Coleambally Irrigation Co-operative Limited

Response to the IPART Issues Paper on the Review of State Water's Bulk Water Pricing

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Coleambally Irrigation Co-operative Limited
ABN 75 951 271 684
Registered Office: Brolga Place, Coleambally 2707
Phone 02 6954 4003 - Fax 02 6954 4321

Submitted by:

Chief Executive Officer, Coleambally Irrigation Cooperative Limited PO Box 103
Coleambally NSW 2707

Submitted to:

The Review of State Water Corporation’s Bulk Water Pricing - Independent
Pricing and Regulatory Tribunal PO Box Q290 QVB Post Office NSW 1230

1 BACKGROUND

Coleambally Irrigation District is located 650km southwest of Sydney in the Riverina. Coleambally was constructed for the purpose of irrigated agriculture with construction commencing in the late 1950s and the town officially being opened in 1968. The area now has a population of approximately 1200 people.

The irrigation area was constructed to make use of water diverted westward as a result of the Snowy Mountains Hydro-Electric Scheme. It covers an area of 79,000 ha of intensive irrigation, 42,000 ha irrigation/dry farms and 297,000 ha Outfall District stations delivering water supply to 452 farms. Water is diverted to the area from the Murrumbidgee River at Gogelderie Weir. Coleambally Irrigation has a bulk license of 629 GL of water, which is used for the irrigation area.

Drainage water flows via Yanco and Billabong Creeks before entering the Murray River. Much of the drainage water is reused downstream of Coleambally.

Irrigation water is used for crops such as rice, wheat, barley, oats, canola, soybeans, maize, sunflowers, lucerne, grapes, prunes and pastures for sheep and cattle.

The location of the Coleambally township and Coleambally Irrigation Co-operative Limited's (CICL) administrative regions are shown in Figures 1.1 and 1.2.

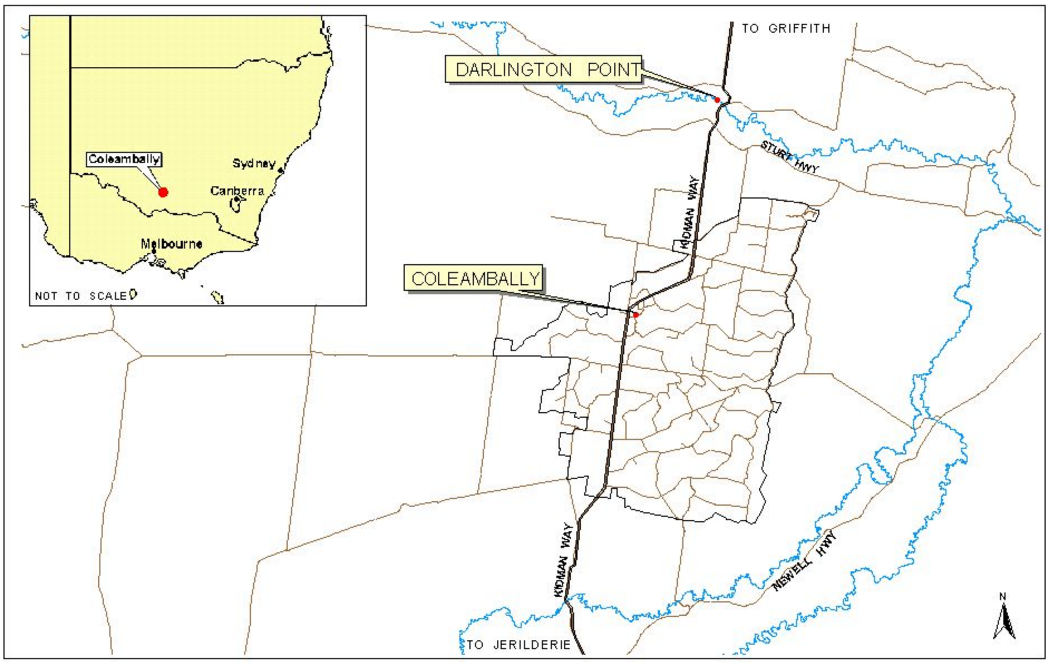

Figure 1.1 Location of Coleambally township

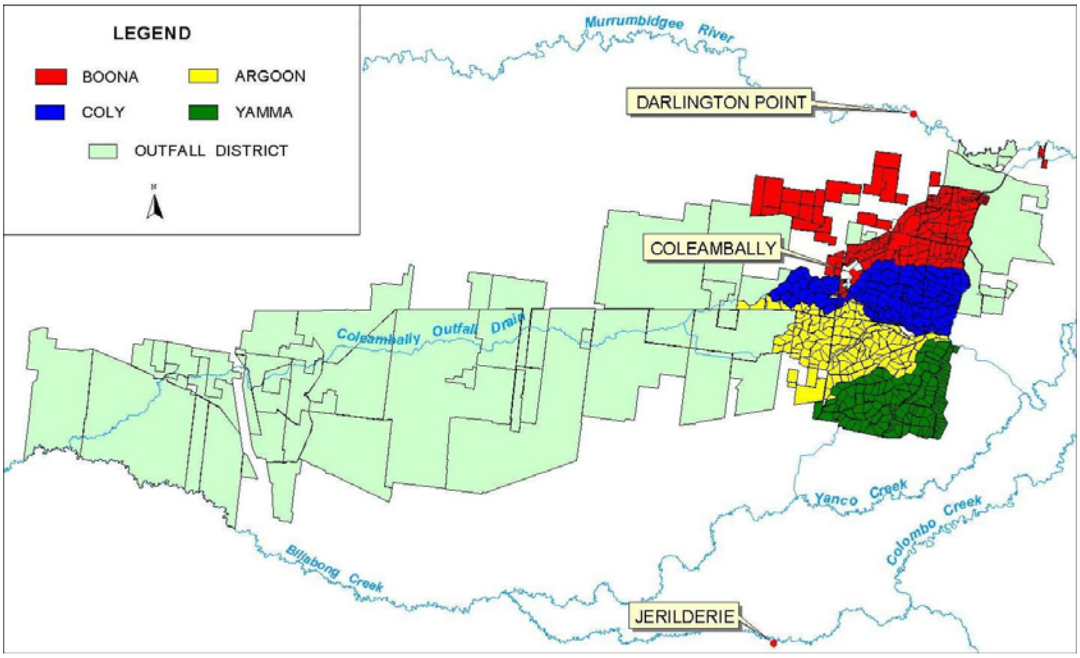

Figure 1.2 CICL operational area showing regions

CICL is required to distribute water to its customers within its operational area in a sustainable manner. The environmental and economic sustainability of the area is to be achieved through the implementation of Land and Water Management Plans.

2.0 EFFICIENT OPERATING COSTS

The Tribunal welcomes comments on:
- *The efficiency of the projected operating costs outlined in the State Water submission.*
- *Whether there is scope for State Water to achieve further efficiency gains over the next price determination period.*

From the information provided (including State Water's submission) it is impossible for stakeholders to comment on the benchmarking process undertaken by State Water in comparing its cost structure with that of other major water providers. However we expect IPART to have been provided with such data and to critically review.

We expect State Water to be on a path of continual improvement, which (like Irrigation Corporations) will engender a culture targeting efficiency gains across its whole business structure. We together with other Irrigation Corporations are examining opportunities in collaboration with State Water to achieve efficiencies by sharing resources where possible and appropriate. It is our expectation that positive outcomes will be achieved through such an initiative during the period of the next price determination period.

We agree with State Water's position in relation to the use of the 'Purchaser-Provider' Model to enforce the costs of service exchange with DIPNR and delivering efficient costs for service.

3.0 CAPITAL EXPENDITURE PROGRAM

3.1 Expenditure Program

The tribunal welcomes comments on: • *the projected capital expenditure program outlined in State water's submission, and the outcomes that it is expected to achieve.* • *The prudence of State Water's past capital expenditure.*

We believe that the respective Customer Service Committees (CSC) need to be involved in:

1. Reviewing and sign off on all asset management priorities, including asset renewal and maintenance;
2. Providing input to water pricing strategies for recommendation to IPART, including provision for a charge for valley specific projects; (thus establishing a shared responsibility for the decisions and subsequent funding obligations)

In the past, the Murrumbidgee CSC has not been able to exercise control or provide meaningful input to State Water's capital program. The CSC seeks to establish collaborative involvement, a position that it puts forward as absolutely necessary if a true partnership with State Water is to be established. This is only fair and reasonable considering that the customers are expected to pay, and that their livelihood depends on maintaining an efficient and reliable infrastructure. State Water is clearly moving in this direction, which we see as very positive.

3.2 Capital Funding

The tribunal welcomes comments on: • *What approach to capital funding capital expenditure should be adopted when pricing water services to ensure4 that capital expenditure requirements can be met.* • *An appropriate rate of return for State Water.*

The Murrumbidgee CSC supports a RAB approach (debt financing). Whilst CICL largely supports this position it does raise concerns with how this arrangement may result in cost spikes that translate into customer price shocks.

To assist in this regard we believe it is imperative that State Water develop and make public a retained earnings policy that is endorsed by Government to ensure that the practice of 'skimming' employed in other States (and with other entities in NSW) does not eventuate in this case. For example, in the case of Energex (Power Industry QLD), the major criticism is that government sought too much dividend from the investment, which deprived the business of sufficient re-investment capital. There is a need to develop a suitable balance between full debt financing and annuity.

3.3 Rate of Return

CICL supports the position of the Murrumbidgee CSC, which is *particularly cautious of the rate of return requirements that Treasury (government) may require.*

The CSC recognises the Tribunal's approach to other regulated business (WACC), however the other major factor in determining the approach to be adopted is the variability of the income stream for State Water. The rate of return in a long-term situation will not vary greatly, but vagaries of weather are very influential on the income on an annual basis.

The CSC recommends that rates of return should not reflect the cash cow objectives of Treasury but should be consistent with commercial rates that are achieved through organisations such as the Sydney Rail Network or the hospital system and not be attached to the ability to pay. The irrigation community has been through, and is still going through a significant drought and this should be taken into account with any determination on rate of return. Any impost over and above commercial terms will be considered as a tax.

4.0 COST SHARING APPROACH

The tribunal welcomes comments on:

- *Whether there are new arguments against the cost sharing approach used for the last determination.*
- *What costs should be considered as "legacy costs".*
- *What cost sharing arrangements should apply to compliance related capital expenditure*
- *Whether there is a connection between water extraction and various WRM activities, and the extent of this connection.*

The CSC, in its comments on the Operating Licence, supported the proposal that all services that are not the responsibility of State Water should be reviewed. State Water should have the responsibility as operator for the services to support the operating role. DIPNR, as audit/regulator, should not provide operational services.

State Water in their submission flagged that costs associated with a reduction in customer entitlement through additional allocation of water to the environment (at no recoverable cost) would have an immediate impact on their income stream. They ask for this to be handled through appropriate pricing mechanism. Of course it also naturally follows that Irrigation Corporations are impacted in exactly the same way. However it is the individual irrigators that ultimately shoulder such cost shifts.

4.1 Legacy Costs

CICL supports the position taken by the Murrumbidgee CSC i.e. *support the ACIL interpreted "legacy costs":*

- *Expenditure necessitated by the activities of past users (eg costs associated with ongoing salinity intrusions attributable to past extractive users).*

- *Infrastructure maintenance and renewals expenditure that are higher due to poor management practices in the past.*

- *Costs resulting from ongoing changes to community standards such as dam safety and occupational health and safety, implying that any enhancement of a standard (past or future) gives rise to a legacy.*

The CSC has the view that the "big ticket" dam upgrades to PMP standards is clearly a legacy cost. In this regard, the Blowering Dam upgrade is clearly a non-irrigator funded activity. The CSC seeks for this to be identified in the next IPART determination.

The past poor management practices with regard to infrastructure maintenance and renewals expenditure is not easily separated into a legacy component. This area is one where the CSC wants an input.

4.2 Compliance related Capital Expenditure

Compliance related activities for the purpose of providing comment requires better definition. For example, spillway upgrades to new compliance standards clearly falls within a legacy cost, however there could well be other costs that CICL agree is of a compliance nature. At this point however CICL is not in a position to make comment.

4.3 Costs Associated with WRM Activities

There is no transparency in DIPNR's costs associated with WRM activities. It is problematic for stakeholders when DIPNR has not submitted its submission to IPART in time for stakeholders to comment. CICL would like to be involved through the Customer Service Committee in negotiations between State Water and DIPNR or the CMA regarding WRM costs. Stakeholders are in no position to comment on the efficient costs associated with WRM – a situation that we trust IPART will take up strenuously with DIPNR.

DIPNR's proposal to set WRM prices from 1 July 2005 to 30 June 2006 based on the current prices plus a CPI increase is totally unsuitable given there has been no transparency in how they established costs in the first instance.

CICL agrees with the Murrumbidgee CSC in that "*IPART should not accept any WRM rate without an open DIPNR cost and price proposal. It is inconsistent that State Water are expected to justify all costs and their quota, when DIPNR put forward such a flippant proposal*."

4.4 Balance Between Fixed and Variable Usage Charges

The tribunal welcomes comment on the appropriate balance between fixed and usage charges

State Water did provide CICL with a briefing on the basis for their proposed shift to a split of 60/40 for fixed and variable charges respectively. We accept that this will assist customers during periods of low allocation such as that which has been experienced during the last three years. We appreciate this recognition by State Water. However we also flag the increase in business risk to State Water in the event that the ongoing drought is a reflection of climate shift.

We agree with State Water in that their proposed split will assist in driving business efficiencies.

5.0 TWO PART TARIFF FOR NRM AND RIVER OPERATIONS

The Tribunal welcomes comments on whether a two-part tariff should apply for both WRM and river operations activities on regulated rivers.

CICL supports the comments made by the Murrumbidgee CSC.

> *"The last three years in the Murrumbidgee Valley have established three new record low allocation levels. The income from low security water has been reduced, and budgets and work programs reduced as State Water has its own budget. The tribunal needs to understand that irrigators' incomes are greatly reduced by droughts and that water charges need to reflect that the percentage cost of water in the customers costs doesn't become excessive.*

The CSC does not support the proposition that WRM charges be raised by DIPNR/CMA, as the types of services that have a two-part tariff. The services in the WRM area should not vary with allocation level, and therefore should be fixed as a single tariff.

The concerns for the CSC are that the accountability for the usage of these funds will be as clandestine as the approach of DIPNR to the charge of the last determination plus CPI, without any documented basis."

6.0 BALANCE BETWEEN HIGH AND GENERAL SECURITY PRICES

The Tribunal welcomes comment on the appropriate balance between high and general security entitlement prices

This 'balance' needs to be accessed on a valley-by-valley basis. It should also reflect the real costs associated with delivery of the different products (e.g. maintaining storage reserve etc) whilst recognising such valley idiosyncrasies as operational arrangements with Snowy Hydro.

Take for example a comparison for 2003/04 (95% allocation HS and 41% GS) and two notional customers, one with 1000 ML of High Security (HS) water and the other with 1000 ML of General Security (GS) water. If we assume that all available allocation was used then the cost to the HS irrigator would have been $3.67/delivered ML and $6.915/delivered ML for the GS irrigator. This does not appear 'on face value' to be an equitable arrangement, although it is acknowledged that the last three years of record breaking low General Security allocations does tend to skew perceptions. This clearly requires a more detailed assessment based around average or median allocation expectations.

CICL is of the view that there remains a need to more adequately balance the respective costs at the access fee level whilst maintaining a consistent usage charge for both water products.

7.0 UNREGULATED RIVERS

The tribunal welcomes comments on: • *Progress of converting to volumetric licences an applying the two part tariffs on unregulated rivers.* • *How prices for extractive users on unregulated rivers should be set if volumetric licences have not* *been established and metering is not in place.* • *The percentage entitlement extractive users on unregulated rivers receive in an average year.*

CICL offers no comment on prices associated with unregulated rivers, other than it supports the position taken by the New South Wales Irrigators' Council.

8.0 WHOLESALE DISCOUNTS

The Tribunal welcomes comments on: • *Whether wholesale discounts are still appropriate.* • *If so, what level of discount for wholesale customers is appropriate?*

State Water's submission promotes the notion of discontinuing Bulk Discounts. Whilst CICL does agree with some of State Water's discussion in relation to costs associated with provision of data to DIPNR, we remain of the view that there exists an economy of scale in delivery of water to Irrigation Corporations. CICL supports a transparent fee for service whereby there is a standard fixed charge across the particular valley with the usage fee reflecting the costs associated with:

- Billing (including debt management associated with class of customer),
- Meter reading,
- Planning,
- River Management.

CICL:

- Provides State Water with a 7 day water order.
- Updates State Water with any changes in orders on a daily basis.
- Maintains the water-metering device to the extent that State Water can remotely monitor water use/diversion.
- Delivers Water into State Water's storage, Tombullen, using CICL infrastructure at no charge. Undertakes willow and weed control to Tombullen at no charge.
- Assists State Water where possible in smoothing river flows.

As previously stated CICL has a bulk license for 629GL. We do not believe that State Water's costs in managing releases to Irrigation Corporations is commensurate with that of supplying individual river pumpers. Indeed State Water could rightly argue that some costs such as planning are increased as a result of the large individual diversions of the Irrigation Corporations. However from the information provided it is impossible to draw any conclusion as to the real costs. One could expect billing costs on a megalitre basis to be significantly down as are meter readings that are effectively carried out by the Irrigation Corporations. However it would be reasonable to say that planning of releases and river management may increase as a result of the large individual diversions of the Irrigation Corporations and associated costs could be more than that for an individual river pumper.

As noted above Irrigation Corporations do provide additional services to State Water that have historically been dealt with through the bulk water discount. This arrangement, with the oversight of IPART, ensured that the negotiating power of the parties remained balanced. State Water suggests that all customers be treated on the same basis as the current arrangement provides a cross subsidy from the river pumpers to the benefit of the Irrigation Corporations. However State Water then goes on to state that '*the costs to supply a 10ML order to a river pumper are the same as supplying 1,000 ML to a Corporation.*'(P38) As such they appear to have defeated their own logic i.e. a consistent per megalitre cost across the valley is not appropriate.

State Water goes on to suggest that additional services that may be provided by the Irrigation Corporations be negotiated separately and incorporated into a contractual arrangement. Currently IPART provides the negotiating balance/power between the parties. CICL would in the first instance like to be provided with adequate information to draw a satisfactory conclusion on this matter. As such we believe a transparent fee for service is the most appropriate mechanism and this would be reflected in a cost per megalitre as is any additional service that the Corporations may provide to State Water.

It is noted that in State Water's submission that they claim that they pay the full commercial rate for water passed through CICL infrastructure. As noted above no charge is paid for water diverted down the Main Canal into Tombullen and the charges associated with passing water through to Yanco Creek still remains in dispute (for over 4 years). To date State water has not met any of the full commercial costs of delivery of this water, however it is fair to say that we are working towards a satisfactory resolution in the short term.

9.0 TRANSITIONAL ARRANGEMENTS FOR PRICE PATHS

The Tribunal welcomes comments on what transitional path of increase is reasonable for prices in valleys where prices are not at full cost recovery level.

CICL believes that State water costs in the Murrumbidgee Valley are at or near full cost recovery. As such it is probable that both the Murray and Murrumbidgee Valley irrigators are to some degree subsidizing State Water's operations in other valleys. This is inconsistent with agreed CoAG principles regarding cross-subsidies. As such it is desirable to phase in price paths leading to full cost recovery as soon as practical. However to smooth sharp price increases it is felt that the 5 year price path as proposed by State Water is acceptable.