practice not only affects farm budgeting, but as previously mentioned, calls into question the efficient operations of NOW.