



Supporting Sustainable Water Use in the Namoi Catchment

Namoi Water

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**Namoi Water response to IPART
Review of bulk water charges for
State Water Corporation from 1 July 2010 to 30 June 2014
Draft Determination and Draft Report March 2010**

Namoi Water has read the IPART draft determination on the State Water Corporation submissions for price setting from the 1st July 2001 till 30 June 2014 with great disappointment. We form the view that irrigators as consumers in NSW are not being protected from monopoly abuse. IPART has failed to address our concerns regarding the basis of applying upper bound pricing (dividend return) to rural bulk water infrastructure. The instructions of two COAG agreements are clear in this matter - upper pricing is only to be applied where legacy issues are dealt with and then only as guide to capital reinvestment in the infrastructure. The role of the NSW Treasury as a major shareholder and also the regulator of SOC's in instructing State Water (a SOC) to apply for upper bound pricing in the last determination and the lack of scrutiny on these issues is disturbing.

Fish passage expenditure triggered by other legacy issue expenditure.

IPART assured Namoi Water in response to our correspondence seeking details of IPART approving State Water charging irrigators for 50% of the cost of fish passage expenditure triggered by safety upgrades; that the decision on this issue would be made in this determination. On reading the draft determination, we find that IPART now simply states that they have previously dealt with the issue. That is not correct; IPART has ruled on fish passage generally, they have not ruled on fish passage expenditure triggered by other legacy issues. The need for fish passage infrastructure was recognised and is recommended by the NSW Fisheries Act 1994. IPART has previously determined that any legacy issue pre 1997 is 100 percent a NSW Treasury cost. In this case the expenditure is triggered solely by infrastructure work remediating a legacy issue (safety upgrades). IPART is inconsistent in this area and appear to simply want to avoid dealing with the substantive issue.

Water reliability predictions

IPART has determined that the State Water Corporation will be assisted in overcoming seasonal reliability issues to facilitate income certainty and has accepted an alteration to the water reliability predictions to allow a higher cost to be charged to irrigators to ensure income reliability over time.

Namoi Water finds it remarkable that the IPART as the entity charged with protecting consumers from monopoly abuse is now the arbiter of monopoly abuse. We say this on the basis that State Water now has an IPART endorsed high rate of return on capital built in allowing a guaranteed annual dividend to its government master, all this combined with a new climate run based on allowing high levels of income certainty. The following is IPART's own words reinforcing this view. From IPART draft determination

Our view is that this change is necessary to better enable State Water to recover its full revenue requirement over the 2010 Determination. Table 10.2 shows that bulk water usage prices will range from a reduction of 2.6% in the Murrumbidgee valley to an increase of 69.8% in the Lachlan valley over the course of the 2010 Determination.

A key driver behind the change is the adoption of a new approach to forecasting extractions which uses a 20-year moving average. The adoption of a 20-year moving average sees a 15% reduction in extraction forecasts from the annual forecasts of 5,450 GL used in the 2006 Determination to the forecast of 4,623 GL to be used over the 2010 Determination. Using lower forecasts over the 2010 Determination to recover the same usage charge component of State Water's target revenue requirement places upward pressure on usage charges.

Features of a IPARTs support for monopoly abuse of irrigation consumers

No natural competition without a detailed comparative business model

Capacity and support to dial in comparatively high rates of return on capital

Capacity and support for setting a price that delivers income / dividend certainty

Capacity to shift responsibility for asset costs away from shareholders to consumers

Namoi Water Recommendations

- That IPART recommends State Water returns on capital be kept as retained earnings in a State Water managed infrastructure fund.
- That the State Water infrastructure fund be used to underpin income uncertainty and to internally fund capital expenditure cash flow deficiencies.
- That fish passage expenditure triggered by remediation works for legacy deficiencies such as safety upgrades is also treated as a legacy cost.
- That NSW Treasury input into State Water and Office of Water submissions be treated as a schedule one referral and checked for monopoly abuse.
- That an accountancy firm such as Boyce and Co be contracted to detail the accurate impacts on irrigation business of the huge price increases endorsed by IPART.
- That IPART construct a comparative business model for State Water to properly assess it for efficient cost and not simply examine the project management cost of state water business rather to look at the whole business.
- That the Peel costs delivered from Chaffey be structured on the Keepit costs as the nearest most efficient storage model.
- That the State Government publicly subsidises legacy issues such as inefficient storage construction. This is in keeping with competition policy agreements as well as both relevant COAG water agreements
- That user shares be re-examined to review the cost shares of flood mitigation and recreational water use.

Namoi Water is consulting with other irrigation groups to gain support for a request to refer the rural bulk water infrastructure pricing process to a parliamentary inquiry. We request that IPART reconsider this draft determination and reduce the prices being recommended for State Water in this current determination.

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