



RICEGROWERS' ASSOCIATION
OF AUSTRALIA INC

Response Draft Determination & Report on Bulk Water Prices

For

**State Water Corporation and Water
Administration Ministerial Corporation**

from 1 August 2006 to 30 June 2010

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1 Introduction

The Ricegrowers' Association of Australia Inc (RGA) welcomes the opportunity to comment on IPARTs draft determination and report for bulk water prices for State Water Corporation (SWC) and the Water Administration Ministerial Council (or Department of Natural Resources (DNR)).

RGA notes that IPART has included a number of principles regarding bulk water pricing, including several National Water Initiative (NWI) clauses. RGA advises other important NWI clauses omitted from this list is that best practice water pricing outcomes should "avoid perverse or unintended pricing outcomes" (NWI, Clause 64 (v)) and that the move to upper bound pricing should only occur where practical (NWI, Clause 66(v)).

RGA contends that this draft bulk water pricing determination and report does deliver perverse pricing outcomes. For example, the "acceptable" escalation in MDBC costs, the draft transfer fee will deliver a 300% pricing increase (see Section 15 below), and that for Murray Valley rice growers on 50% allocation the increase in bulk water charges included in a medium grain rice gross margin is 83.1%. The RGA would also like some explanation as to what the definition of "practical" is in regard to the move to upper bound pricing.

RGA accepts the following IPART draft decisions:

- A four year pricing determination;
- The rejection of the SWC revenue shortfall adjustment mechanism by applying one standard deviation to average valley usage;
- The rejection of MDBC assets in the SWC RAB;
- The adoption of a RAB for SWC and the allocations between Government and users;
- The adoption of an adjustment mechanism for NSW Murray Valley regarding MDBC costs;
- The NSW Treasury transparency measures proposed for MDBC costs;
- The downward revision of SWC and MDBC operating expenditure;
- The downward revision of SWC forecast capital expenditure program due to delivery constraints;
- The move to an application of a 60% variable 40% fixed cost ratios for SWC, as required in its operating licence;
- The rejection of the DNR request for cost recovery from 100% fixed charges only;
- The consumption forecasts for the Murray and Murrumbidgee Valleys;
- The continuation of valley based charges; and
- The maximum charge for the Yanco Creek System NRMP set at \$0.90/ML.

Specifically, the RGA are concerned about the following issues in the Draft Determination and Report:

- The massive increase in Murray Valley costs, mainly due to an escalation in Murray-Darling Basin Commission (MDBC) costs since the 2001 IPART Determination;
- The front loading of Murrumbidgee Valleys costs which will recover 127% of costs in 2006/07;
- The proposal to introduce transfer fees based on a variable cost per megalitre, and
- That IPART has not endorsed the principle of the environment licences attracting bulk water charges.

The following sections detail these and other concerns in more detail.

2 MDBC Costs

RGA continues to be extremely concerned about the massive escalation on MDBC costs – both water delivery and natural resource management. RGA is critical that IPART has chosen to "ignore" these costs in the course of this review of bulk water pricing and has accepted the SWC and DNR worldview of "pass through" costs.

The RGA analysis of the MDBC costs and particularly the user share of these costs cause major concerns. IPART has recommended that water users pay for 56% of the MDBC WRM costs in 2006/07 rising to 58% in 2009/10¹. Of this, NSW Murray Valley water users are being asked to pay 67.4% of WRM costs attributed to water users in the Determination period. While the user share is down from the 2001 Determination, in quantum terms it is a 137% increase in costs.

Furthermore, the Murrumbidgee Valley is required to pay 19.3% of MDBC WRM costs during the draft determination period. This means that the two southern NSW valleys are paying nearly 87% of all water user MDBC WRM costs. Overall, NSW water users will pay approximately 57% of all MDBC WRM costs over the Determination period, but as previously stated, in quantum terms, the increase is significant and unjustifiable. IPART has allowed DNR to avoid delivering an equitable model for sharing MDBC WRM costs across all NSW inland regulated valleys as required in IPART's 2001 Determination.

Likewise, there is a similar outcome for the water delivery costs. The NSW Murray Valley pays all MDBC water delivery costs. The user share of these costs is \$50.726 million over the Determination period or 66.4%. This amounts to a massive 79.7% of the total SWC Murray Valley water user cost share and consequently will markedly affect water users. It should be noted that the cost shares accorded to water users and Government changes over the Determination period – going from 60: 40 users Government to 70:30. This change in sharing ratios should be explained in more detail as on the face of this, it appears inequitable.

The importance of MDBC costs is discernable when compared to the total SWC and DNR costs, i.e. 24.4%. However, MDBC costs are of much greater importance to SWC where MDBC costs are nearly 40% of the total tribunal draft findings (\$76.3M/\$191.6M). For DNR, MDBC costs are around 9% of total DNR costs determined in the draft findings (\$16.8M/\$189.8M). Yet, in this pricing Determination, insufficient attention and investigation has been given by SWC, DNR and IPART to those costs attributable to MDBC.

In the 2001 IPART Determination, there were \$14.2 million of MDBC costs associated with water delivery and water resource management. Of this, IPART determined that users were required to pay \$9.524 million or 67% of the MDBC water delivery and water resource management costs. The NSW Murray Valley incurred approximately 92% or \$8.775 million of the water user share.

In the current IPART review, MDBC costs are treated as "pass through" costs. The total original and revised MDBC costs requested by State Water Corporation and the NSW Department of Natural Resource range from \$34.9 million in 2006/07 down to \$24.5 million in 2009/10. IPART's draft determination states that pass through costs are \$22.8 million in 2006/07 down to \$21.1 million in 2009/10, despite the increase in user cost shares over the Determination period.

RGA advises that IPART's draft determination costs for MDBC for NSW water users are a **239% increase over IPART's 2001 Determination**. Even if CPI increases are added to the 2001 Determination levels, IPART's current Draft Determination is still well over a 200% increase on the MDBC user cost share allowed in the 2001 Determination. RGA contends that this is a perverse pricing outcome.

RGA notes comments by IPART that water users should be sent "appropriate signals" via pricing to ensure that water users use water efficiently. However, RGA contends that water users, especially in the NSW Murray are being sent "appropriate pricing signals" to fund an ever-increasing MDBC bureaucracy.

¹ Based on 2003/04 dollars as supplied by IPART.

RGA accepts the IPART recommendations regarding improved transparency of MDBC costs by the NSW Government and the adjustment mechanism for MDBC costs. However, IPART has also stated its concerns regarding the difficulty in assessing the efficiency and prudence of the MDBC costs and the lack of appropriate incentives for efficient management of MDBC costs. Similar concerns were also raised in the National Water Commission's (NWC) 2005 COAG Water Reform Assessment.

In ignoring anything but an in depth analysis, IPART has inherently delivered the "perverse pricing outcome" which the NWI seeks to avoid. Moreover, this applies only to one valley – the NSW Murray Valley. This obviously is a major concern to RGA and its members. Water users in NSW have no ability to influence the costs of MDBC which are escalating dramatically, despite the Ministerial Council's decision to maintain its budget to 2006/07 contributions over the next four years.

The RGA suggests that there must be a better mechanism to provide the information required by both IPART and water users. The recovery of MDBC costs in application of the full cost recovery framework of the NWI is significant and will continue to be a contentious issue into the future.

RGA recommends the establishment of a small joint water user MDBC reference panel to commission and consider an annual report on MDBC costs, their drivers, service levels and the cost distribution to water users. Such a process would be beneficial for MDBC, National Water Commission, State Governments and water users, and any report could be used to inform the independent pricing reviews held to determine bulk water pricing at a state level.

RGA rejects any further increases above IPART's 2001 Determination with regard to MDBC costs (plus CPI increases) until such time as a comprehensive investigation into the MDBC costs is undertaken. It is imperative, that irrigators have an ability to take part in such a review and have their views heard and considered.

Recommendation 1: That IPART does not approve any increases to MDBC costs beyond the IPART 2001 Determination (plus CPI) until such time as an independent review of MDBC costs is undertaken, and that irrigators have an opportunity to take part in this review.

Notwithstanding the above recommendation, if IPART refuses to agree to implement this, then RGA suggests the following cost sharing mechanism:

- That the MDBC WRM costs are adjusted for any political decisions, such as The Living Murray, Fishways Weir to Sea program, \$150 infrastructure program etc. The funding of these programs should be provided by separately agreed funding arrangements (e.g. an Intergovernmental Agreement) between the States and the Federal Government or explicitly excluded as a Governmental initiative. Irrigators should not be required to fund any initiative announced as funded by Governments of an explicitly political nature.
- DNR is required to provide an appropriate and equitable MDBC WRM sharing mechanism between all NSW inland regulated valleys as required by IPART's 2001 Determination. IPART has failed to ensure that this is implemented.
- That NSW Murray Valley user share of MDBC capex costs are adjusted to exclude all costs associated with infrastructure located beyond the South Australian border, i.e. that NSW Murray Valley is required to pay only for infrastructure required to deliver water to NSW Murray water users. The NSW Government should be required to fund any of the infrastructure costs located within South Australia as a CSO or share these water user costs with all inland regulated valleys with the exception of the NSW Murray.
- That the MDBC capex costs exclude all non-irrigator infrastructure, including Bethangra Bridge over Hume Dam, locks associated with navigation, and any dam foreshore and tourism facilities, such as toilets. The NSW Government should fund these costs as part of the Government share of MDBC costs.

- That all MDBC user share opex water delivery costs are equitably shared across all NSW inland regulated valleys in recognition of the political decision to supply all South Australian water from the Murray River system. This recognises the impact of full irrigation development of regulated valleys on the reduced water flow to South Australia.
- That MDBC are required to introduce competitive tendering to ensure competition is introduced to a monopoly service provider.

Recommendation 2: That IPART adjusts NSW water user costs in line with the above protocols.

2.1 MDBC Contractual Arrangements

RGA agrees with IPART's comments regarding DNR and SWC contractual arrangements with the MDBC². However, it should be noted that if such contracts are not based on providing services at an efficient cost, then NSW water users will be required to fund inefficient services via the MDBC cost sharing arrangements (i.e. the methodology on which NSW pays for its share of MDBC costs, which includes the provision of services via contracts by SWC and DNR). There is significant potential for SWC and DNR to contribute to the escalation of MDBC costs via these contracts. MDBC should be required to ensure that the tender process is commercial and delivers services at efficient costs, including that services are tendered beyond State agencies and into the private sector.

Recommendation 3: That IPART be required to investigate the contracts between SWC and DNR and MDBC to ensure that these are based on the efficient cost of providing those services.

Recommendation 4: That MDBC is requested to ensure that contractual arrangements with state agencies are commercial in nature, deliver services at prudent and efficient costs and that the private sector is invited to tender for projects.

2.2 MDBC Cost Codes

RGA notes that historically, some MDBC major refurbishment capital costs have been included in MDBC costs for operating expenditure. Consequently, RGA seeks clarification on whether an analysis has been undertaken to ensure that MDBC costs are not over recovered because of this factor, i.e. opex and annuity are both claimed for the one expenditure item.

Recommendation 5: That IPART analyses the MDBC "pass through" costs to ensure that major capital expenditure is not inadvertently included as MDBC operating expenditure.

3 Allocation of costs between Government and users

RGA notes that there was only one change in IPART's draft Determination and report for SWC costs shares (the change being for hydrometric monitoring from 70% to 100% user cost share). Consequently, there should be little material difference in the cost share recovery between Government and users, depending on how SWC chooses to categorise their costs into product codes.

However, the change in cost shares for DNR is less transparent with several historic cost categories now aligned with one new "activity" category. Therefore, it is difficult to assess whether there has been any material change to cost recovery as a result. This can only be assessed by whether or not there is any material difference to historic cost recovery from users as opposed to Government.

For regulated systems, in 2001 IPART delivered a total cost recovery from users of 62.6% (\$43.520 million user share from a total cost base of \$69.506 million). In this draft Determination, IPART seeks to provide SWC with 70% total notional revenue recovery from users and DNR with 66% notional revenue recovery from users (noting that the latter is has

² Also, see Halcrow Pacific Review of State Water Corporation and Department of Natural Resources.

only a 1% increase in water user recovery over the Determination period). The water user cost share for SWC has increased, despite the numerous "adjustments" by PC Associates, Halcrow MMA and IPART. Consequently, RGA questions the increase in cost shares to water users since the 2001 IPART Determination and seeks analysis that all costs are appropriately and consistently allocated to the new product codes when compared to previous determinations.

Recommendation 6: That IPART clarifies the increase in water user share of notional revenue for SWC over the 2001 Determination cost share recovery and whether SWC costs have been appropriately allocated to the product categories.

4 DNR Monitoring Bore Depreciation

RGA notes that DNR has a number of older bores, most likely fully depreciated over the ten years, and that an extensive network of monitoring bores have been implemented in the NSW Murray and Murrumbidgee Valleys for monitoring the groundwater aquifers.

Monitoring bores that are fully depreciated should not be included in the Determination.

The RGA notes the recommendations from Halcrow MMA that DNR monitoring bores are depreciated over a 25-year period. RGA notes that the Australian Taxation Office recommends that assets be depreciated over their "effective life".

As DNR bores are monitoring bores and do not have significant moving parts that require repairs and maintenance (such as pumps and motors), RGA suggests that IPART allows depreciation over the full effective life of the bores. Halcrow MMA noted that this is more likely to be 40 years. RGA has consulted a local accountancy firm who also advised that this is a reasonable effective life, given the nature of the asset.

Recommendation 7: That IPART allows DNR monitoring bores depreciation over the effective life of the asset, i.e. 40 years.

5 DNR Staffing Changes

RGA notes that IPART has decided not to include the current proposal from the NSW Government to seek redundancies from DNR staff. RGA estimates that DNR will be seeking redundancies from approximately 116 staff (at \$127K EFT cost). What is unknown at this stage is how many of the staff reductions will occur in areas affecting water resource management.

RGA urges IPART to seek clarification from DNR on the number of staff redundancies from water resource management functions and that the DNR cost base is adjusted accordingly. Otherwise, there is potential for DNR to be over recovering costs during the 2006/07 to 2009/10 period along with delivering reduced services.

Recommendation 8: That IPART adjusts the DNR cost base and fixed and variable charges by the estimated reduction of DNR staff due to the redundancy package, as these affect the provision of water management services funded from water users.

6 Notional Revenue

RGA notes the downward revision of the SWC and DNR notional revenue requirements and that this downward revision was due principally to a lower opening RAB and a WACC of 6.4% for SWC and a decrease in operating expenditure for DNR.

RGA notes that IPART considers these notional revenue requirements to be efficient, providing sustainable basis while maintaining quality, reliability, safety and delivering a return on assets.

RGA notes that for the NSW Murray Valley, there is a substantial increase in user share notional revenue for SWC, mainly due to the increase in MDBC costs. NSW Murray Valley notional revenue increases from \$10 million in 2005/06 to \$15.8 million in 2009/10 – this is a 58% increase. However, the largest single increase is from 2005/06 to 2006/07 when SWC user share notional revenue increases by 45%.

Whilst the overall increases are significant, water users will be severely affected by the front-end loaded increases, particularly when irrigators have suffered markedly by the worst drought in over 114 years and an outlook that is not positive. At this stage, NSW Murray Valley has a 0% opening allocation and Murrumbidgee Valley an opening allocation of 18%.

For DNR, the user share notional revenue increases from \$3.1 million in 2005/06 to \$4.0 million in 2009/10 – a 29% increase. Again, the largest single increase is from 2005/06 to 2006/07 when DNR user share notional revenue increases by 45%.

For the Murrumbidgee Valley, SWC user share notional revenue decreases overall from \$8.0 million in 2005/06 to \$6.6 million in 2009/10. For DNR, user share notional revenue increases from \$2.4 million in 2005/06 to \$3.0 million for most of the Determination – an increase of 25%.

Recommendation 9: That IPART reassesses the substantial front end loaded increases for SWC and DNR and seeks to smooth any transition over the Determination period.

7 SWC Forecast Operating Expenditure (opex)

RGA notes that the Draft Determination has delivered an average 83% cost recovery from users for SWC opex, a decrease from SWCs requested 96% user cost recovery. RGA also notes the request from SWC that forecast opex is significantly adjusted “to comply with the adoption of International Financial Reporting Standards (IFRS)”. RGA rejects this request by noting that significant expenditure has already occurred in establishing financial reporting systems and if this expenditure did not comply with IFRS, then SWC should bear the cost of this oversight. Water users should not be expected to foot the costs of non-compliance.

Recommendation 10: That SWC only bears the increased costs associated with implementing International Financial Reporting Standards (IFRS) as such standards should have been included in the recent expenditure to establish SWC financial reporting systems.

8 DNR Forecast Opex

RGA notes that the Tribunal’s findings with regard to planning and development of water sharing plans is perplexing. Whilst it is recognised that there are numerous macro-plans for unregulated systems yet to complete, all regulated systems have gazetted water sharing plans and planning is nearly completed for all groundwater aquifers. These plans will be in force for a 10-year period and RGA understands that Water Sharing Plan reviews will be undertaken by the Catchment Management Authorities, not DNR. As a result, opex will decline markedly over the Determination period. Therefore, RGA questions why the Tribunal has recommended increasing the opex in line with historic expenditure and removal of only half the expenditure for water sharing plans.

Recommendation 11: That IPART accepts the recommendations of Halcrow MMA with regard to DNR water sharing plan opex.

9 SWC Capital Expenditure (capex)

RGA notes IPART’s comments that the RAB is aligned with upper bound pricing. However, RGA brings the attention of IPART to the NWI, which states that moves to upper bound pricing should only occur where practical. IPART should provide some guidance to water users as to what this means and what the NWC advises it to mean.

Recommendation 12: That IPART clarifies the meaning and intent in the NWI that the move to upper bound pricing for rural water supplies should only occur where practical.

RGA does not support the move to upper bound pricing, as it appears that Governments are striving to selectively implement the NWI where this applies to water users and defer or delay those implementation issues required by Governments. Unless addressed, there will continue to be angst about selective implementation of the NWI.

RGA supports IPART's findings to exclude MDBC from the RAB and SWCs request to include an increased WACC to account for increased revenue risk and revenue cap (i.e. water sharing plans).

RGA notes that IPART has agreed with the SWC submission for a return of capital (depreciation) for existing assets is 160 years and yet from 1/7/2004, a new asset life will be 75 years. RGA seeks clarification as to why there is a difference and whether this makes any material difference to the outcomes for SWC capex, given that post 1/7/2004 assets will be written off at less than half the life of those pre 1/7/2004.

Recommendation 13: That IPART clarifies its acceptance of the SWC asset life of 75 years for new post 1/7/2004 expenditure.

10 Consumption Forecasts

RGA agrees with IPART's findings not to adjust SWC consumption forecasts by one standard deviation as this has the capacity to over recover, and can only come at the dis-benefit of water users. RGA notes that such a request does not promote efficient business practices.

11 Fixed and Variable Sharing Ratios

RGA agrees with IPART's rejection of DNRs proposal to recover 100% of its costs from fixed and uniform charges across valleys as this will reduce transparency and increase cross subsidisation.

12 Wholesale Discounts

RGA notes that the ICDs will make individual submissions regarding IPART's draft findings regarding to wholesale discounts. Notwithstanding this, the majority of rice growers are located within the boundaries of Murray, Coleambally and Murrumbidgee Irrigation. Consequently, this finding will markedly increase the cost of bulk water to many of RGA's members, many of who will see a transfer of wealth from their businesses to those of private diverters.

RGA notes that IPART will phase out DNR wholesale discounts and replace SWC wholesale discounts with rebates. The latter will amount to approximately 19% for Murray Irrigation (down from 40%), and around 10% for each of Murrumbidgee and Coleambally Irrigation (down from 29% and 32% respectively) based on average bills. Collectively, the impact will be much greater to individual irrigators within the ICDs.

13 High and General Security Ratios

RGA notes the IPART decision regarding high and general security ratios, and that affects the premium paid by high security water users. It should be noted that in the Murray and Murrumbidgee Valleys, the requirement to store high security water for longer than one year is ameliorated by the Snowy Hydro required annual releases of 1062 GL and 1026 GL into the Murray and Murrumbidgee Valleys respectively.

It should be noted that the Murray RAR is shared with Victoria, therefore delivering only 531 GL to the NSW water resource set. Whilst covering existing high security requirements for the NSW Murray, it does not cover any South Australia entitlements and dilution flows to storage

and transmission losses required to run the river. These are a higher priority than NSW high security water and may offset the lower premium for high security water.

Perhaps a bigger issue is the requirement to store environmental water for longer than one irrigation season, and in fact several years (e.g. Barmah Millewa Forest allocation can be stored for up to six years at approximately 75 GL/year to a maximum of 300 GL of NSW supplied water). RGA suggests that there may be differential premium attached to the charges applying to all environmental water.

RGA suggests that IPART reconsider the high security premium and that a specific premium that should apply to environmental water.

Recommendation 14: That IPART reconsiders the high security premium to apply to the Murray Valley high security entitlements and to environmental water.

14 Cost Reflectivity

RGA notes that over the Determination period, IPART has delivered 100% full cost recovery of water user charges for the NSW Murray Valley (up from 80% for SWC and 67% for DNR in 2006/07). A similar result applies to the Murrumbidgee Valley, with DNR recovery up from 90% in 2006/07. RGA notes that both valleys delivered 100% full cost recovery from water users in the 2001 Determination.

However, RGA are concerned about the SWC full cost recovery. In 2006/07, SWC water user cost recovery for the Murrumbidgee Valley is projected to be 127%. This is unsatisfactory.

Recommendation 15: That IPART investigates and adjusts the Murrumbidgee Valley SWC and DNR charges so that cost recovery in 2006/07 is limited to 100%.

It may be a worthwhile exercise to determine the cost recovery from water users in the Murray and Murrumbidgee Valleys (i.e. Table 13.2) when the Tribunal's figures are adjusted for MDBC costs.

Despite this, in the 2001 Determination, all regulated river valleys were at full cost recovery at the end of that Determination period, i.e. 2004/05. Therefore, it appears that SWC and DNR cost recovery from users will be an ever-changing feast of goal posts. RGA would suggest that at the next Determination for 2010/11 and beyond, water users will not have achieved full cost recovery at the 2009/10 period. This causes some concern as there appears to be no period of stabilisation in the notional revenue requirements of DNR, SWC and more pertinently MDBC.

In setting the fixed and variable charges for regulated systems, RGA notes that there is an increase for Murray Valley from 2005/06 to 2009/10 of 52% - 63% for SWC and 14% for DNR (includes both fixed and variable charges as portrayed in Tables 12.1 and 12.2). This is a significant increase and well outside the cap placed by IPART on affordability of "individual average customer bills". RGA acknowledges that the increase is primarily driven by increased MDBC costs, but also includes increased costs for SWC and DNR.

15 Temporary transfer fee increases

RGA opposes the proposed increases on several grounds:

- Currently a 275 ML temporary incurs a transfer fee of \$75. Under the new proposal, this will incur a fee of \$300, representing an increase of 300%.
- There is no relationship between the volume of water transferred and the cost of doing the transfer. Therefore, there should be a flat rate per transfer. IPART accepted this principle in the 2001 Determination.
- There is currently no capacity for electronic transfer of temporary water and until this is made available, the transfer process will be unreasonably expensive.

- Because of the antiquated processes involved with the paper transfer of water the time for the completion of inter valley and interstate trades is still excessive. South Australian trades are still taking in excess of three weeks to complete. Some agents drive between Adelaide and Deniliquin in an attempt to speed up the process. This expense is then factored into the buyer or seller's transaction costs.
- There should be serious consideration of tendering out the transfer process to groups like Murray Irrigation that are now actively involved in the trading process.
- Interstate trades are incurring fees from both states. Under the current proposal, a 275 ML transfer between the SA and NSW will incur \$600 (\$300 & \$300) in state charges.
- Temporary trades undertaken by other organisations vary from zero (Murray Irrigation) to around \$60/trade. A comparable transfer for an ASX transaction is ~\$20. IPART must consider these costs for the relativity of an appropriate temporary transfer fee.
- There should be a mechanism for allowing farm businesses to transfer water between different water access licences, e.g. within Murray Irrigation to a Murray River Pumper or vice versa held by the same farming entity or its shareholders. Currently, Murray Irrigation does not charge for this service internally.

Recommendation 16: That the administration of temporary water trading is put out to tender.

Recommendation 17: That the fixed rate per temporary trade is retained.

Recommendation 18: That the transfer process is rapidly upgraded to electronic capability.

Recommendation 19: That there is a differential set pricing for temporary transfers between farm businesses with water access licences held in different farming business names.

16 Affordability

RGA accepted the ABARE consultancy, which broadly determined that, the "impact of farm cash incomes to be relatively small...[but that there were] significant differences across river valleys and industries and among individual farms within a region".

IPART has used a "crops" farm cash income for analysis for both Murray and Murrumbidgee Valleys. RGA notes that this is the industry most closely aligned with the rice industry. Nevertheless, crops may include all types of summer irrigated crops (e.g. soybeans, corn) to irrigated winter cereals (e.g. wheat, barley etc). Consequently, the "picture" of the impact to a rice specific farm cash income is somewhat limited.

RGA has undertaken an analysis of a gross margin impact for the increase in water pricing (see Appendix 1 and 2). These gross margins use the NSW Department of Primary Industries (DPI) Gross Margin Budgets for aerially sown medium grain rice (available www.dpi.nsw.gov.au). The DPI budgets have been adjusted in terms of the bulk water price only.

As can be seen, at 50% allocation the NSW Murray Valley forecast bulk water charges comprise up to 17.4% of the rice variable charges and the increase in bulk water charges from the DPI budget is significant at up to 83.1%. More starkly, when using an average allocation over the past four years, the increase in bulk water charges from the DPI budget is up to 97.4%. In both cases, there is a reduction in the gross margin of around 9%.

Regardless of which approach is used, RGA questions the outcome for both. In terms of impact on overall farm profitability, disposable farm cash income is perhaps the most appropriate measure. Even IPART notes that farm business profit was negative in a number of valleys. Therefore, the IPART assessment that increased bulk water charges will not adversely affect farm profitability is flawed. Whilst RGA acknowledges that there are a number of drivers for farm profitability, where this profitability is **reduced** by any degree by increased bulk water charges, there is an impact.

IPART wrongfully assesses affordability in terms of the prices paid for temporary water purchased by irrigators. Over the past four years particularly, in both the Murray and Murrumbidgee Valleys, temporary trade water prices have been affected by the drought and limited availability of water in this market, i.e. low supply compared to demand. The price has been driven mainly by dairy farmers who are one-year ahead of annual croppers and are required to keep cows and calves alive. They consequently paid up to the price of permanent trade water for temporary trade water. Rice growers could not afford to purchase this water. In fact, they could only purchase limited amounts to finish crops only (i.e. in March) rather than to augment water supplies throughout the rice production phase.

For the ICDs, there are substantial increases that are mainly front end loaded in 2006/07. As previously stated, many rice growers are located within the boundaries of ICD areas and will be highly impacted by the change in wholesale discounts and in the Murrumbidgee Valley, the application of charges to ICD conveyance licences.

RGA noted that Murray Irrigation will incur a total average increased cost of 79% in 2009/10 compared to 2005/06 – 30% of which will occur in 2006/07. Likewise, MI and CICL will incur increases in 2006/07 of 24% and 32% respectively.

The following table demonstrates the overall impact to water users in the Murray and Murrumbidgee Valleys.

	2005/06	2006/07	2007/08	2008/09	2009/10	Change from 2005/06
MURRAY VALLEY						
SWC						
Entitlement	\$4.02	\$3.81	\$3.50	\$3.20	\$2.91	-28%
Consumption	\$1.09	\$2.31	\$3.42	\$4.46	\$5.43	+398%
DNR						
Entitlement	\$1.26	\$1.33	\$1.37	\$1.40	\$1.44	+14%
Consumption	\$0.34	\$0.36	\$0.37	\$0.38	\$0.39	+15%
IPART TOTAL	\$6.71	\$7.81	\$8.66	\$9.44	\$10.17	+52%
Agency Submissions						
SWC	\$5.11	\$9.54	\$10.10	\$10.78	\$11.77	+130%
DNR	\$2.30	\$2.18	\$2.12	\$1.96	\$1.96	-17%
TOTAL	\$7.41	\$11.72	\$12.22	\$12.74	\$13.73	+85%
CPI scenario³	\$6.71	\$6.91	\$7.12	\$7.33	\$7.55	+13%
MURRUMBIDGEE VALLEY						
SWC						
Entitlement	\$3.11	\$2.61	\$2.04	\$1.50	\$1.00	-68%
Consumption	\$0.82	\$1.26	\$1.64	\$2.00	\$2.34	+185%
DNR						
Entitlement	\$0.95	\$0.97	\$0.96	\$0.94	\$0.93	-2%
Consumption	\$0.25	\$0.25	\$0.25	\$0.24	\$0.24	-4%
TOTAL	\$5.13	\$5.09	\$4.89	\$4.68	\$4.51	-12%
Agency Submissions						
SWC	\$3.93	\$4.56	\$4.63	\$4.87	Comparison incomplete due to lack of information on SWC 2009/10 charges	
DNR	\$1.76	\$1.71	\$1.63	\$1.66		
TOTAL	\$5.69	\$6.27	\$6.26	\$6.53		
CPI scenario⁴	\$5.13	\$5.28	\$5.44	\$5.60		

³ Adjusted to 2005/06 values by 3% per annum

⁴ Adjusted to 2005/06 values by 3% per annum

Table 1: Comparison of changes from 2005/06 to 2009/10 for SWC and DNR fixed and variable charges

17 Environmental Water

RGA continues to be concerned that IPART has failed to establish principles for water charges to be recovered from environmental water or its managers. At the public hearing on 30 June 2006, DNR requested that SWC charges be not applied to any environmental water, which is issued with an Adaptive Environmental Water (AEW) licence.

RGA rejects this claim for waiver by DNR. In lieu, RGA has long argued that all water licences should incur all bulk water charges, regardless of whether or not these licences are used for irrigation or the environment. In addition, RGA would argue that environmental licences should also attract DNR water resource management charges.

Where environmental water is stored and delivered using structures such as headworks dams, weirs etc, this water must attract as an absolute minimum all water delivery charges. The only issue is whether the water should be classified as high security or general security. There is some argument that the very nature of environmental water means that it should be classified as high security. The Water Management Act 2000 states that environment must be given a higher priority than irrigators and indeed high security entitlements.

In addition, environmental water can be stored for up to six years. Indeed, even high security water in the Murray and Murrumbidgee Valleys provided to the environment (3% and 5% respectively) is now able to be stored until called upon for use. This is a change to the nature of the original entitlement (i.e. characteristic) negatively affecting the security and yield of general security water.

Consequently, there is an argument that the high security premium that applies to high security water should be adjusted because of the longer term storage of environmental water. Therefore, RGA recommends that IPART consider conferring upon environmental water a fixed charge only with a premium that reflects that ability to store this water long term.

In addition, environmental water can be traded on the temporary (annual) water market. In drought years, this water will attract significant funds for water managers. This will allow bulk water charges to be paid and where the water is not traded, Governments should be required to pay these charges as a defined CSO. To fail to ensure that environmental water does not pay appropriate bulk water charges, creates arbitrage in the water market and disadvantages irrigators.

Recommendation 20: That IPART confers a high security fixed charge to all environmental water, and that a specific premium is attached to high security water reflecting the requirements for this water to be stored long term.

18 Conclusion

RGA continues to be concerned about the costs particularly attributable to the NSW Murray Valley, which are driven mainly by the escalating MDBC cost base. The principles for jurisdictions sharing MDBC costs is inequitable given the inability for MDBC to contain costs or for IPART to provide any degree of transparency and determine an efficient and prudent cost base for MDBC.

RGA is also concerned about the proposed charges for temporary transfer fees and the over recovery of Murrumbidgee Valley in 2006/07.

RGA is recognised by Governments as a provider of solutions and this submission builds on this reputation by making a number of recommendations, which should deliver an improved bulk water pricing determination. RGA welcomes any enquiry from IPART regarding these.

Appendix 1: Rice Gross Margin Impact using 50% allocation

Murrumbidgee Valley Water Costs @ 50% Allocation

MbV Medium Grain rice aerially sown	DPI GM	2005/06	2006/07	2007/08	2008/09	2009/10
Total Income	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha
Total Variable Expenses	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha
GM/HA	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha
SWC Fixed Charge		\$3.11	\$2.61	\$2.04	\$1.50	\$1.00
SWC Variable Charge		\$0.82	\$1.26	\$1.64	\$2.00	\$2.34
DNR Fixed Charge		\$0.95	\$0.97	\$0.96	\$0.94	\$0.93
DNR Variable charge		\$0.25	\$0.25	\$0.25	\$0.24	\$0.24
Total Fixed BWC	\$5.64/ha	\$8.12/ha	\$7.16/ha	\$6.00/ha	\$4.88/ha	\$3.86/ha
Total Variable BWC	\$1.04/ha	\$1.07/ha	\$1.51/ha	\$1.89/ha	\$2.24/ha	\$2.58/ha
Total BWC	\$6.68/ha	\$9.19/ha	\$8.67/ha	\$7.89/ha	\$7.12/ha	\$6.44/ha
Total BWC/ha	\$93.52/ha	\$128.66/ha	\$121.38/ha	\$110.46/ha	\$99.68/ha	\$90.16/ha
% of Variable costs	6.6%	9.1%	8.6%	7.9%	7.1%	6.4%
Increase from DPI GM		37.6%	29.8%	18.1%	6.6%	-3.6%
Forecast GM Variable Costs	\$1406.59/ha	\$1441.73/ha	\$1434.45/ha	\$1423.53/ha	\$1412.75/ha	\$1403.23/ha
Forecast Gross Margin	\$1293.41/ha	\$1258.27/ha	\$1265.55/ha	\$1276.47/ha	\$1287.25/ha	\$1296.77/ha

Murray Valley Water Costs @ 50% Allocation

MV Medium Grain rice aerially sown	DPI GM	2005/06	2006/07	2007/08	2008/09	2009/10
Total Income	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha
Total Variable Expenses	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha
GM/HA	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha
SWC Fixed Charge		\$4.02	\$3.81	\$3.50	\$3.20	\$2.91
SWC Variable Charge		\$1.09	\$2.31	\$3.42	\$4.46	\$5.43
DNR Fixed Charge		\$1.26	\$1.33	\$1.37	\$1.40	\$1.44
DNR Variable charge		\$0.34	\$0.36	\$0.37	\$0.38	\$0.39
Total Fixed BWC	\$6.20/ha	\$10.56/ha	\$10.28/ha	\$9.74/ha	\$9.20/ha	\$8.70/ha
Total Variable BWC	\$1.73/ha	\$1.43/ha	\$2.67/ha	\$3.79/ha	\$4.84/ha	\$5.82/ha
Total BWC	\$7.93/ha	\$11.99/ha	\$12.95/ha	\$13.53/ha	\$14.04/ha	\$14.52/ha
Total BWC/ha	\$111.02/ha	\$167.86/ha	\$181.30/ha	\$189.42/ha	\$196.56/ha	\$203.28/ha
% of Variable costs	9.5%	14.4%	15.6%	16.3%	16.9%	17.4%
Increase from DPI GM		51.2%	63.3%	70.6%	77.0%	83.1%
Forecast GM Variable Costs	\$1165.20/ha	\$1222.04/ha	\$1235.48/ha	\$1243.60/ha	\$1250.74/ha	\$1257.46/ha
Forecast Gross Margin	\$1096.80/ha	\$1039.96/ha	\$1026.52/ha	\$1018.40/ha	\$1011.26/ha	\$1004.54/ha

Appendix 2: Rice Gross Margin Impact using average allocation over last four years

Murrumbidgee Valley Water Costs @ 42.5% Allocation

MbV Medium Grain rice aerially sown	DPI GM	2005/06	2006/07	2007/08	2008/09	2009/10
Total Income	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha	\$2700.00/ha
Total Variable Expenses	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha	\$1406.59/ha
GM/HA	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha	\$1293.41/ha
SWC Fixed Charge		\$3.11	\$2.61	\$2.04	\$1.50	\$1.00
SWC Variable Charge		\$0.82	\$1.26	\$1.64	\$2.00	\$2.34
DNR Fixed Charge		\$0.95	\$0.97	\$0.96	\$0.94	\$0.93
DNR Variable charge		\$0.25	\$0.25	\$0.25	\$0.24	\$0.24
Total Fixed BWC	\$5.64/ha	\$9.55/ha	\$8.42/ha	\$7.06/ha	\$5.74/ha	\$4.54/ha
Total Variable BWC	\$1.04/ha	\$1.07/ha	\$1.51/ha	\$1.89/ha	\$2.24/ha	\$2.58/ha
Total BWC	\$6.68/ha	\$10.62/ha	\$9.93/ha	\$8.95/ha	\$7.98/ha	\$7.12/ha
Total BWC/ha	\$93.52/ha	\$148.72/ha	\$139.07/ha	\$125.28/ha	\$111.74/ha	\$99.70/ha
% of Variable costs	6.6%	10.6%	9.9%	8.9%	7.9%	7.1%
Increase from DPI GM		59.0%	48.7%	34.0%	19.5%	6.6%
Forecast GM Variable Costs	\$1406.59/ha	\$1461.79/ha	\$1452.14/ha	\$1438.35/ha	\$1424.81/ha	\$1412.77/ha
Forecast Gross Margin	\$1293.41/ha	\$1238.21/ha	\$1247.86/ha	\$1261.65/ha	\$1275.19/ha	\$1287.23/ha

Murray Valley Water Costs @ 44.25% Allocation

MV Medium Grain rice aerially sown	DPI GM	2005/06	2006/07	2007/08	2008/09	2009/10
Total Income	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha	\$2262.00/ha
Total Variable Expenses	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha	\$1165.20/ha
GM/HA	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha	\$1096.80/ha
SWC Fixed Charge		\$4.02	\$3.81	\$3.50	\$3.20	\$2.91
SWC Variable Charge		\$1.09	\$2.31	\$3.42	\$4.46	\$5.43
DNR Fixed Charge		\$1.26	\$1.33	\$1.37	\$1.40	\$1.44
DNR Variable charge		\$0.34	\$0.36	\$0.37	\$0.38	\$0.39
Total Fixed BWC	\$6.20/ha	\$11.93/ha	\$11.62/ha	\$11.01/ha	\$10.40/ha	\$9.83/ha
Total Variable BWC	\$1.73/ha	\$1.43/ha	\$2.67/ha	\$3.79/ha	\$4.84/ha	\$5.82/ha
Total BWC	\$7.93/ha	\$13.36/ha	\$14.29/ha	\$14.80/ha	\$15.24/ha	\$15.65/ha
Total BWC/ha	\$111.02/ha	\$187.07/ha	\$200.00/ha	\$207.14/ha	\$213.30/ha	\$219.11/ha
% of Variable costs	9.5%	16.1%	17.2%	17.8%	18.3%	18.8%
Increase from DPI GM		68.5%	80.1%	86.6%	92.1%	97.4%
Forecast GM Variable Costs	\$1165.20/ha	\$1241.25/ha	\$1254.18/ha	\$1261.32/ha	\$1267.48/ha	\$1273.29/ha
Forecast Gross Margin	\$1096.80/ha	\$1020.75/ha	\$1007.82/ha	\$1000.68/ha	\$994.52/ha	\$988.71/ha

