



## **Murrumbidgee Horticulture Council Inc.**

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Bulk Water Prices From 2005/06  
Independent Pricing and Regulatory  
Tribunal of New South Wales  
PO Box Q290  
QVB Post Office NSW 1230

Dear Mr Cox,

### **Re: IPART Review of 2005/06 Bulk Water Prices**

Murrumbidgee Horticulture Council provides the following comments for the NSW Bulk Water Price review on behalf of approximately 1,000 High Security irrigation entitlement holders in the Murrumbidgee Valley. We therefore consider ourselves major stakeholders given the many recommendations provided by State Water that specifically target High Security entitlement.

It is important to establish the following water supply parameters in the Murrumbidgee Valley to place our submission in context:

- As stated above, there are approximately 1,000 High Security irrigation entitlement holders in the Murrumbidgee Valley.
- The total volume of access licences in the Murrumbidgee Valley is equivalent to approximately 3 million unit shares (ie 3,000 GL).
- The volume of High Security irrigation access licences in the Murrumbidgee Valley is equivalent to nearly 300,000 unit shares (ie nearly 300 GL). This represents 10% of the total number of unit shares.
- High security access licences will receive at least 0.95 ML/unit share per year, even through a repeat of the worst period of recorded low inflows.
- The Snowy Mountains Hydro Electricity Authority is committed to supplying a minimum volume of 1,026 GL annually (plus selected natural inflows) into Blowering Dam, one of the uppermost water reservoirs managed by State Water that meets the needs of High Security irrigators on the Murrumbidgee River system. This annual release effectively provides security of supply for high security access licences on the Murrumbidgee River.

In general, we believe that the State Water submission was reasonably thorough, very transparent and structured in a manner that was easy to understand. The most concerning

issue raised in the State Water submission is the claim that High Security bulk water delivery prices should (in part) be calculated on the perceived value of the water (page 42). This would be a very subjective approach to adopt, particularly if only considering the “perceived value” from a very limited perspective, as is currently the case. State Water then proceed to contradict their own principles on how charges should be levied and costs recovered. Therefore a large part of our submission will focus on this issue.

As an active member of the State Water Customer Service Committee (Murrumbidgee), we appreciate that State Water must operate on a commercial basis and that all expected costs must be covered by appropriate charges on stakeholders. It is clear that charges will have to increase in the future to cover such costs although the apportionment of charges must be revisited.

### **Differential Pricing for High Security Entitlement**

- We reject any notion of basing charges on the perceived value of the water. Page 42 of the State Water submission presents a case for increasing the high security charges specifically for the Hunter and Peel valleys and states that “*On the basis of the value of high security entitlements, State Water believes that an increase in the price differential is warranted.*” One of the justifications refers to water storage provisions throughout the state, and thus, not limiting the overall argument to these two valleys.... “*in most valleys, 2 years of supply for high security water must be reserved before general security water is allocated.*” The blending of specific valley issues with state-wide justification of storage requirements raises the question as to whether the apparent logic of “perceived value” could also apply statewide in the future. The Hunter and Peel must move closer to full cost recovery, however MHC rejects any notion of basing charges on the perceived value of the water.
- MHC supports the principle that if high security water must be stored for an extended period, then the additional storage costs should be borne by high security water users. However MHC also highlights that the security of supply in the Murrumbidgee is a result of a commitment from Snowy Mountains Hydro Electricity Authority to supplying a minimum volume of 1,026 GL annually. High Security irrigation access licences total only 300 GL therefore additional storage costs do not apply to high security water in the Murrumbidgee Valley.
- The review of differential pricing based partly on storage period must include a review of the storage period for all types of water allocation. For example, carry-over allocations in the Murrumbidgee Valley are stored for a 12 month period or longer and therefore should be charged by State Water accordingly. Carry-over represented a very large volume of water in the Murrumbidgee Valley this year (approximately 2/3 the volume of all High Security irrigation entitlement). If all general security irrigators took up the option of a full 15% carry-over then the volume would equal High Security irrigation entitlement. Proposals to double the permissible carry-over to 30% would provide the potential for carry-over to be twice the volume of High Security irrigation entitlement.
- State Water has nominated the relevant Water Sharing Plan conversion rate of general security to high security as the preferred option for establishing a differential pricing ratio for high security. MHC does not support this principle applying on a statewide basis without some acknowledgement of inter-valley differences. The conversion ratio was established to ensure that the relative **future** security of supply for all water users is maintained despite possible changes in the relative proportions of entitlement. The logic of a possible mass conversion to high security entitlement jeopardising the revenue base

of State Water, as stated on page 34 of the State Water submission, does not apply equally across all valleys. The Murrumbidgee Valley already has a substantial proportion of high security entitlement. Hence any future change in the **proportion** of high security entitlement will be relatively small, especially over the short period between IPART reviews. State Water is proposing to use the conversion ratio to protect against **possible future** changes and yet apply the multiplying factor on **all current use**. This significantly penalises current high security water users for something that may or may not occur.

It is difficult to predict the future. However simply using the conversion factor to account for a possibly shrinking revenue base is not the most appropriate method to address this possible risk. Appropriate pricing adjustments made on a valley by valley basis at successive IPART reviews would be sufficient to address the issue of water users who have converted their entitlement.

We also note that it is possible for high security to be converted back to general security, resulting in an expanding revenue base.

- MHC accepts the State Water proposal that any opportunity cost for not selling stored high security water should be recovered. Likewise, costs associated with increased evaporation for more than one year should also be recovered. This can be achieved without including the entitlement conversion factor in an algorithm. Therefore MHC proposes that the conversion factor be deleted from the proposed pricing algorithm. High security users already pay a substantial premium to secure the entitlement and high security water users in the Murrumbidgee Valley should not be forced to pay a substantial premium for delivery when there is no substantial increase in delivery/storage costs.
- MHC highlights an unexpected outcome of recent negotiations between Murrumbidgee Irrigation and SMHEA whereby SMHEA will pre-release water to Blowering Dam (a storage operated by State Water) in order to increase early season allocations for general security water users. MHC highlights that this is a possible scenario whereby high security water users could be subsidising general security water users if water storage parameters are considered as part of State Water water delivery prices. Therefore MHC will pursue this matter further to address the possible issue of cross-subsidisation.
- State Water has referred to the perceived “value” of high security entitlement, linked this to the likelihood of high security irrigators versus general security irrigators receiving an allocation and then used this to justify a pricing differential. If State Water wish to pursue differential pricing on the basis of what irrigators can expect to receive, then historic deliverability on a valley by valley basis should be used. For example, high security Murrumbidgee Valley irrigators can expect to receive 95% of their allocation every year whereas the average annual allocation for general security since the introduction of the 1994 water Cap is 80%. Therefore if State Water wished to incorporate a “reliability of delivery” factor in a pricing algorithm for the Murrumbidgee, then the conversion factor would be closer to  $0.95/0.80$  or **1.19**.

Locally, market forces recognise the reasonable reliability of general security allocation, resulting in increasing areas of permanent plantings grown on general security. Hence there could be a future trend towards increasing reliance on temporary water trade as an affordable means of providing security of water supply rather than irrigators purchasing permanent high security water entitlement.

- MHC notes a possible error in Table 4 of the State Water submission whereby the proposed high security to general security entitlement price ratio is only 1.3. This

appears to overlook the current conversion factor in the Murrumbidgee Water Sharing Plan of 2.0. In any case, MHC would be more likely to support a high security to general security entitlement price ratio based on true deliverability (1.19) rather than entitlement conversion factor (2.0) that would overestimate true deliverability.

### **Funding Environmental Flows**

The same price recovery principles must apply to both consumptive users and those in the broader community, particularly environmental lobby groups, where there is an expectation of appropriate environmental flows to maintain or improve river health.

It has been correctly pointed out that environmental flows could substantially reduce the revenue base of State Water over time. State Water must be able to gain revenue from non-consumptive users where these non-consumptive users receive a benefit, but there is also a cost incurred to State Water. Such payments would be a valid community service obligation and should be funded by government.

The method of calculating any government payment for the delivery of environmental flows should follow the same principles as consumptive use. This would include an allowance for storage requirements and deliverability under the current algorithm proposed by State Water, but modified to accommodate deliverability rather than an entitlement conversion factor. Under this scenario, the deliverability of environmental flow would be treated in a similar manner to high security irrigation entitlement since environmental flows have one of the highest forms of entitlement security.

The starting point for calculating any increase in government financial contributions to cover community service obligations for environmental flows should be the commencement of the National Water Initiative. Hence any possible decrease in State Water revenue arising from increased environmental flows after June 2005 would be payable by State and Federal governments according to the ratio given in the National Water Initiative.

**This would effectively mimic the current scenario that applies to irrigators whereby irrigators have to pay to acquire a water allocation and then pay for delivery.**

We note a proposal from State Water that any reduction in water entitlement of 2% (or greater) due to environmental transfers would be a trigger for automatic adjustment of water prices prior to the next IPART review. This scenario would not apply under the above proposal put forward by MHC. It is also premature for government to consider such a proposal until the finer details of the impending NWI negotiations are disclosed (prior to June 2005).

### **Total Asset Management Plan**

State Water has overly focused on the downside risks or costs associated with legislative compliance. Section 4.8.7.1 pays very little attention to some of the many positive benefits arising from State Water operations such as navigation, recreation and tourism.

MHC believes that State Water has incorrectly labeled such benefits as “by-products” and therefore unfairly dismissed the associated financial benefits. Hypothetically, why shouldn't State Water view disbenefits such as cold water pollution as just a by-product?

MHC highlights a 1998 study into the value of recreation on the Hume Dam. This study calculated recreation benefits at approximately \$11 million per annum, which is obviously substantial. Therefore all major beneficiaries should be included in any review to apportion costs.

### **Yanco-Columbo-Billabong Project**

MHC notes that State Water has highlighted the possibility of funding the above project. Whilst IPART may approve the proposal in principle, we highlight that the proposal has not received final endorsement from local irrigator groups.

### **Other Issues**

MHC supports:

- Government fully funding the legacy of upgrading works for safety compliance to meet 1997 standards. Government and customers should equally bear the cost beyond this;
- Customers bearing 100% of OH&S compliance costs and upgrades;
- Customers bearing 50% of environmental compliance arising from actions initiated by State Water (rather than a third party);
- A “building block” approach as a method of calculating the required annual revenue; and,
- State Water sourcing reliable and cost-effective monitoring data (water quality, gauging). State Water is very familiar with the water monitoring network and should be given the opportunity as a commercial entity to obtain this information in their preferred manner

### **DIPNR Submission to IPART**

Unfortunately, the DIPNR submission is simply a broad outline of principles, general departmental processes, related programs and what DIPNR generally intends to do rather than any credible and specific assessment of incurred or expected costs. This contrasts significantly to the State Water submission.

As stated in their overview, DIPNR have repeatedly been unable to furnish costings for the water resource management and regulatory activities citing excuses of institutional change and “bedding down” processes. The inability of DIPNR to plan ahead and provide a reasonably thorough assessment, despite the structural changes, reflects poorly on the organisation. These excuses do not justify IPART accepting the general DIPNR proposal to permit inflationary increases.

The glaring question asked by all water users is that given a major Departmental downsizing (reduction of 33%), an accepted reduction in budget of \$75M/annum and claims that DIPNR are meeting their objectives; **Why should charges increase?**

The DIPNR proposal of using the 2001 determination plus inflation as a reasonable increment is lethargic. The sub-standard DIPNR submission to IPART was also over 3 months late. This highlights the inefficiency as well as the contradictions that remain within the organisation. For example, I refer you to the following quotes from two recent DIPNR publications.

#### **DIPNR Annual Report 2003–04**

##### **Major achievements**

- *We have begun the necessary changes internally, which will see the Department become about one third smaller.*
- *Financial planning and budgeting processes were substantially improved allowing the Finance Committee to more appropriately allocate scarce resources over competing requirements to achieve the objectives of the Department.*

##### **Outlook**

*“Continue implementing the recommendations of the Service Delivery Reform Project which will improve customer service, help focus the Department on its key deliverables and significantly reduce the cost of operations.”*

#### **DIPNR Corporate Action Plan 2004–05**

##### **Priorities 2004–06**

- *Facilitate sustainable management and use of water.*
- *Improve service delivery and cut red tape.*
- *Support staff and improve the capacity of the workforce*
- *Strengthen accountability and financial management.*

The above reports (plus similar reports since 2001) consistently include claims of improved efficiencies. Yet this theme does not carry through to the DIPNR IPART submission. We therefore strongly recommend that IPART reject any claims to increase DIPNR related charges and actually reduce these charges by 10% in recognition of a more streamlined Department and their adherence to a tighter budget.

The lack of relevant information in the DIPNR submission does not facilitate a detailed response. However there are a few points that can be highlighted:

- Murrumbidgee Horticulture Council appreciate that DIPNR acknowledges the need to share costs between water users and the NSW government, as well as the recognition of the IPART July 1997 government legacy benchmark.
- We welcome the DIPNR proposal to remove security premiums from July 2005 on the water resource management tariff. DIPNR correctly point out that this is an infrastructure consideration and not a water resource management issue.
- A common criticism of the DIPNR data-gathering process is whether the majority of the data is required, beneficial and verified as accurate. I am personally aware of these critical views being expressed by DIPNR staff and it applies to both groundwater and surface water monitoring. Therefore the collection of data must be critically reviewed. It also raises the question of who can most cost-effectively provide the data (please refer to our previous comments).

Thank you for considering our submission and I respectfully ask IPART to implement our recommendations.

Yours sincerely,

Stephen Moore  
Executive Director

15<sup>th</sup> February 2005