SOUTHERN RIVERINA IRRIGATION DISTRICTS COUNCIL

Submission To

Independent Pricing And Regulatory Tribunal Review Of Bulk Water Pricing 2001/02 – 2003/04

May 2001

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Introduction

The Southern Riverina Irrigation Districts' Council (**SRIDC**) would like to thank the Independent Pricing and Regulatory Tribunal for the opportunity to comment on the Department of Land and Water Conservation submission on proposed bulk water pricing (DLWC 2001).

This submission outlines the opinions of SRIDC in relation to the proposed increases by the DLWC for bulk water prices for the medium term 2001/02 to 2003/04. SRIDC believes that these increases are unjustified considering the inability to determine whether the operating and capital expenditures are appropriate or efficient. This is further exacerbated in the Murray Valley with the complications arising from the MDBC process, which also lacks transparency.

Within the context of the State Water Customer Service Committees, SRIDC are unhappy with this process. This was noted in SRIDC'S letter to IPaRT (dated 26 March 2001) outlining our concerns. SRIDC has concerns with the inability of this committee to access information from State Water, the DLWC and MDBC in order to make relevant decisions. It is further "shackled" by a process driven by the DLWC. SRIDC would reject the statements made by the DLWC that proper meeting processes are being followed as our CSC representatives report that:

- The meeting agenda is set by the DLWC without CSC input
- Documentation is provided at and decisions are requested by the DLWC at CSC meetings without prior notice, and
- That there continues to be no process within the Murray Valley for our CSC to have input to or access information from the MDBC and River Murray Water.

Analysis

SRIDC must state from the outset, the extreme difficulty we have in attempting to reconcile any of the information provided in the DLWC's submission to IPaRT. This includes the data also supplied for MDBC.

SRIDC have no way to determine how and what the actual costs and revenues are, eg the Murray Valley Bulk Water Services Financial Report (DLWC 2001, Appendix

2) shows significant income and expenditure under “other income” but what this is, is not stated.

SRIDC also finds it is difficult to reconcile the information flows from one table to others. The flow of data from Table 8 to Table 19 in Appendix 4 is discernable; however there is an inability to follow the information flows from Table 19 to summary Table 20. The latter shows different data with an overarching comment that in some cases costs are adjusted for inflation when aggregated with other costs. However, SRIDC notes that:

- Prices are shown throughout Appendix 4 in real dollars (ie dollars in the 2001/02 base year) and this should not affect the overall summary of the previous tables.
- All previous tables are adjusted to the base year, ie 2001/02, according to CPI.
- The inclusion of other “recurrent” costs that are not specified is inappropriate and lacks transparency.

Therefore, this makes it extremely difficult to follow the flow of data and to determine if the tabled information is accurately portrayed.

Information provided in the public arena, ie annual reports of publicly listed companies, are required to comply with Corporations Law, Australian Accounting Standards and the Australian Stock Exchange. There is not only an ability to follow the flow of information but there are numerous explanatory notes that clarify all items. These notes are essentially more important that the actual financial reports as they provide the detail behind the financial reports, enabling the shareholder to determine what each figure is and how it is determined. The DLWC should be required in future to comply with such standardised reporting of information to enable all parties to disseminate the information provided.

An additional requirement should be that the formula used to determine figures is provided in the column headings to allow the reader to analyse the computations. A good example is the computation of annuities or the determination of discounting used within tabled information.

SRIDC would also suggest that to aid clarity in attempting to reconcile data, that future DLWC submissions contain appendices that relate to each specific valley, ie all the information for each valley is contained together in one appendix. This would help aid the interpretation of the data provided as the reader would not be required to deal with data applicable to all NSW. There could be one additional appendix that pulls together all the information from the valley appendixes.

> **Recommendation 1:** That future DLWC submissions to IPaRT provide financial information in similar reporting standards as required by public companies under Corporations Law and Australian Accounting Standards.
>
> **Recommendation 2:** That future DLWC submissions provide the formulae used to determine data such as annuities in the column headings.
>
> **Recommendation 3:** That future DLWC submissions to IPaRT provide information relating to each valley in separate appendices to enable the reader to clearly and readily follow the information provided as per recommendation 1.

Resource Management

Cost Sharing of Water Management Planning & Implementation

The NSW Government receives tranche payments from the Federal Government approved by CoAG for the implementation of water reforms in NSW. SRIDC understands that these tranche payments are made to offset the costs of reform and structural adjustment packages (the latter are not received by irrigators in NSW). SRIDC would question where these funds have been accounted for in the DLWC's financial reports.

SRIDC would also suggest that because the NSW Government receives the Tranche payments and indeed that the water reform is both the NSW government policy and requirement of CoAG that the NSW Government continue to contribute 100% of the cost for water management planning and implementation.

Further, Des Cleary of the DLWC stated in a presentation to a NSW Irrigators' Council General Meeting on 1 March 2001 in Sydney that costs associated with implementation of the Water Management Act would be absorbed in Sydney by the reallocation of staff from existing jobs. In the valleys, water management planning is conducted to determine the allocation of water for environmental purposes and this explicitly excludes benefits to water users.

Therefore, there is a case that these expenses should also be borne totally by the NSW Government, as the planning process is to benefit the environment not irrigators. In fact, irrigators will be the “losers” in reduced water allocations, which will not be compensable until the water management plan is established for its first ten year period. The setting of the first water sharing plan will invariably lead to reduced accessions by irrigators to water due to the “precautionary principle”.

> **Recommendation 4:** That cost sharing of water management planning and implementation programs remain 100% funded by NSW Government.

Costs and Revenues

Bulk Water Operating Costs

Given the information provided in the DLWC submission, it is difficult to reconcile the apportionment of operating costs on a valley basis. Table 4.1 on page 15 is derived from Table 7 in Appendix 4. However, SRIDC cannot determine how these figures were arrived at. Obviously Table 7 is derived from Tables 4-6 and the ultimate total agrees with the product costs in Table 3. But the product costs (both operating and asset) for the Murray cannot be determined and on what basis, ie trends or inflated actuals. Nor can these figures be compared with the actuals presented in Appendix 2 for the Murray Valley. Most businesses (whether private or public) can document their proposed budgets, for example an irrigator might determine that he will plant x hectares of rice but that the budgeted costs will be documented on usage per hectare and price per unit to determine the final cost. Therefore, the proposed operating costs for DLWC should be as clearly defined.

> **Recommendation 5:** That clarification is sought of the individual product costs in each valley used as the base to estimate operating costs.

Provision for Doubtful Debts

SRIDC reject the claim by DLWC to impose an operating expenditure on water users for provision for doubtful debts. Under current arrangements, the DLWC and State Water have the ability to use other methods in order to ensure water users pay their outstanding accounts, eg the ability to cut off water supply to water users with unpaid accounts. Currently, the Murray CSC are looking at this situation and it is SRIDC's understanding that such proper processes are the preferred option for dealing with unpaid accounts rather than imposing an additional cost on all water users.

> **Recommendation 6:** That IPaRT reject the proposal by DLWC and State Water to impose a provision for doubtful debts on water users and if this is approved that it be funded 100% by NSW Government.

State Water Infrastructure Support Costs

The distribution of these costs based on asset value may in fact see cross subsidisation between valleys. This could be the case in the NSW Murray Valley where, according to MDBC information, the states hold significant assets in trust for the MDBC. These have a total value of $1.7 billion and to distribute administration costs based on infrastructure that includes MDBC infrastructure is deemed inappropriate.

> **Recommendation 7:** That IPaRT provide a ruling on the appropriate distribution of State Water Support Costs among the NSW valleys.

State Water Return on Equity

SRIDC would reject the call by DLWC to impose a return on equity on infrastructure to water users. Return on equity is a measure or indicator of business performance on in this case capital investment. The imposition of this cost is akin to private business or public companies incorporating this measure into their pricing for product and services. It is totally inappropriate to ask water users to pay for such financial measures. Essentially this is another form of taxation of water users to fund State Water and DLWC.

> **Recommendation 8:** That IPaRT reject the return on equity proposed by the DLWC on State Water infrastructure.

MDBC Asset Costs

The value of MDBC assets is $1.7 billion according to the DLWC submission, but according to the MDBC Annual Report (MDBC 2000, page 108-109) this value at $1.6 billion. These figures need to be clarified.

MDBC Renewals Annuity

SRIDC have concerns regarding the graph in Appendix 5, which states quite clearly that MDBC capital expenditure beyond 15 years cannot be estimated; yet water users are being asked to contribute to a renewals annuity over 100 years. Clearly this is inadequate and inappropriate. SRIDC would question whether an initial renewal annuity should be provided on a 15-year time frame or alternatively that this is determined when the MDBC asset management changes (MDBC 2000, pages 105-106) are completed.

This then raises the question as to the validity of the MDBC Renewals Annuity set out in the DLWC submission (DLWC 2001, page 19 and Table 20 in Appendix 4) of $5.944 million. It is difficult to discern at what proportion the NSW share of this annuity has been set and how, ie what discount rate and term. This information should be set out in the DLWC's submission. It is a responsibility of DLWC to ensure that all information provided on MDBC and River Murray Water is accurate and absolute. It is the MDB Commissioners responsibility to ensure that this information is freely available to all users.

There also appears to be some difficulty in reconciling this above stated annuity to the MDBC Capital Expenditure Graph (DWLC 2001, Appendix 5) where it appears that the MDBC Renewal Annuity is computed over 100 years at a total value of approximately $23 million per annum. However, in the DLWC submission (DLWC 2001, page 19) the computed value of the annuity is $14.8 million with the NSW share being $5.9 million. This amounts to approximately 40% of the stated annuity. Presumably, the reduced amount in the body of the DLWC submission may only apply to those assets associated with the regulated Murray River valley. However, yet again it is difficult to reconcile this.

Providing the stated $5.9 million is correct, then the DLWC are asking IPaRT to overturn their previous principle of "capping" the MDBC annuity to $2 million set in their 1998 determination (IPaRT 1998, pages 18-19). The basis for this determination was lack of accurate information on MDBC assets via an asset management plan and as the MDBC Annual Report (MDBC 2000) states that this is not yet complete, the current ruling should stand. SRIDC also rejects the DLWC statement that this decision has resulted in under recovery of bulk water costs in the Murray Valley.

A further problem, which time frame does not permit clarification, is whether State Water's Total Asset Management Plan and River Murray Water's Asset Register and Management Plans "tally" and whether there is duplication between the two registers. The MDBC Annual Report does state that the infrastructure assets used for storage and distribution of bulk water is considered as being held in trust by the states on behalf of the commission (MDBC 2000, page 120). Therefore if there is duplication between the registers, the proposed State Water asset costs may in fact incorporate duplications.

The capital expenditure graph (DWLC 2001, Appendix 5) also refers to another annuity fund to create 'retained earnings", yet no details are provided on what this relates to and why the MDBC should have an annuity for retained earnings. In public companies this relates to profit not distributed to shareholders as dividends. Therefore, this implies that the MDBC are making a profit from infrastructure for equity funds. This issue needs to be clarified as to whether the MDBC are passing this cost onto water users through the bulk water charge.

> **Recommendation 9:** That IPaRT seek clarification of the MDBC Asset Renewal Annuity.
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> **Recommendation 10:** That IPaRT seek clarification of MDBC Asset Management Plan and State Water TAMP as to whether there is a duplication of assets and annuities under these registers.
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> **Recommendation 11:** That IPaRT continue to cap the MDBC Asset Renewal Annuity at $2 million until such time as the MDBC asset management plan is completed and long term capital expenditure can be determined.
>
> **Recommendation 12:** That IPaRT determine whether the total annuity charged to Murray Valley irrigators is appropriate given the widespread use of many infrastructure assets by other users, such as the navigation and other States, such as barrages.

MDBC Operating Costs

An additional problem in the Murray Valley is the complication of the MDBC operating costs. The DLWC submission states that the NSW share of the bulk water charges is 40% (DLWC 2001, Appendix 4, Cost Allocation) and that this cost information is provided in Appendix 5. The MDBC budgeted costs are shown in Table 1 whilst actual expenditure is shown in Table 2:

Murray-Darling Basin Ministerial Council Approved Budget	1999-2000 Budget $Million	2000-2001 Budget $Million
River Murray Water	35.8	42.3
Basin Sustainability/Natural Resource Management	21.3	21.2
Total Expenditure	**57.1**	**63.6**
Funded From		
Commonwealth Government	9.1	
New South Wales	16.3	
Victoria	15.2	
South Australia	11.6	
Queensland	0.5	
Australian Capital Territory	0.5	
Other Income	1.6	
Funds Carried Forward	2.5	
Total Funds	**57.1**	

Table 1. MDBC Budget
(Source: MDBC Annual Report, page 108-109)

Murray Darling Basin Commission	Actuals 1999/00 $Million
River Murray Water	35.266
Basin Sustainability	15.875
Total Expenditure	51.141
Less Miscellaneous Income	0.862
Total Expenditure	50.279
NSW Share	**15.809**

Table 2. MDBC Actual Income & Expenditure
(Source: DLWC Submission to IPaRT, Appendix 5)

The provision of the information in Appendix 5 of the DLWC's submission does not allow water users in the Murray Valley to determine what or how the MDBC costs are apportioned through to bulk water prices in the Murray Valley in Table 3 of Appendix 4. Some other concerns include:

- What is the basis for the MDBC infrastructure costs and what share pertains to water users? Is this a fair split under IPaRT recommendations, ie do other users pay a fair share of costs associated with infrastructure that benefit them. For example, many of the river structures benefit other users such as navigation (more important in the Murray than other NSW rivers), increasingly environmental uses to aid mimicking of natural flows in the river and for dilution flows to South Australia. Is there a case for a separate ruling on cost sharing for the NSW Murray?

- What is the share of MDBC costs borne by other valleys in NSW and are other NSW valleys contributing fairly to natural resource management projects that benefit all water users NSW.
- How has the MDBC administration costs for 1999/00 of $1,611,000 in Appendix 5 been distributed among items of the Administration Distribution for NSW in the last column in the table.
- The approved budget for River Murray Water for 2000/01 is significantly higher than the previous year. However, we cannot determine how this is derived and has this been fairly split.

Recommendation 13: That IPaRT provide a ruling on whether the cost sharing in the NSW Murray for infrastructure (RMW and State Water) is appropriate given the significant benefit other users have of these structures.
Recommendation 14: That the MDBC is required to provide detailed information on operating and asset expenditures for both River Murray Water and Natural Resource Management.

State Water Annuities
SRIDC have some concerns regarding the various annuities set out for State Water infrastructure. SRIDC have real concerns about the ability for duplication between State Water and MDBC for infrastructures and consequently annuities.

Currently, SRIDC are waiting on clarification from State Water on a figure of $5.924 million (DLWC 2001, Table 9, Appendix 4) for river structure replacement. This accounts for 66% of the first five years expenditure and 43% of the 30 year renewals expenditure and is therefore quite a significant expenditure.

SRIDC cannot reconcile this infrastructure expenditure. Initial enquiries thought that this figure might refer to refurbishment for four regulators. However, this is accounted for under river structures refurbishment. Another suggestion was that it referred to Euston Weir, an MDBC structure. If this is so, then it should be accounted for in River Murray Water costs not State Water.

Another possibility is that the MDBC River Murray Water Annuity of $5.944 million has be double accounted – once in State Water asset expenditure on replacement of river structures (DLWC 2001, Table 9, Appendix 4) and again in the final determination of annual bulk water asset costs (DLWC 2001, Table 20, Appendix 4). The figures are certainly very similar.

If there has been double dipping of expenses, then the calculation for the State Water renewals annuity is incorrect. This anomaly must be clearly clarified.

> **Recommendation 15:** That IPaRT seek clarification of all asset expenditure and annuities for both State Water and River Murray Water.

SRIDC's representatives on the Murray Lower Darling Customer Service Committee are also concerned by the lack of input for this appointed committee to determine annuities. In the first instance, the committee has had no input into the concept of annuities, ie the committee has not discussed the concept of charging annuities in the Murray Valley. Secondly there has been no opportunity to discuss, modify or agree to annuities, the methodology or how the TAMP contributes to their determination.

Asset Reserves

Funds contributed by irrigators for renewals, compliance and capital annuities for State Water and MDBC should by placed in a reserve fund. However, the DLWC does not discuss this in their submission, nor is it canvassed in publicly available MDBC documents. NSW Treasury has on previous occasions used such sources of funds for uses for which they were not collected. This is a real concern for water users.

SRIDC would appreciate this issue being addressed by both DLWC and MDBC. It is imperative that water users funds are protected from general revenues of NSW Government and MDBC, as essentially these are funds principally contributed by water users (90%) for future infrastructure works.

Further concerns relate to future reporting of asset reserves. This should be clearly identified in financial reports (as required under various statutes).

> **Recommendation 16:** That appropriate reserves are established for funds contributed by irrigators for asset renewal, compliance and capital annuities and that these are audited independently of Government.

Cost Savings

DLWC submission refers on page 23 to the expectation of the DLWC to maintain and enhance services with lower levels of funding. SRIDC would like to state that not only do IPaRT require the DLWC to provide efficient services, but that the private sector (eg private irrigation companies) are also required to deliver efficient services to their shareholders. As governments are moving to corporatise their businesses (eg State Water) then these organisations should be required to operate efficiently.

Total Bulk Water Costs 2003/04

It must be stated that the NSW Murray Valley is expected to incur 20.5% of the NSW total Bulk Water Costs (Table 4.4, page 25). This is indeed an extremely high proportion, which the majority is to be recovered from the regulated Murray Valley irrigators.

Cost Recovery Revenue 2003/04

SRIDC would once again question the data in Tables 27 and 28 in Appendix 4, particularly relating to the provision for doubtful debts. Table 27 portrays data based on the Bulk Water Product Codes, but when these figures are transferred to Table 28 to portray cost recovery revenues for the provision for doubtful debts for each of regulated, unregulated and groundwater, an anomaly of $44,000 is present.

> **Recommendation 17:** That DLWC provide clarification of the provision for doubtful debts in Tables 27 and 28 of Appendix 4 to their submission to IPaRT.

Bearing in mind the statement regarding total bulk water costs, the NSW Murray irrigators will be required under the DLWC submission, to recovery 97.64% of full cost recovery revenue (Table 4.6, page 26). This is the highest in NSW. The average being 80%, but the spread of cost recovery varies from 21.23% from the South Coast to that of the Murray.

Incidentally, the regulated portion of the NSW Murray will achieve 99.79% cost recovery (Table 29, Appendix 4), with a shortfall of $30,000 dollars. If the NSW Murray has been asked to achieve nearly full cost recovery, why are the other valleys in NSW not achieving this rate as well?

However, the question remains that should the queries regarding particularly the MDBC renewals annuity prove founded, then the NSW Murray would be achieving above full cost recovery and will have been overcharged in their bulk water prices.

Proposed Bulk Water Prices

According to Table 5.1 on page 29 of the DLWC submission, the low security irrigator on the Murray regulated system will achieve the 20% increments in 2001/02 and 2002/03 for both fixed and usage charges. This is followed in the final year of 2003/04 with an increment of 18% for fixed charge and 15% for usage. Therefore, the valley with the most cost recovery in this state will incur the maximum price increases.

Impact Assessment

SRIDC reserves the right to address this issue at the public hearings/workshops. If required and advised by IPaRT, we will submit a supplementary submission on this issue prior to the hearings.

Conclusion

In conclusion, SRIDC does not support the proposed increase in bulk water pricing due to the lack of clear and transparent costing of operating and asset expenditure by DLWC, State Water, MDBC and River Murray Water. There is a lack of clear due process on how each of the products was costed and annuities determined.

Further, SRIDC are critical of the inability for the Murray Lower Darling Customer Service Committee to have input into the process of State Water. This results in our representatives not able to achieve their roles and responsibilities as required under legislation. SRIDC feels that this could be improved by full separation of State Water from DLWC into an autonomous organisation accountable to water users and the NSW Government. This will result in State Water achieving efficiencies akin to that in the private sector.

The Customer Service Committee is further shackled by its inability to have adequate access to information for the MDBC and River Murray Water. Without this clarity, there can be no full and proper accounting of bulk water charges and annuities from MDBC through River Murray Water to NSW Murray Valley water users.

It is part of IPaRT's responsibility to ensure that the process is clear and transparent for all interested groups to have the ability to determine if the information provided is accurate. This is in part being addressed by the recently tendered consultants reports into water resource management expenditure and capital and operating expenditure. SRIDC would strongly recommend that these be made public prior to the public hearings in an endeavour to facilitate representations made by water users in these venues.

References

DLWC 2001, Submission to IPaRT on Bulk Water Pricing 2001/02 – 2003/04, Department of Land & Water Conservation, Sydney.

MDBC 2000, Murray-Darling Basin Commission Annual Report 1999-2000, Murray-Darling Basin Commission, Canberra.

IPART 1998, Bulk Water prices for 1998/99 and 1999/00, Determination No 98-5, Independent Pricing and Regulatory Tribunal of New South Wales, Sydney.