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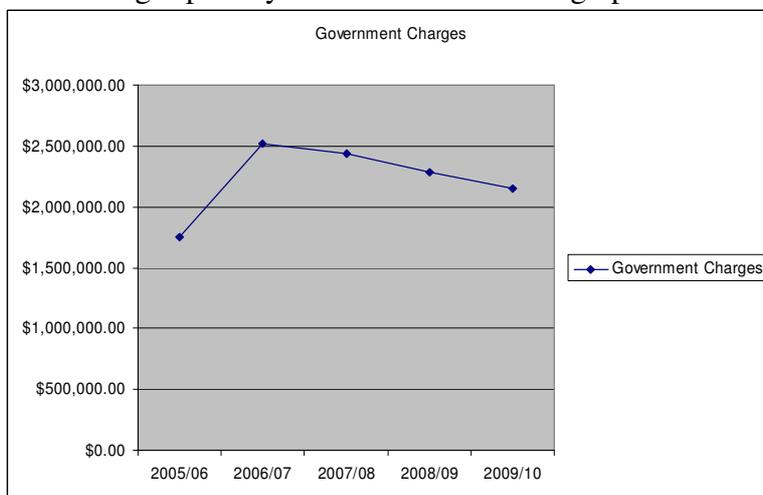
9<sup>th</sup> June 2006

Mr Michael Seery  
Independent Pricing and Regulatory Tribunal of New South Wales  
Level 2  
44 Market Street  
**SYDNEY NSW 2000**

Dear Michael,

### **CICL Submission on May 06 Draft Determination on Bulk Water Prices**

I wish to raise serious concerns in regard to the recent Draft IPART Determination on Bulk Water Charges. It is apparent that Government charges to CICL increase by over 40% (\$768,000) in 2006/07 with reductions in the subsequent 3 years to produce a 23% increase over 2005/06 charges by 2009/10. This impact is as a result of charging on conveyance water and the diminution of bulk water discounts. From past determinations it was apparent that the Murrumbidgee was already at 100% recovery. Yet under this proposed new regime the Murrumbidgee Valley will move to recovery of 127% of total cost (P122) in 2006/07. The impact of the draft determination on bulk water charges paid by CICL is shown in the graph below.



Whilst the Murrumbidgee has been at 100% for a number of years, no other valley reaches this milestone until 2007/08. I would have thought that a move to charge for the conveyance licences held by CICL and MI in an existing full cost recovery valley should not mean a large increase in total charges for the major users. The revenue required should be divided by a larger number of megalitres (to reflect the conveyance licence) and as such the impact on major users would be nowhere near as large as that proposed. It appears as though the Murrumbidgee Valley is over recovering in an effort to underpin underperforming valleys. I note that the National Competition Council states that Governments agreed that:

*In making its assessment the NCC shall not seek to make its own assessment of the adequacy of the justification for any individual CSOs or cross-subsidies, but jurisdictions will provide explanations of the intent of the CSO's and cross-subsidies and the NCC will examine how in*

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*totality they do not undermine the overall policy objectives of the strategic framework for the efficient and sustainable reform of the Australian water industry.*

**Could you please provide clarification as to IPART's role in providing a transparency around cross-subsidies between valleys, and if the Murrumbidgee Valley is being used as a revenue shortfall adjustment mechanism as discussed on page 17 to address revenue risk to both State Water and DNR.**

There appears large increases in DNR charges. DNR argues that this to some extent is purported to be as a result of commitment to the National Water Initiative. I understand that IPART in determining the DNR charges has looked at historical costs.

**Could you please advise as to the justification of the cost increases given the most recent call for redundancies within DNR and the large reduction in staffing numbers over historical staffing levels.**

I note that the bulk discount that IPART has recognised in regard to DNR entitlement charges is phased out by 2009/10.

**Could you please advise as to IPART's knowledge of the phasing out of data capture and reporting required to be provided to DNR that reflects a reduction in the service level provided by CICL to DNR consistent with the phasing out of the Bulk Discount.**

CICL certainly does not believe it incurs DNR costs, or receives a service anywhere near the value of \$600,000/annum.

IPART indicates that in reaching its draft determination that it has considered the impact on customers. I trust you agree that an increase of over 40% in charges could only be charged by a monopoly provider – a role in which IPART is to protect consumers. In terms of the ABARE survey as discussed on page 125 of the Draft Report, there is a mixing of economic indicators i.e. *published gross margin budgets* and profitability. I would like to flag the disparate views between the Productivity Commission and ABARE with extracts of a Commission report below.

*....when debate or queries arise about the validity of the gross margin (GM) in decision analysis, then the GM is not the correct technique. Almost always, in such cases, what is needed is partial and whole farm budgeting, not simple GM analysis. Often GMs are asked to do far more than they were intended for or are equipped to do. Widespread misuse of the GM concept and technique has lead in some quarters to the gross margin earning the unflattering title 'the gross illusion' ... (Productivity Commission -Douglas R., Dwyer G., and Peterson D., Activity gross margins and water reform)*

Profitability is an economic indicator in which I have some faith. To this end I trust IPART has sourced the DPI data that examines the link between farm gate profitability and general security water allocation. In considering this, IPART should be cognizant of the impact of *Snowy Hydro Deals* in skewing, or to some extent masking the impacts of low water allocations. At some point *Snowy water* that has been borrowed needs to be paid back. The capacity of customers to absorb price rises has been dangerously misread by ABARE – particularly during this extended period of drought and low water allocations.

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I note that the Tribunal discusses the relative worth of the price distinction between State Water bulk water charges and the price of water on the temporary transfer market. It should be highlighted that the majority of water trades involve irrigation corporations whereby value is added to the water product such that water is delivered via gravity to the farm rather than via pumping from the river (P126 Draft Report Nos. 3 & 4). For rough comparative purposes if this analogy is to be used a pumping cost of \$10/ML/meter of lift (plus friction head) should be added to the State Water Bulk Water Charge.

I am extremely concerned that as with all past determinations IPART and its consultants again flagged *State Water's financial systems were not sufficiently developed to provide it with an accurate and robust forecast of costs.*<sup>(P48)</sup> Stakeholders were extremely frustrated by a complete lack of valley specific financial data. Stakeholders are losing faith in IPART's capacity to fulfil its obligations in regard to consumer protection – *including protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; and the social and economic impact of its decisions and economic efficiency.*<sup>(P9)</sup>

**Could you please advise as to IPART's capacity to demand specific performance measures with punitive measures in the event they aren't achieved.**

IPART indicates that *in the case of State Water, the Tribunal has analysed the differences between the actual and forecast expenditure, the proportion of these costs that was to be recovered from users, and the actual revenue collected from users.*<sup>(P19)</sup>

**Could you please provide advice as to IPART sighting evidence of Government payments made to State Water under a similar analysis to that of water users as part of this and past determinations.**

IPART goes on, stating that *this analysis of State Water's cash expenditures shows that while there was a significant difference between the forecast and actual costs to be recovered from users, the actual revenue received from user tariffs was also less than actual costs and much less than forecast costs.* Table 4.1 goes on to reflect this at a whole of business level.

**Could you please advise if this exercise was undertaken on a valley by valley basis to ensure compliance with Government commitments to the NCC in regard to cross-subsidies.**

I look forward to your advice in relation to the above matters.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Murray Smith', is written over a faint, circular official stamp.

Murray Smith  
Chief Executive Officer

*This message has been sent to you by email because you have previously provided us with your email address. If you do not wish to receive information from us via email, please contact our office to nominate your preferred method of contact.*