Submission to

IPART Review of Bulk Water Prices from 2005/06 Issues Paper

Ricegrowers' Association of Australia Inc.
PO Box 706
Leeton NSW 2705
Ph: 02 6953 0433
E-mail: rga@rga.org.au

April 2005

Table of Contents

1. Introduction 3
2. The Australian Rice Industry 3
3. RGA 4
4. Due Process 4
5. Major changes since the 2001 IPART Determination 6
   5.1 Corporatisation of State Water & Review of State Water Operating Licence 7
6. Principles for Bulk Water Pricing 7
   6.1 Refining the Regulatory Approach 8
7. Establishing Applicable & Efficient Bulk Water Costs 8
   7.1 State Water – Water Delivery 9
      7.1.1 Operating Expenditure 10
      7.1.2 Capital Expenditure 11
   7.2 DIPNR – Water Resource Management 12
      7.2.1 Department Of Infrastructure Planning & Natural Resources 13
      7.2.2 Operating Expenditure 14
      7.2.3 Capital Expenditure 15
      7.2.4 Licensing Activities 15
   7.3 MDBC & River Murray Water 15
      7.3.1 Water Resource Management 17
      7.3.2 Capital Expenditure 17
      7.3.3 Recovery of MDBC & River Murray Water Costs 18
   7.4 Proposed Entitlement Charges 21
8. Issues for This Determination – Setting Prices 22
   8.1 Two part tariff 22
   8.2 High and general security entitlement charges 22
   8.3 Discounts for Wholesale Irrigation Corporations 22
   8.4 Separate Valley Accounts 23
   8.5 Ring Fencing 23
   8.6 Customer Service Committees (CSCs) 23
   8.7 Determining Appropriate Level and Rate of Change for Prices 23
      8.7.1 Upper & Lower Bound Pricing 24
      8.7.2 Groundwater Charges for Murray & Murrumbidgee Aquifers 24
      8.7.3 Murray & Murrumbidgee Regulated Systems 24
9. Other Issues 25
   9.1 Environment to pay a share of costs 25
   9.2 Other users 28
10. Conclusion 28

1. Introduction

The Ricegrowers Association of Australian Inc. (RGA) welcomes the opportunity to comment on the IPART Bulk Water Prices from 2005/06 Issues Paper, which further builds on the work of IPART since 1996 to deliver a transparent decision making process for the efficient and relevant costs of delivering bulk water.

Many of the issues raised in the Issues Paper were flagged in the last determination for Bulk Water Prices. In addition the RGA would like to raise a number of other issues which RGA sees as important equity discussions, including that the managers of all environmental water should pay for the costs of delivering that water – like other water users.

The RGA are extremely disappointed with actions of Department of Infrastructure Planning & Natural Resources (DIPNR) in lodging its submission late, the unilateral decision by DIPNR to change the focus of this current review from a medium term price path to a one year price path and to further subject stakeholders to another pricing review for water resource management charges from September 2005.

Whilst there are a number of concurrent processes still underway which may affect bulk water pricing in NSW, these should not be used as a means to avoid complying with IPART. In effect, water resource management in NSW has been evolving since the 1994 COAG agreement, so DIPNR cannot use this as an excuse to avoid an on time, fully transparent and comprehensive submission to IPART.

The actions of DIPNR will inevitably lead to not only significant costs for all participants but also to a convoluted and drawn out process. RGA recommends that IPART seeks to “penalise” DIPNR for these actions.

As a contrast, State Water has willingly sought to consult with bulk water users via the establishment of their IPART Reference Panel, which consisted of one representative from each Customer Service Committee. This included allowing the Panel adequate and all reasonable access to financial information. The only issue resulted from a lack of transparency from MDBC of its cost base.

The RGA makes recommendations in a number of areas and seeks to work cooperatively with IPART during this pricing determination.

2. The Australian Rice Industry

The rice industry encompasses the Murray Valley of NSW and Victoria and the Murrumbidgee Valley of NSW. Typically, around 150,000 – 160,000 hectares are sown to rice in October of each year across this region producing an average of around 1.2 million tonnes of rice annually. The industry has a farm gate value of around $350 million and total value (export earnings, value-added) of over $800 million. Including flow-on effects, it is estimated that the industry generates over $4 billion annually to regional communities and the Australian economy.

Rice growers have individually invested over $2.5 billion in land, water, plant and equipment and collectively invested around $400 million in mill storage and infrastructure through the Ricegrowers’ Cooperative Limited (SunRice) and the Rice Marketing Board of NSW (RMB). The industry is the backbone for our regional communities generating around 21% of total regional income and 18% of total regional employment[1].

The rice industry has also invested significantly in environmental improvement and impact reduction as part of its efforts towards better natural resource management and environmental stewardship. The Rice Environmental Program's flagship is the Environmental Champions Program (ECP) which has received over $1.8 M in funding from the Department of Agriculture, Fisheries & Forestry to implement a pilot program and roll out of the ECP.

3. RGA

The RGA is the collective voice of rice growers in Australia. RGA represents over 1600 voluntary members in NSW and Victoria on a wide range of issues.

As much of the Riverina region has been built upon rice, and rice is still the mainstay of many towns today, it is important that RGA members have strong and effective representation. RGA fulfils this role by representing and leading growers on issues affecting the viability of their businesses and communities. Importantly, the RGA also looks to lead its members through a process of improved environmental management.

In so far as this Bulk Water Pricing determination is concerned, RGA members include regulated surface (both pumpers and gravity fed irrigation areas) and groundwater water sources.

4. Due Process

It is extremely unfortunate that DIPNR did not make an effort to lodge its submission on time for the IPART review of Bulk Water Prices. This has resulted in a process that is now convoluted, unwieldy, drawn out and with significantly increased costs by all participants.

The DIPNR submission was 105 days late, delaying submissions by stakeholders. This is totally unsatisfactory given that all stakeholders were aware that the pricing review was due following the original deferment of the process in 2004, which resulted in bulk water prices being rolled over with CPI until 30 June 2005. Therefore, there is no satisfactory excuse for the actions of DIPNR.

Not only was the DIPNR submission late, but DIPNR has chosen to alter the process by seeking a price review for one year and requesting a medium term pricing submission to IPART for water resource management charges to apply from 1 July 2006.

This will result in water users incurring two distinct pricing regimes over one year and may result in forthcoming bulk water pricing reviews to be separate processes for both State Water and DIPNR (unless IPART choses to implement the same end date for both State Water and DIPNR for the next medium term determination).

[1] Leslie, D.G., Keyworth, S.W., Lynn, F.L., Magill, A.F. 1992, *Rice 2000 Project*.

Consequently, the due process for all stakeholders has been compromised with a consequential effect on irrigation businesses who will suffer differing pricing regimes for the next two years. The uncertainty in planning for farm businesses will result in a number of impacts, including budgeting for financier's reviews of loans.

In a drought, this situation is intolerable. Many irrigators are suffering the result of high costs for water due to very low resource availability and this is crippling farm businesses. To further complicate this will a process of ever changing pricing regimes is unfair.

RGA recommends that IPART urgently undertakes a review of the timetable for this medium term review and seeks that the pricing determination should commence from 1 July 2006 for both State Water and DIPNR.

RGA also recommends that IPART rolls over the current pricing regime plus CPI for State Water until 1 July 2006.

RGA recommends that DIPNR receives no revenue from water users until it furnishes IPART and stakeholders with all information required to undertake a medium term pricing determination.

Alternatively, RGA recommends that IPART rolls over the current pricing regime for DIPNR and that IPART penalises DIPNR to ensure that future reviews are not compromised by the tardy and arrogant behaviour of DIPNR.

Recommendation 1: That a review of the current IPART Bulk Water Pricing Review timetable is undertaken with a re-scheduling to commence one medium term price path for both State Water and DIPNR on 1 July 2006.

Recommendation 2: That the current pricing regime for State Water is rolled over until 1 July 2006 and that DIPNR receives no revenue from water users until it furnishes all required information to IPART and stakeholders in order to make a decision on a medium term price path. Alternatively, Recommendation 3 and Recommendation 4 should apply.

Recommendation 3: That the current pricing regime for State Water and DIPNR are rolled over until 1 July 2006 to enable one medium term pricing determination to be made, and

Recommendation 4: That DIPNR is penalised for its late submission and for DIPNRs unilateral decision to change the focus of this review to a medium term price path.

Interestingly, the NSW Government is a signatory to the MDBC Integrated Catchment Management Policy (ICM) document. Broadly, this document outlines the manner in which Governments and the Community should act with regard to natural resource management. Of note are the list of values that should reflect "our" behaviour, including inclusiveness, commitment, respect and honesty. The document also lists a number of principles to guide actions, including integration, accountability, transparency, effectiveness, efficiency, full accounting and informed decision-making.

The RGA wonders how the actions of DIPNR in participating in this pricing review fully reflect the values and principles above, and sadly find there is a lack of adherence to the ICM document.

5. Major changes since the 2001 IPART Determination

One of the major reasons for a one year extension of the 2001 Determination was that a number of concurrent processes were underway which would limit the ability for DIPNR and State Water to effectively make an IPART submission. These processes have culminated with major changes in the way water resource management is undertaken in NSW, namely: -

- COAG National Water Initiative and National Water Commission;
- The Living Murray;
- Water for Rivers to return water to the Snowy and Murray Rivers;
- Corporatisation of State Water & Review of State Water Operating Licence;
- Catchment Management Authorities;
- Natural Resources Council;
- Natural Resources Advisory Council; and
- Water Innovation Council.

DIPNR has failed to adequately address the implementation of these initiatives, what level of costs is associated with water resource management in each case and the relevant funding sources other than water users. There must be a clear and real linkage between the activities and costs attributable to water users. Many are Government initiatives which should also be either previously funded (eg Water for Rivers) or have the capacity for funding (eg Catchment Management Authorities via NHT, NAP and legislation).

The RGA are also concerned about the relevance of DIPNR costs for water resource management into the future and whether these are deemed to be under the realm of water resource management or more rightly the NSW Government's policy management. This is an area which needs some discussion during the current IPART determination process. Do other agencies collect the costs associated with the development and implementation of Government policy from the beneficiaries of those policies, for example, health, roads, women's affairs, police, and environmental policies?

This view also applies to the costs borne by other agencies for perceived water resource management (DPI, DEC etc). Again, the costs resulting from the development of other agencies policies should not be imposed on the group who are able to be charged. To do so is unfair and inequitable.

Under the IPART pricing principles, it is relevant and timely to reassess the payment of DIPNR costs by water users, especially where there are other beneficiaries who do not contribute.

The RGA would be concerned if DIPNR chooses to continue to impose water resource management costs on water users for which it not longer controls. Where water resource management costs are being incurred by other organisations, care must be taken to ensure that water users do not fund activities which are holistic natural resource management and or which other users (eg recreation, tourism and boating etc) should also fund.

The implementation of some initiatives (NWI, Water for Rivers and The Living Murray) will have a number of impacts on bulk water pricing in NSW as it is expected that at least some of these funds will be expended in NSW resulting in infrastructure being added to State Water's asset base.

Consequently there needs to be clarification of how these assets will be treated in relation to the future operational, refurbishment and capital costs of State Water. Of importance is that these new or refurbished assets should not incur rate of return for water users.

Recommendation 5: That infrastructure investment for new and refurbished assets under the National Water Initiative, The Living Murray, Water for Rivers and the Australian Water Fund should not attract rate of return for bulk water users.

5.1 Corporatisation of State Water & Review of State Water Operating Licence

The corporatisation of State Water from 1 July 2004 and the current review of the initial operating licence by IPART may lead to changes that will impact on the costs of State Water and which could flow on to bulk water users. The quantum of these costs cannot be considered at this point in time.

Consequently, it will be difficult to assess the relevance and impact of these changes within the timeframe allotted for stakeholder submissions. Nevertheless, RGA reserves a right to lodge an amended submission if major issues are raised following the conclusion of the review of the State Water Initial Operating Licence.

6. Principles for Bulk Water Pricing

The RGA supports the 1996 pricing principles developed by IPART: -

~ **Service Efficiency** – water charges should be based on the most efficient way of providing water services.
~ **Financial Stability** – the administration of water resources should achieve financial stability and deliver a sustainable level of water services.
~ **Maximise Community Outcomes** – pricing should encourage the best overall outcome for the community from the use of water and other resources to store, manage and deliver that water.
~ **Beneficiary and Causer Pays** – those who are responsible for causing or benefit from those services should pay the cost of the water services.
~ **Ecological Sustainability** – pricing policy should promote the ecologically sustainable use of water and the resources to store, manage and deliver water.

In 1996, IPART has also defined economic costs[2] as: -

~ Recurrent costs of administration, operations and any maintenance on water sources;

[2] IPART 2004, *Bulk Water Prices from 2005/06 Issues Paper*, p. 9-10.

~ Recurrent costs of resource management on water sources;
~ Recurrent costs of deal with the external environmental impacts of water use;
~ A capital charge, via annuity, to fund asset refurbishment and replacement excluding a rate of return on existing assets;
~ A depreciation charge on short lived assets;
~ A real rate of return on new investments and augmentations to existing infrastructure on regulated rivers; and
~ Licensing and other regulation related costs.

6.1 Refining the Regulatory Approach

For this determination, IPART will be required to assess various pricing issues including: -

~ Further analysis of an appropriate model for sharing MDBC water resource management costs.
~ The determination of the methodology for State Water to fund capital investment for asset refurbishment and replacement.
~ The National Water Initiative notion of full cost recovery as "lower bounds and upper bounds". State Water claims this medium term price path moves "closer to lower bound pricing in the short term so a transition to upper bound pricing can be considered in the future", as required under NWI. However, the IPART Issues Paper states it is unclear what the difference is and is most likely to vary from valley to valley.
~ The basis for cost allocations (i.e. impactor or beneficiary pays principles) was flagged in the 2001 determination for further assessment in this determination.

RGA strongly urges IPART to ensure that their determination is based on transparency and the pricing principles established in 1996.

7. Establishing Applicable & Efficient Bulk Water Costs

One of the major outcomes of the IPART process since 1996 is that water users have only been charged for the relevant and efficient costs attributable to water users for water delivery and water resource management. A lack of consistent, timely and sufficient information by DIPNR and its predecessors has made it difficult at times to establish what these costs were. This continues today as can be seen by the lack of detail in the DIPNR submission.

The 2001 Determination provided a degree of transparency not previously before delivered as a result of independent reviews by ACIL and Price Waterhouse Coopers of the State Water and DIPNR operating and capital expenditure for water delivery and water resource management costs.

RGA looks forward to this determination to deliver a similar transparent assessment of both State Water and DIPNR, particularly when the latter provided no information on its cost base to justify even a roll over of the current pricing regime for one year.

RGA urges IPART to ensure that the independent consultant's report for State Water operating and capital expenditure (opex and capex) are publicly released in a timely manner with sufficient opportunity given for stakeholders to make comment. RGA strongly urges IPART to undertake a similar investigation into DIPNR to deliver the accountability and transparency required by stakeholders.

Recommendation 6: That IPART ensures an independent consultant is appointed to duly investigate the quantum and necessity for any operating and capital expenditure for DIPNR.

Recommendation 7: That IPART releases the independent consultant's reports into State Water and DIPNR cost base for public comment.

RGA is of the view that it would be extremely useful to undertake a reconciliation of past IPART determination costs and the actual revenues received from water users and the NSW Government contribution for both State Water and DIPNR. This would provide useful information on whether or not the current level of costs will accurately be recouped via Government CSO's.

7.1 State Water – Water Delivery

State Water's submission is for the State Water and MDBC/RMW operating and capital expenditure of water delivery for regulated surface water systems. RGA notes that the DIPNR submission will include the water delivery expenditure of groundwater and unregulated systems.

In its submission to the review of State Water's Initial Operating Licence, DIPNR indicated that it would be more appropriate for State Water to be responsible for any infrastructure management associated with the unregulated systems. The RGA would encourage IPART to reject this proposal unless this is fully paid via clear and transparent contractual arrangements. The RGA would totally reject the transfer of ownership and therefore expenditure of these assets to State Water as regulated users would be subsidising any costs associated with these assets.

Recommendation 8: That DIPNR maintains ownership of unregulated infrastructure and that any arrangement for State Water to manage these assets on behalf of DIPNR is enacted by transparent contractual arrangements.

The RGA supported the corporatisation of State Water as a water delivery business. This move should ensure that the costs associated with the State Water business are transparent and efficient as State Water will be required to undertake its business operations in a commercially efficient and effective manner.

The RGA supports the current review of State Water's Initial Operating Licence and acknowledges that this process may lead to a reassessment of the costs for State Water and DIPNR. State Water's submission does note that the price pathway proposed will recover all changes if these were implemented in totality. RGA notes that if all the changes are not implemented, that a corresponding adjustment is made to the bulk water prices recovered from water users.

Recommendation 9: That an appropriate adjustment is made to the bulk water price requested by State Water if there is not full implementation of all aspects arising from the review of the State Water Initial Operating Licence which was accounted for in the State Water submission.

RGA also notes the comments from State Water that it cannot accurately determine its costs as there are continuing negotiations with DIPNR on a range of functions & responsibilities. RGA seeks clarification on whether State Water and or DIPNR are claiming the same costs in their respective submission and the quantum of costs involved. Of particular concern is that there is no duplication of these costs and a proper decision made with appropriate adjustments given the outcome of these negotiations in the pricing for both State Water and DIPNR.

7.1.1 Operating Expenditure

A simplistic analysis of Murray and Murrumbidgee Valley costs in the State Water submission show dramatic increases for individual sub product areas and for the Murrumbidgee, a substantial increase projected total opex for 2005/06 of about 70% over 2003/04. Total Murray Valley opex is proposed to increase some 17% over 2002/03 costs.

For Murray Valley, the major concern is PC221 which is proposed to increase 34% on 2002/03 costs and PC120 which has a proposed increase of 1230%. For the Murrumbidgee Valley, some individual product codes will increase from 28% (PC200) up to 251% (PC417) with overall valley increase in total opex of 62% from 2002/03 levels.

Table 1: Analysis of Murray Valley Actual and Projected Opex
(major items only)

Sub Product	Expenditure	2002/03	2003/04 $'000	2005/06 $'000
PA120	Water quality data collection & archiving	10	8	133
PC102	Customer & industry liaison	71	51	90
PC200	Reg River ops	338	261	432
PC221	Reg metering	680	659	910
PC416	Dam maintenance	301	127	132
PC417	River structure maintenance	109	49	239
PC421	Storage surveillance data colln & analysis	13	28	147
Murray Valley Total		2,112	1,585	2,470
Difference %			-25%	2004 = 56% 2003 = 17%

Table 2: Analysis of Murrumbidgee Valley Actual and Projected Opex
(major items only)

Sub Product	Expenditure	2002/03	2003/04 $'000	2005/06 $'000
PA100	Water quantity data collection & archiving	417	539	947
PC200	Reg River ops	793	521	1,019
PC221	Reg metering	440	536	713
PC408	Public liability etc insurance	622	329	338
PC413	Maint. land & buildings	205	308	303
PC416	Dam maintenance.	275	413	666
PC417	River structure maintenance	350	434	1,228
PC421	Storage surveillance data colln & analysis	195	254	567
Murrumbidgee Valley Total		3,745	3,574	6,085
Difference %			-5%	2004 = 70% 2003 = 62%

There appears to be a substantial movement in opex without proper justification and whilst RGA supports improvement in the performance of State Water, RGA is of the opinion that further analysis is required to ensure that the quantum, timing and necessity of these projected increases are warranted. This information should be available following the independent consultant's report to IPART. However, RGA also expects a full analysis of the degree of efficient costs in the light of State Water operating in a commercial environment.

7.1.2 Capital Expenditure

RGA notes that the independent consultant will review the capex proposed by State Water, especially as it relates to timing, necessity & efficiency and prudence of these costs. In looking at the State Water 2003/04 actual capex to the budget until 30 June 2008, there is a substantial increase of around 139% ($20.7 M to $49.5M).

The Murray Valley capex will increase by 11% however there is dramatic projected capex in the Murrumbidgee Valley from $2.089 M in 2003/04 to $9.5M to $11.0 M to $8.7 M in 2007/08 or a total increase of 316%. RGA understands that State Water has undertaken a further analysis of the capex in the State Water submission with a significant reduction being made as a result. This reduction should be reflected in this pricing submission.

7.1.2.1 Funding Capex

The major debate for this determination revolves around the discussion of how State Water should fund capex into the future and has suggested using the Regulatory Asset Base (RAB) adjusted for the sunk costs (i.e. dated from 1 July 1997) to charge a rate of return on the opportunity cost of the value of RAB (the building block approach). The other alternative is the previous approach of funding capex via annuity based on a 30 year Total Asset Management Plan (TAMP).

There are obviously advantages and disadvantages of using either of these approaches.

Of major concern to RGA is the definition of quantum of the RAB and the dearth of valley by valley RAB values. State Water is seeking to change the previous value of the RAB of $75M to $300M and justifies this value as providing a similar cost to water users as in previous IPART Determinations. However, State Water duly acknowledges that the cost to water users will increase over time when compared to an annuity.

State Water also notes that another option would be to fund the expenditure (using commercial debt financing) and recover these outlays from users but notes that this approach would lead to very lumpy costs (whereas use of either an annuity or return on assets smooths income).

State Water cites the main reason for not further investigating commercial debt financing options as the value of the assets at 1 July 1997 plus investments since. However, commercial lending arrangements would invariable value the State Water assets via a different method to an IPART Determination. As an example, banks use market valuation of farm assets (including land etc) as the basis for lending proposals and not the depreciated value contained in taxation returns which have no relationship to actual realisable values.

RGA also notes the NSW Irrigators Council submission which calls on State Water to fund capex in a manner consistent with commercial business practices, i.e. retained profits, equity market and competitive debt financing. NSW Irrigators Council also notes that rate of return approach is an option only available to monopoly businesses and is inconsistent with commercial business practices.

RGA acknowledges that State Water must have sufficient funds for infrastructure work and make capex investment decisions based on a commercial risk analysis (i.e. dam integrity of a 1: 10,000 year flood event as opposed to a 1: 100,000 year event) and commercial business principles, i.e. cost effectively and without "gold plating".

RGA strongly supports public release of the reports commissioned by NSW Treasury leading up to the corporatisation of State Water investigating capex to allow water users to make informed judgements on this discussion.

Recommendation 10: That the NSW Treasury reports into the privatisation of State Water are released for consideration of all stakeholders in the IPART review of bulk water prices and that full investigation occurs of commercial options in relation to funding future capital expenditure.

7.2 DIPNR – Water Resource Management

RGA acknowledges that it has been difficult to establish not only what constitutes efficient and relevant water resource management costs because there is not always a clear connection between the provision and use of services and the water resource management activities undertaken. This issue was noted by ACIL in its report to IPART for the 2001 Pricing Determination and from this IPART derived a number of activities that constitutes WRM.

This situation has been exacerbated by lack of accountability and transparency by DIPNR in previous submissions which continues today. Water users have paid significant amounts of money to DIPNR as their share of the apportioned costs of water resource management. Some of these funds should have resulted in an improvement in the information available for a number of issues, including pricing determinations, the provision of databases on which to make decisions, and software that should have been made widely available to water users (e.g. Integrated Quality and Quantity Model (IQQM) for determining water allocations).

DIPNR has again failed to provide adequate and timely information. Its submission was 105 days late, lacks sufficient detail on which to base any analysis of the relevance of rolling over the current pricing regime for a further year (plus CPI) and does not adequately address the issues flagged in the 2001 IPART Pricing Determination. Further, DIPNR has advised that it will lodge a medium term pricing submission with IPART in September 2005 to commence from 1 July 2006.

Consequently, the actions of DIPNR have resulted in a disjointed, convoluted and unnecessarily complex process which will inevitably result in increased costs for all participants and stakeholders. These costs should be borne solely by DIPNR.

Recommendation 11: That DIPNR bears the cost to all participants of extending and complicating the review process.

The request by DIPNR to roll over the existing charges plus CPI makes a mockery of the IPART process, which was well and truly flagged and deferred once giving DIPNR plenty of time to make a reasonable medium term price path submission.

In addition, DIPNR does not consider the changes since the last determination, in which a vast majority of its water resource management functions have been devolved to the new Catchment Management Authorities, Natural Resources Council and the Natural Resources Advisory Council. Therefore, there is no adequate justification to seek current prices plus CPI without adequate information on what the costs are for these other organisations, what are the water user's shares of the relevant and efficient costs and how these organisations will be funded from other sources, eg CMA levy.

RGA are vehemently opposed to this request and made recommendations in Section 4 regarding appropriate sanctions.

The Customer Service Committees are charged with providing State Water with appropriate advice and this has been a good mechanism to deliver transparency. Despite this there have been some limitations with the ability to deliver timely financial information. Water resource management is a huge and expanding cost base to water users who have not be able to access timely and adequate information about this cost.

RGA would suggest that the CSC's are utilised by both DIPNR and the CMA's to deliver timely and appropriate financial information regarding the water resource management costs incurred by these organisations, especially if water users are to be asked to continue to fund these organisations.

Recommendation 12: That DIPNR and the CMA are required to provide the CSC's with quarterly financial reporting of all water resource management income and expenditure on a valley by valley basis.

It should also be noted that water users must not be charged for the cost of implementing COAG water reforms by the NSW Government, who has received substantial funding via COAG tranche payments to offset these costs. To do otherwise amounts to double accounting and should not be tolerated.

7.2.1 Department Of Infrastructure Planning & Natural Resources

IPART noted that the costs apportioned to DIPNR in the 2001 Determination should not be regarded as benchmark efficient costs. Further work was required to be undertaken in the light of developments underway to enact a number of water reforms.

DIPNR has provided WRM costs for 2001/02 (actual), 2003/04, 2004/05 (estimate) and projected 2005/06. RGA seeks immediate furnishing of the 2002/03 costs and wonders why this data was not provided to IPART. DIPNR must also furnish the actual audited costs for 2003/04, given that the end of the financial year was some eight months prior to DIPNR lodging its submission with IPART.

Recommendation 13: That DIPNR immediately furnish IPART and stakeholders with the audited water resource management operating and capital costs for 2002/03 and 2003/04.

RGA assumes that DIPNR is collecting water resource management costs for 2004/05 and 2005/06 that will be forwarded to other organisations such as the Catchment Management Authorities. RGA seeks clarification immediately on the level of funds to be applied to other organisations and the methodology in determining these amounts.

It must be noted that DIPNR has a history of claiming costs on behalf of other organisations (State Water is an example) and failing to fully pass on the totality of those costs collected on behalf of those organisations. These funds must not be retained by DIPNR to ameliorate its own costs.

Overall, DIPNR does not provide sufficient information and detail on which an assessment can be made of the quantum and necessity for the recovery from water users.

7.2.2 Operating Expenditure

The information provided by DIPNR lacks sufficient detail. The information provided by DIPNR includes: -

~ Table 1 on page 4 shows State totals for each water source – omits 2002/03 actual data, 2003/04 data is an estimate only, 2004/05 data is an estimate given the irrigation season is incomplete and 2005/06 is a budgetary estimate based on a roll over of the existing pricing determination.
~ Appendix 3 shows bulk water costs for 2001/02 for all water sources and valleys – however, these costs are in fact were the prices determined by IPART in the 2001 Determination as the full cost recovery of water user's share of these costs.
~ Appendix 4 portrays indicative WRM costs for 2003/04 to 2005/06 for all water sources and valleys – there is no justification or clarification for any of these costs and therefore no adequate analysis can be made regarding the quantum, necessity and timing of all these costs. Nor is there any information pertaining to applicable MDBC WRM costs or what the user shares are.

Appendix 4 in DIPNR submission can be used to determine the relevance of these costs to the 2003/04 prices requested in the 2001 IPART Determination (Appendix A10.2 on page 93). For the state as a whole, WRM changes were on par for 2003/04, 6% less than that requested in the IPART Determination for 2004/05 and 2% less for the 2005/06 indicative costs.

More interesting, is the breakdown and comparison for costs attributable to the Murray and Murrumbidgee regulated rivers. Costs for the Murray are 17% above 2003/04 costs requested in the 2001 IPART Determination, projected to be 16% higher in 2004/05 and 18% higher in 2005/06. Likewise, for Murrumbidgee 2003/04 costs are 4% lower than requested in 2001 IPART Determination, projected to b e 33% lower in 2004/05 and projected to be 31% lower in 2005/06.

DIPNR must explain the over collection of Murrumbidgee Valley WRM costs and to where these funds have been applied, or if there will be a commensurate reduction in costs over the medium term price path.

Table 3: Comparison of DIPNR WRM costs

Valley	Requested 2003/04 costs	Estimated 2003/04	% Change	Estimated 2004/05	% Change	Estimated 2004/05	% Change

	in Appendix A10.2 of the 2001 IPART Determination	costs in Appendix 4 of DIPNR submission		costs in Appendix 4 of DIPNR submission		costs in Appendix 4 of DIPNR submission	
Murrumbidgee	$4,293	$3,254	-4%	$2,896	-33%	$2,967	-31%
Murray	$5,203	$6,091	+17%	$6,014	+16%	$6,128	+18%
State Regulated Total	$19,340	$19,786	0.02%	$18,204	-6%	$18,910	-2%

This begs clarification on the level for all DIPNR costs and particularly how this affects water users in all valleys. On the face of this simplistic analysis, costs are escalating in the Murray Valley and dramatically reducing in the Murrumbidgee Valley. For the latter, there is an obvious question of the amount being recovered from water users for DIPNR.

Accordingly, RGA cannot make any informed decision on these costs given the lack of sufficient transparent information provided by DIPNR.

7.2.3 Capital Expenditure

RGA would question the validity of the claims by DIPNR for a number of WRM capex items, including IMEF, ecological databases, "facilitating" meter installation (note that groundwater users pay for their own meters and calibration), systems, audit and compliance work, surveillance and salinity networks. It appears that many of these do not constitute a capital asset but are systems or items that should not be charged to water users.

The need for an independent groundwater monitoring system is also questioned. It seems that existing bores (i.e. owned by groundwater users) could be also utilised for this purpose without the need to spend some $8 M on a groundwater monitoring network for the CMA's and WSPs (Table 2, page 29 of DIPNR Submission). Are the CMA's in any position to make a judgement of the quantum, necessity and timing of such expenditure?

7.2.4 Licensing Activities

The proposal by DIPNR to increase the annual transfer fees to a maximum of $275 based on a fixed charge and a per megalitre charge is rejected. There is no difference in the cost of completing transfers of small volumes to large volumes. The only reason for a reduced charge for smaller volumes is to facilitate water trading. However, RGA is of the opinion that this is no justification for the licensing charges which should reflect the efficient costs of undertaking such dealings.

7.3 MDBC & River Murray Water

DIPNR has failed to provide any information on the breakdown of those water resource management costs being sought on behalf of MDBC. There is also virtually no detail in the State Water submission regarding the RMW costs apart for a straight division between annuity and operations budget. Therefore there is no ability on which to make an informed judgement. For the Murray Valley, this constitutes the vast majority of expenditure, as an example, River Murray Water costs in the State Water submission comprise around 78% of the State Water total cost estimates[3]. Much of the following discussion is based on information gleaned directly from either

[3] State Water 2004, *Pricing Submission to IPART*, p. 49.

the MDBC 2003/04 Annual Report or confidentially from State Water (pers. comm. R Simons, State Water, various).

An investigation of the 2003/04 MDBC Annual Report reveals that the total MDBC income from Governments for 2003/04 were $88.755 M whilst the requested projected budget on 1 April 2005 for 2005/06 was $100.3 M[4]. The NSW Government paid a total of $26.628 M[5] to MDBC or 30% of Governments' contributions for 2003/04. If this is extrapolated to the requested amount for 2005/06, then the NSW Government is required to contribute $30.09 M or a 13% increase since 2003/04. However, given the NSW Government's position to hold MDBC contributions to 2003/04 and the current MDBC expenditure review, IPART must consider the current pricing decision based on 2003/04 levels which would be different from that requested by both State Water and DIPNR.

From 1999 to 2004, overall contributions by Governments to RMW increased by 45% (see Table 4). Information provided on the RMW recurrent expenditure 1999-2007 (actual, budget and estimate) suggests that an overall increase during that time of around 159% or around 20% per annum.

Table 4: Contributions to River Murray Water by Governments 1999-2004

	2004	**2003**	**2002**	**2001**	**2000**	**1999**
Govt Contributions	$44,408	$37,994	$35,878	$34,753	$29,177	$30,405
Difference	+17%	+6%	+3%	+19%	-4%	N/A
	Total Increase 1999 to 2004 = 45%					

Table 5: River Murray Water Actual, Budget and Estimate Recurrent Expenditure Comparison 1999-2007

Year	**Total Recurrent Expenditure $'000s**	**Increase**
1999	$10,623	N/A
2000	$15,101	42%
2001	$15,204	0.5%
2002	$16,105	6%
2003	$21,698	35%
2004*	$24,268	12%
2005#	$26,949	11%
2006^	$27,631	3%
2007^	$27,502	0.5%
Overall Increase 1999-2007		159%

*Approved Budget; #Budget; ^Estimate

The breakdown of the NSW contribution to MDBC 2003/04 total costs are $17.763 M for RMW (67%) and $8.865 M for water resource management costs (33%). However, without more information, RGA are unable to consider the cost shares which determine the NSW water user's share of these costs.

[4] Federal Government 2004, *Cuts to MDBC budget jeopardise River Murray Health*, Joint media release, Minister Warren Truss & Ian Campbell, 1 April 2005, available http://www.maff.gov.au/releases/05/05071wtj.html.

[5] MDBC 2004, *Annual Report 2003/04*, p. 237.

State Water is claiming at total of $14.2 M in the Murray Valley for RMW costs (less non-IPART costs such as associated with salinity mitigation schemes). DIPNR have not released any information on the MDBC costs for WRM included in their submission.

RGA is aware that State Water made an attempt to try and clarify MDBC and RMW costs to provide clarity but that this was difficult. This information has been made available to RGA in confidence. It is obvious from the State Water submission that State Water has passed the responsibility for determining the efficiency, quantum, necessity and timing of these costs to IPART as no comment is made about any further detail. Consequently, the claims for $14.2 M for the NSW Murray Valley must be reasonably and fully assessed in the IPART determination.

As a result of the implementation of The Living Murray initiative, many MDBC assets will be used for environmental outcomes. As discussed in other parts of this submission, such use must be considered and the recovery of storage and delivery costs for environmental allocations must commence immediately.

7.3.1 Water Resource Management

As DIPNR has not provided any detail including even a valley total of MDBC WRM costs, RGA is in no position to make any judgement on these costs.

DIPNR has not addressed the requirement of the 2001 IPART Determination to work with stakeholders to provide a robust and transparent method for allocating these costs within NSW and to ensure that NSW Murray water users do not pay for more than their fair share of these costs. There is no clear articulation and justification of these costs.

7.3.2 Capital Expenditure

MDBC budgets are based on the actual expenditure for infrastructure investment rather than annuities. This must be considered when analysing the appropriate costs for NSW water users. The difficulty has been attempting to identify what are capital costs and what are in fact operating costs, as MDBC allocate all costs to operating expenditure[6] (pers. comm., State Water). For 1999/2000 MDBC expenditure, some $28.175 M in infrastructure expenditure was allocated across Investigation & Construction, Operations & Maintenance, Salinity Mitigation Investigations and Salinity Mitigation Construction making it difficult to determine true capital and operating expenditure.

In their 2004 submission, State Water is claiming an annuity for RMW of $7.5 M but there is no explanation of the detail in these costs. This is a 25% increase in the efficient costs determined by IPART in 2001[7] of $5.9 M of which users were required to contribute $3.663 M. According to information provided to RGA in 2004, the actual calculation of the NSW user's share of the RMW annuity was $5.5 M, which was based on the unadjusted asset value (see below) of $1.6 b.

---

[6] DWLC 2001, *Submission to IPART on Bulk Water Pricing 2001/02 – 2003/04*, Appendix 5.

[7] IPART 2001, *Department of Land & Water Conservation Bulk Water Prices from 1 October 2001*, Appendix 10, Table A10.3, p. 94.

In the 2003/04 MDBC Financial Statements, an error was identified regarding the correct valuation where an asset is gained free of charge. This error was an overstatement in 2002/03 of $392,079,000 and in 2002/03 of $422,637,000. Consequently, in 2003/04, the financial statements reflected a change in the valuation.

This error has led to a decrease in total non-financial assets from $1.65 b @ 1 July 2003 to $1.35 b @ 30 June 2004. Therefore, RGA would strongly recommend that IPART considers the impact of this write down and reassess the correct capital annuity charges to be apportioned to users as a result.

Recommendation 14: That IPART reassess the MDBC annuity charges in the light of the write down in MDBC assets in 2003/04.

7.3.3 Recovery of MDBC & River Murray Water Costs

The RGA notes that the MDBC are responsible for the cross jurisdictional management of natural resources and River Murray Water is responsible for water delivery. Whilst the latter efficient costs should be apportioned to water users, the RGA has some issues regarding how this occurs.

Historically, the MDBC budget has been approved via the Commission and the Ministerial Council. State Water's submission clearly documents how these costs are then allocated to the states.

However, the RGA would state that there is no correlation between how an inter-jurisdictional decision was determined and principles for bulk water pricing in NSW under the IPART process.

The 1997 MDBC cost shares take into account:-

- ~ Consumption of water;
- ~ Relative security of supply;
- ~ An access charge based on the Cap as representing entitlements to water;
- ~ A volumetric charge based on annual diversions;
- ~ Environmental management costs associated with river basin operations including salinity mitigation; and
- ~ Consumption of other services provided by the assets (eg navigation, regulated pools for diversion, recreation and tourism, suppression of saline inflows).

The following two tables outline the historical perspective for cost sharing between the different jurisdictions of MDBC's expenditure (Table 6) and the different proposals for sharing costs, with the final determination of cost shares being average annual shares adjusted for dilution flows (Table 7). In other words, the NSW portion of **all** MDBC costs (i.e. water delivery & water resource management) includes sharing one third of the costs for South Australia's dilution flow – essentially an environmental flow.

Table 6: Cost Sharing between Governments of MDBC Expenditure[8]

Decision Basis	Year	Cost Sharing Between Governments				
		Cost To Be Shared	**NSW**	**Vic**	**SA**	**C'Wlth**
River Murray Agreement	1915	MDBC Works Construction Costs	26.2%	26.2%	26.2%	21.4%
		MDBC Works O&M	26.2%	26.2%	26.2%	21.4%
River Murray Agreement	1923	MDBC Works Construction Costs	25%	25%	25%	25%
		MDBC Works O&M	25%	25%	25%	25%
River Murray Agreement	1934	MDBC Works Construction Costs	25%	25%	25%	25%
		MDBC Works O&M	33.3%	33.3%	33.3%	0
		MDBC Works O&M	33.3%	33.3%	33.3%	0
River Murray Agreement	1967	MDBC Works Construction Costs	25%	25%	25%	25%
		MDBC Works O&M	33.3%	33.3%	33.3%	0
		Menindee Lakes Rental	25%	25%	25%	25%
		Menindee Lakes O&M	50%	25%	25%	0
Murray-Darling Basin Ministerial Council Decision in 1998	1998	MDBC Works Construction Costs	30%	27%	18%	25%
		MDBC Works O&M	40%	36%	24%	0
		Menindee Lakes Rental	30%	27%	18%	25%
		Menindee Lakes Rental O&M	55%	27%	18%	0

Table 7: Management Scenarios Associated With Restructuring Cost Sharing Formulae[9]

State	Average Annual Share of Murray River Water		Security of Supply	Average Annual Share less Dilution Flow		Average Annual Share adjusted for Dilution Flow		Average Annual Diversions	
	GL	**%**	**Rating**	**GL**	**%**	**GL**	**%**	**GL**	**%**
NSW	2100	36	Medium	2100	41	2332	40	1977	46
VIC	1900	32	High	1900	37	2132	36	1725	40
SA[10]	1850	32	Very High	1154	22	1386[11]	24	610	14
Total	5800	100%		5154	100%	5850	100%	4312	100%

Essentially, NSW cross subsidises MDBC costs through the formulae which includes one third of South Australia's dilution flow – a dilution flow for use within South Australia to counteract the consequences of salt resulting primarily from dryland salinity within the Murray-Darling Basin[12].

Table 8 shows the sources of the mobilisation of salinity in 1998 and compares this with forecast 2020 mobilisation. Within the Murray River itself, the sources of salinity

[8] Martin, W. 2004, A Hand Book for Murray Irrigators on Water Policy History on the Murray River, SRIDC.

[9] Ibid

[10] The South Australian share includes 696 GL for dilution flows across the SA border (1850 GL minus 696 GL = 1154 GL plus 232 (696/3) = 1386).

[11] Ibid

[12] MDB Ministerial Council 1999, *The Salinity Audit of the Murray-Darling Basin: A 100-year perspective*, MDBC, Canberra.

in 1998 were mainly Lock 2 to the SA border (329,000 t/ha) and upstream of Swan Hill (Victoria 525,000 t/ha). The MDBC Salinity Audit also stated that "*a very important finding of this Audit is that estimation that much of the salt mobilised does not get exported through the rivers and on to the sea. It stays in the landscape or gets diverted into irrigation areas and floodplain wetlands*."[13] For irrigation areas & wetlands, this means that they act as salt sinks and in the long term will be impacted by this.

Table 8: Salt Mobilised in the Murray-Darling Basin[14]

River Valley	**Salt mobilised to land surface 1998**		**Projected salt mobilised to land surface 2020**	
	t/ha	**%**	**t/ha**	**%**
South Australia	434,000	26.8%	640,000	35.9%
Victoria	715,000	44.1%	785,000	44.0%
NSW	470,000	29.0%	360,000	20.1%
Murray River Total	**1,619,000**	**100%**	**2,095,000**	**100%**
Victorian Murray Tributaries	24,530	0.7%	40,040	0.8%
NSW Murray Tributaries	2,880,000	79.1%	3,770,000	76.4%
NSW Valleys Upstream Menindee	548,000	15.1%	870,000	17.6%
Queensland	>186,000	5.1%	>255,000	5.2%
Other Valleys Total	**3,638,530**	**100%**	**4,935,040**	**100%**
BASIN TOTAL	**>5,070,000**		**6,720,040**	

Unfortunately, dryland farmers (current and previously) cannot be charged for the costs of actions taken over the past two hundred years. It is untenable that irrigators, who are able to be charged, incur the costs of Basin wide environmental degradation because of the agreed MDBC cost sharing formula. Therefore, it should be quite acceptable for the NSW Government to pay a CSO for the additional costs NSW pays via the funding formulae for all MDBC costs.

A further argument is that the MDBC/RMW does not have the same degree of requirement to deliver a cost effective water delivery business and natural resource management. River Murray Water is a monopoly service provider whose budget is agreed to by the various jurisdictions. There is no independent of Government authority to question to validity, timing, quantity and quantity of expenditure. This leads to a clear lack of transparency and accountability in NSW to those users who eventually "foot the bill". The same comments can be made about the water resource management costs of MDBC.

The 2001 IPART determination and the consultant's employed to assist in this determination provided the first real degree of transparency regarding the validity and quantity of MDBC costs. However, of those costs agreed to, all water delivery costs were allocated to the NSW Murray Valley. This ignores the formulae for cost sharing discussed above which must be adjusted for only the water delivered and used within the NSW Murray Valley.

---

[13] Ibid, page 9
[14] Ibid, Summarised from Table 1, page 8

Over the past four irrigation seasons, the NSW Murray Valley has suffered the consequences of the worst ever drought on record[15]. Consequently, the NSW Murray water user's share of the resource has reached record low levels, while ever increasing MDBC costs are being incurred. Whilst the IPART Bulk Water Pricing Determination is based on averages, the impact at a farm and community level is markedly severe.

The RGA would suggest that there must be a more equitable method of recovering the costs associated with the MDBC, including water delivery and natural resource management.

For water delivery costs, the NSW Murray users should be required to pay for the fair, equitable, efficient and relevant River Murray Water costs associated with water delivery for NSW Murray users only.

This is backed by the very recent stance by NSW that it will only pay 2003/04 level of funding to MDBC whilst an expenditure review is undertaken and presented to the next MDB Ministerial Council meeting (pers. comm. DIPNR, 4 April 2005)[16][17]. There has been a 10% per annum increase in MDBC/RMW costs over recent years and an analysis of the efficiency of those costs is warranted (including savings, duplication and in particular the administration costs). RGA welcomes such an initiative and further recommends that IPART consider the possible outcomes of such a review in this pricing determination.

Recommendation 15: That IPART considers the outcomes of the internal MDBC review of expenditure and the possible positive or negative impacts on bulk water prices.

7.4 Proposed Entitlement Charges

If 2005/06 costs for both DIPNR and State Water (including MDBC/RMW) are compared to the DLWC submission, there is a 24% increase ($19.5 M in 2001 to $24.3 M in 2005/06). If one compares just State Water user share of the costs, then the increase is around 168% and an increase of around 35% for RMW costs.

According to the State Water submission, the proposed entitlement charge for the Murray and Murrumbidgee Valleys will remain unchanged for over the proposed price path. However, State Water intends to increase the variable charge each year over the same period.

Previously, this entitlement and usage charge included all efficient costs required to be paid by water users for State Water, DIPNR, MDBC and RMW (as required). However, the proposed State Water bulk water charge will now recover only State Water and RMW charges. DIPNR has not advised the recovery of its 2005/06 costs into bulk water charge equivalents.

---

15 River Murray Water 2004, *River Murray System – Drought Update,* November 2004, MDBC, Canberra.

16 Federal Government 2005, *Cuts to MDBC budget to jeopardise River Murray Health*, The Hon Warren Truss, Minister for Agriculture Forestry & Fisheries & The Hon Ian Campbell, Minister for Environment & Heritage, Media Release, 1 April 2005, online http://www.maff.gov.au/releases/05/05071wtj.html.

17 NSW Government 2005, *Living Murray Projects Get Green Light*, The Hon Craig Knowles, Media Release, 1 April 2005, online http://dipnr.nsw.gov.au/mediarel/mo20050401_3038.html.

RGA notes that the proposed cost base from 2005/06 to 2007/08 is not deemed to be efficient costs at this stage. This concerns RGA and we strongly encourage IPART to undertaken all due diligence to ensure that the bulk water charges for State Water and DIPNR (including MDBC and RMW) attributable to water users are relevant and efficient.

8. Issues for This Determination – Setting Prices

The 2001 IPART identified a number of issues which required the attention of DIPNR and State Water for this determination[18]. The following discussion identifies issues of concern for RGA.

8.1 Two part tariff

The RGA supports the moves to a two part tariff for all water sources for the purposes of bulk water pricing and supports the formula proposed by State Water for recovering the fixed and variable components using a 60: 40 ratio. It is obvious from the State Water submission that the business is proposing to ameliorate any disadvantage in the proposed fixed and variable component by varying the long term usage figure[19], despite much of the State Water costs being fixed in nature.

8.2 High and general security entitlement charges

RGA supports the proposal by State Water for changes to the high security price recovery, which is based on the follow premises:-

- Removal of cross subsidisation between different water users within the same valley;
- The requirement to store high security water for longer periods in order to guarantee supply (with the exception of Murrumbidgee Valley); and
- The price differential between conversions between high and general security licences and the prices charged for bulk water.

8.3 Discounts for Wholesale Irrigation Corporations

The RGA notes the discussion on wholesale discounts that apply to variable charges in both the State Water and DIPNR submissions. However, RGA sees merit in widen the discussion from the narrow focus of both State Water and DIPNR to include: -

- Bulk discounts are part of doing business for any commercial entity. Therefore, there is merit in continuing the discounts for the irrigation corporations.
- Previous IPART determinations have included wholesale discounts therefore it cannot be justified that there is a cross subsidy from other water users to the irrigation corporations.
- The costs of reading and servicing a multitude of small licences held by private diverters is greatly increased when compared to the costs of the same services for irrigation corporations.
- The original decision on bulk water discounts applied to Murray Irrigation on corporatisation in 1995. Anecdotally, there was paperwork and a sliding scale on which the decision was based. DIPNR should be asked to provide this information to IPART in order to properly analyse this issue.

---

[18] IPART 2001, *DLWC Bulk Water Prices from 1 October 2001*, Determination No 3, Appendix 3, p. 73-74.
[19] State Water 2004, *IPART Submission*, page 36

~ The requirement for irrigation corporations to continue to service the irrigators under previous Government management.

On this basis and in a commercial environment, wholesale discounts should be continued. RGA acknowledges that the level of discount may require more discussion and views the IPART process as the appropriate vehicle under which this debate should occur.

Recommendation 16: That wholesale discounts to the irrigation corporations for variable charges continue are part of the commercial reality of doing business.

8.4 Separate Valley Accounts

RGA strongly recommends continuation of the ring fencing of each valley's accounts and the provision of separate valley accounts to the CSCs for analysis and debate, including the requirement for DIPNR to provide the same information. There should be no cross-subsidisation between valleys, particularly relating to capital expenditure. RGA rejects the suggestion that State Water should be able to apply the funds collected in one valley to assets in another valley.

8.5 Ring Fencing

RGA is of the view that this issue has been largely complete (with some exceptions such as some responsibilities yet to be agreed) with the corporatisation of State Water.

8.6 Customer Service Committees (CSCs)

RGA supports the role of the CSCs in providing advice to State Water on its operations. It is imperative that this relationship continues to develop to ensure that the CSCs have sufficient capability to provide such advice.

In the past, the CSCs have not been provided with timely financial information. However, improvement will enhance the relationship with and transparency of State Water activities to water users.

8.7 Determining Appropriate Level and Rate of Change for Prices

The RGA acknowledges that, in the past, improved cost recovery was limited by the robustness of the cost data provided by DIPNR and its predecessors. Improved cost recovery for groundwater and unregulated systems was also limited by the impact of high price increases on bulk water users.

However, the 2001 Pricing Determination portrayed regulated systems as mostly being at or above full cost recovery, including those valleys relevant to rice growers. For the 2005/06 Determination, whether regulated systems are at full cost recovery is yet to be determined. The RGA are of the opinion that it is difficult to form such an opinion about DIPNR until its medium term pricing submission is provided to IPART and released for public scrutiny.

The RGA are somewhat concerned by the large increase in costs projected by State Water for the Murray Valley. Likewise, that same can be said of DIPNRs costs. It is acknowledged that a large proportion of these costs related to MDBC and River Murray Water costs which a largely borne by the NSW Murray Valley. RGA would question the validity of the efficient cost base of DIPNR, State Water, MDBC and River Murray Water.

8.7.1 Upper & Lower Bound Pricing

The IPART Issue Paper and State Water submissions both discuss "upper and lower bound pricing" as raised in the NWI. According to the Issues Paper: -

Lower Bound Pricing is recovery of at least operational, maintenance and administrative costs, externalities, taxes or TERs (excluding income tax), the interest on cost of debt, dividends (if any and should reflect commercial realities) and make provision for future asset refurbishment/replacement.

Upper Bound Pricing is recovery of at least operational, maintenance and administrative costs, externalities, taxes or TERs (excluding income tax), the provision for the cost of asset consumption and cost of capital.

IPART notes it is not clear how much the upper & lower bounds differ from each other and it is likely that any difference will vary from valley to valley.

RGA suggests that IPART makes a recommendation on the level of lower and upper bound pricing for each valley for State Water and whether this applies to DIPNR water resource management costs.

8.7.2 Groundwater Charges for Murray & Murrumbidgee Aquifers

One issue of concern to a small number of RGA members is the cost recovery for groundwater users and the basis for charging groundwater users. Costs are determined based on the relevant aquifer, but charged according to regulated valley boundaries. Some irrigators pumping from the Murrumbidgee aquifer are charged Murray aquifer bulk water prices and vice versa. This means that a cross subsidisation is occurring or that some users are either being over or undercharged for their groundwater bulk water prices.

This situation can no longer continue and must be resolved by DIPNR so that the correct charge is invoiced to groundwater users.

8.7.3 Murray & Murrumbidgee Regulated Systems

The majority of RGA's members attract regulated system charges as direct customers of State Water or as customers of Murray, Murrumbidgee and Coleambally Irrigation. For the Murray and Murrumbidgee regulated systems, the 2001 IPART Determination delivered full cost recovery from water users.

RGA has concerns that State Water is proposing a 10% increase in prices every year for 10 years, flagging this is required to deliver full cost recovery. There is insufficient information in either State Water or DIPNR submissions to determine the relative cost recovery levels proposed. Based on the 2001 Determination, if full cost recovery were delivered in 2003/04, then why the dramatic request to deliver 10% increases every year.

An analysis of Table 5 on page 40 of the State Water submission shows that the proposed entitlement charge for both Murray and Murrumbidgee Valleys remains unchanged until 2007/08. However, the variable charge increases 25% each year in each Valley.

For State Water, the increases in total revenue are in fact 10.7% for 2005/06 and 13.2% for 2007/08, both in excess of the suggested 10% per year for ten years (Table 6 on page 40 of the State Water submission). Further explanation is required of this anomaly in the State Water submission.

The DIPNR submission provides less clarity on the cost recovery of water resource management charges. Of note is that the Murray Valley WRM costs amount to 32% of the state's total for regulated systems. Surely further analysis is required of this level of cost especially given a large proportion is due to MDBC WRM costs. IPART flagged further work needs to be done on the sharing of the MDBC costs for this submission and as yet, nothing has been delivered either to IPART or discussed with water users.

Recommendation 17: That DIPNR be required to provide clear and transparent accountability for all Murray Valley WRM costs, including MDBC costs.

Recommendation 18: That DIPNR makes recommendations on the sharing of MDBC costs as required from the 2001 IPART Determination.

9. Other Issues

9.1 Environment to pay a share of costs

One of the major concerns for irrigators relates to the changing trend towards environmental management of storage and river systems. Whilst irrigators fully support this changed environment, it raises a number of concerns regarding bulk water prices for both water delivery and water resource management.

Prior to the mid 1990's the regulated river systems were managed for irrigation and other outcomes such as flood mitigation and electricity generation. Therefore it was entirely applicable that user's were required to pay for the efficient costs applicable to water users

However, over the past decade there has been an increasing allocation of water to the environment, and a change in management of the system from irrigation to increased environmental outcomes (e.g. operation of the dams for the whole year instead of just the irrigation season). This has lead to an increase in costs borne solely by water users.

The removal of water from consumptive use to the environment through various allocation mechanisms (new licences such as the Barmah-Millewa, investment in water savings projects and the purchase of water entitlements) has reduced the volume of the consumptive pool that is required to meet increasing costs for water delivering and water resource management.

The concern is that with the forecast return of water to the environment (e.g. Snowy via Water For Rivers, The Living Murray, National Water Initiative etc), there will be an ever diminishing pool of consumptive water with which to cover increasing costs and could eventually lead to the situation of the price of delivering water becoming cost prohibitive.

This does raise some very real concerns but there is scope for resolution. Some environmental allocations, such as the Barmah-Millewa water do not have access entitlements. Other environmental water allocations, such as that managed by the Murray Wetlands Working Group (MWWG) have an access entitlement. As the MWWG trade water when unable to use this water for environmental outcomes, the MWWG have an established income stream with which to pay the bulk water costs. The MWWG have been invoiced twice for usage charges only and paid these accounts. However, the amounts recovered amounted to around $6K and could not possibly have covered all the water delivered under this licence.

Water retrieved for the environment under the auspices of either Water for Rivers (Snowy), The Living Murray, The National Water Initiative or Catchment Management Authorities is a another matter. Where water is purchased from willing sellers, there will already be an access entitlement and therefore these licences could be billed (unless the NSW Government chooses to treat ownership of environmental water in another way). Where water is derived from savings or efficiency investments, licences could be provided to enable billing to occur.

Table 9 portrays current and proposed environmental allocations in the NSW Murray Valley and indicative income stream for State Water.

Table 9: Current and Future Environmental Allocations in the NSW Murray

Name	Volume	Indicative Income to State Water[20]
Barmah Millewa Forest Allocation	~ 50 GL annually high security ~ Up to 25 GL annually general security (determined by reference to announcement of Victorian sales water) ~ Can be stored for up to six years	~ 50 GL @ $4.96 = $248K ~ 25 GL @ $3.93 = $98K ~ 25 GL @ $1.32 = $33K
Moira Savings	~ 2 GL MDBC loss status (i.e. as this water comes out of the MDBC allocation assessment, it is given higher security than NSW high security or carry over water) ~ Managed by the Murray Wetlands Working Group ~ Can be sold	~ 2 GL @ $4.96 = $10K
Murray Irrigation Losses	~ 30 GL of adaptive environmental water ~ Managed by the Murray Wetlands Working Group ~ Can be sold	~ 30 GL @ $4.96 = $149K
Water For Rivers	~ To return 70 GL of water to the Murray as part of the Snowy Enquiry via water savings investment ~ Also purchasing 212 GL for the Snowy River via water savings investment	~ 70 GL @ $4.96 = $347K ~ Assumed high security product

[20] 2005/06 prices as per State Water Submission to IPART Issues Paper, 2004, p. 40.

The Living Murray	~ Return of 249 GL from NSW ~ Volume and status depends on where the water is sourced	~ 249 GL @ $4.96 = $1240K
Murray Catchment Management Authority	~ Currently purchasing licensed entitlements from irrigators for The Living Murray Initiative	~ N/A – included in above
Water Sharing Plan	~ Return of ~3% on average (approximately 58 GL) by reducing the yield on licensed entitlement	~ 58 GL @ $4.96 = $288K ~ Assumed high security product
The National Water Initiative	~ Commences in 2014 ~ If robust sciences demonstrates need, will return up to 6% back to the environment	~ N/A

There is approximately 484 GL on average annually (with the exception of the NWI) and this represents a substantial financial stream for State Water. The rough calculations above amount to some $2.5 million annually worth of future revenue based on proposed 2005/06 bulk water prices. It is untenable that other water users are to be asked to bear the costs attributable to the environment. This is a clear cross subsidy issue and the extent can be extrapolated over the remainder of NSW valleys.

Who bears the cost of the environment paying for their share of the costs of storing and delivering water (like irrigators) may need some discussion. Where this water is traded, the proceeds can be used to pay for the water delivery and water resource management charges. In all other cases, the NSW Government should bear the cost on behalf of the community. In other words, a defined Community Service Obligation (CSO).

In some cases, environmental allocations could be classified as high security (if general security water initially, the appropriate conversion factor must be applied) and charged appropriately as "the costs involved with high security are higher than those for low security entitlements, because greater storage capacity is required"[21].

For normal high security licences, this water is stored for one extra year in most cases. For environmental allocations, this water can be stored for a number of years, e.g. the Barmah-Millewa Forest Allocation can be stored for up to six years. Normal general security licences can only carry over the unused portion of their allocation for one year less storages losses of 5% on 1 July annually. Therefore, there is a disparity between environmental allocations and general security licences and the determination of prices for environmental water must reflect the ability for environmental allocations to be stored for longer than high or general security access entitlements.

State Water acknowledges this issue in its submission which calls for payment of bulk water prices by environmental licences. However, where licences cannot be identified, State Water calls for irrigators' charges to be increased.

The RGA strongly rejects the latter claim and suggests that where no licence is identified that the NSW Government pays for this water via a CSO. It is unequitable to ask irrigators (who can be readily identified) to pay this cost and is against

[21] IPART 2004, *Bulk Water Prices from 2005/06 Issues Paper*, page 29.

previous IPART principles, i.e. that irrigators only pay for those efficient costs attributable to irrigators.

Recommendation 19: That environmental water attracts the appropriate bulk water charges for the costs involved with storing and delivering this water.

9.2 Other users

RGA has long sought equity with relation to other users of the water and infrastructure owned by State Water and MDBC. These users include: -

~ Basic water access entitlements (previously stock & domestic)
~ Navigation
~ Flood amelioration for property owners downstream of dams (including towns)
~ Tourism
~ Recreational users (including fishing, bird watching etc)

There are also other impactors on the river systems who clearly do not pay for such impacts, such as dryland farmers contributing via dryland salinity which decreases the water quality of the rivers and creek systems due saline incursions.

It is indeed a sad state of affairs when only those users with an entitlement and a clear mechanism to be charged for bulk water charges incur the costs for other users. The difficulty has always been the ability to identify and charge these users for the services provided by State Water, DIPNR, MDBC and River Murray Water.

Consequently, the RGA would urge IPART to adequately identify the cost shares to be apportioned to these users and where possible authorise their recovery by a number of mechanisms, such as charges on other licences (eg fishing and boating licences), bed fees (for tourism), charges for using locks and so on. The alternative is to ensure that these costs are identified as a community service obligation (CSO) to be borne by the State Government on behalf of these users.

Recommendation 20: That IPART ensures adequate identification of all other users of the State Water infrastructure and water delivery and apportionment of appropriate cost shares directly to those users or to the NSW Government as a CSO.

10. Conclusion

In 2001, ACIL[22] stated that "the key .... question of whether the planned program of expenditures underlying the water resource management expenditure items in the DLWC submission are 'efficient', in the sense of being cost justifiable, not excessive and appropriate to the purpose." Further ACIL noted that it had considerable difficulties in brining any "precision" due to the new planning processes which were being put in place at that time, citing such issues as incomplete water sharing plans and major revisions to the State Water Total Asset Management Plan (TAMP).

In some respects, this difficulty continues with the current determination process.

---

[22] ACIL 2001*, Review of Water Resource Management Expenditure in the Department of Land and Water Conservation and State Water Business*, A report to Independent Pricing and Regulatory Tribunal, ACIL Consulting, Sydney, page 2.

RGA has identified a number of issues, including the late submission by DIPNR, inadequacy of information provided by DIPNR and MDBC/RMW, proposals for funding capital investment, the application and sharing of MDBC water resource management charges, and recovery of water charges by the environmental water as being crucial issues for this determination.

RGA looks forward to receiving the independent consultants report to provide some clarity in the cost bases provided by State Water and DIPNR.