



**Murray Irrigation Limited**  
ABN 22 001 127 920 ACN 002 121 920

Registered office: 443 Claudette St (PO Box 578) Deniliquin NSW 2711  
Phone (03) 5881 9200, Fax (03) 5881 9217 Website: www.murrayirrigation.com.au



Coleambally Irrigation Co-operative Limited  
ABN 75 951 271 684  
PO Box 103, Coleambally NSW 2707  
Phone: 02 6954 4003

Tuesday 22<sup>nd</sup> November 2005

Mr Jim Cox  
Chief Executive Officer  
IPART  
PO Box 290  
QVB Post Office NSW 1230

Dear Jim

**Subject: Murray Irrigation and Coleambally Irrigation's response to IPART's review of bulk water prices 2006/07**

Please find enclosed Murray Irrigation Limited and Coleambally Irrigation Co-operative Limited's (CICL) preliminary submission to IPART's review of bulk water prices for 2006/07. Murray Irrigation Limited and CICL have also engaged Marsden Jacob & Associates (MJA) to provide an, independent expert submission to IPART on the significant issues for Murray Irrigation and CICL arising from both the State Water and Department of Natural Resources (DNR) submissions to IPART.

The MJA submission will be provided directly to IPART. Murray Irrigation and CICL also refers IPART to our response to the IPART review of bulk water pricing in 2004/05. Murray Irrigation invested significant time and resources into the preparation of this submission. Many of the principles for bulk water pricing argued in the 2004/05 submission are common to the current review and Murray Irrigation's views remained unchanged.

Murray Irrigation and CICL intend to provide further submissions to IPART as this determination progresses. Additional submissions will be provided when Murray Irrigation and CICL have had more time to critique the data in the State Water and DNR submissions and better information about actual State Water and DNR costs is made available.

State Water's unconstrained pricing model combined with the DNR anticipated increases in water resource management charges, if accepted by IPART will result in the cost of bulk water for Murray Irrigation and its shareholders increasing dramatically. Whilst the impact on CICL's members is less significant, the price increase is at odds with the information provided in State Water's submission.

Under proposals from State Water and DNR, Murray Irrigation's bulk water account in a full allocation year -100% diverted- will increase from \$6.7 million to \$18.3 million and in a resource-constrained allocation year – 53% diverted will increase from \$5.7 million to \$12.7

million. This is a dramatic increase which Murray Irrigation contends is not based on earlier "full-cost" determinations by IPART, efficient costs or defensible economic criteria.

Both the Murray and Coleambally Irrigation regions are grappling with recovery from a worst-in-living-memory drought. The regions also have to face the government imperative to recover water to increase environmental flows in the Snowy and Murray Rivers:

The outcome of this determination is important to the competitiveness of irrigated industries in our region. The role of IPART as the independent regulator and our sole defence against inefficient government monopolies exploiting their powers has never been more important to the irrigation industry.

I look forward to IPART continuing to take a rigorous approach to its price determinations and to IPART establishing constructive dialogue with Murray Irrigation and CICL over the course of the determination.

If you require clarification of any of the issues in this letter on our submissions, please contact Mrs Jenny McLeod, Murray Irrigation Policy & Communication Manager on 03 5881 9348 and Mrs Anne Rzeszkowski, Company Secretary (CICL) on 02 6954 4003.

Yours sincerely,

**George Warne**  
**General Manager**  
**Murray Irrigation Limited**

**Murray Smith**  
**Chief executive Officer**  
**Coleambally Irrigation Co-operative Ltd**

**Murray Irrigation Limited**

**A.C.N. 067 197 933**

**Response to IPART  
Review of Bulk Water Pricing**

**November 2005**

## Introduction

Murray Irrigation Limited welcomes the opportunity to participate in the Independent Pricing and Regulatory Tribunal's (IPART) review of bulk water prices from 2006/07. IPART has a crucial role as the independent regulator ensuring bulk water prices are based on efficient costs, economically defensible principles and that water users are protected from abuse of monopoly power.

It is extremely disappointing that after 10 years of regulation and substantial increases in bulk water prices, the NSW Government under the guise of the National Water Initiative, is attempting to "shift the goal posts" on previous IPART determinations.

This submission contains Murray Irrigation's preliminary views on both State Water's and the Department of Natural Resource's (DNRs) submissions to IPART. This submission is supported by a submission prepared for Murray Irrigation and Coleambally Co-operative Limited, by independent economic consultants Marsden Jacob & Associates (MJA).

MJA were engaged by Murray Irrigation and Coleambally Co-operative Limited to assist with the presentation of our preliminary views because of their knowledge of both our businesses, State Water's capital and operating expenditure and their economic expertise.

Many of the issues raised and comments made in Murray Irrigation's 2004/05 submission also pertain to IPART's review of bulk water prices from 2006/07.

Murray Irrigation and its shareholders are beneficiaries of the regulated Murray River system and therefore have a responsibility to contribute to a fair share of the efficient costs of river regulation. However Murray Irrigation is concerned this determination represents an attempt by NSW Treasury to tax the productive irrigation sector by increasing bulk water prices under the guise of the National Water Initiative definition of full cost recovery.

Increasing bulk water prices will reduce the competitiveness of irrigated industries. Murray Irrigation considers in its previous determinations IPART essentially had the economic criteria for bulk water pricing largely correct. Murray Irrigation argues that the altered institutional structure is not a valid reason for IPART to shift from the principles for bulk water pricing established previously. Murray Irrigation does support exploring the concept of the regulatory asset base (RAB) as an alternative to the collection of an annuity.

Murray Irrigation considers an over arching issue, for this determination is definition of full cost recovery. Murray Irrigation notes, according to IPART's assessment of efficient costs and pricing principles, the Murray and Murrumbidgee Valley should have reached full cost recovery by 2004/05. What, apart from the administration structure has changed to drive the massive price increases both State Water and DNR are seeking from irrigators. State Water and DNR both use the National Water Initiative to justify increased costs, these propositions need to be investigated rigorously by IPART.

Murray Irrigation considers the key issues for this determination are:

- Confirmation that the NSW irrigators, in particular NSW Murray Irrigators, are only paying for the efficient costs of government services including DNR, Catchment Management Authorities (CMA), Murray Darling Basin Commission (MDBC) and River Murray Water (RMW) costs. The institutional structures created by government policy result in significant cost increases. Murray Irrigation argues irrigators should not be expected to pay for the excessive costs of the duplication being caused by the institutional structures created by government.
- Determination of State Water's efficient costs, both capital and operating.
- Determination of the DNR efficient costs.
- Collection and expenditure of capital to maintain the integrity irrigation infrastructure.
- Cost sharing between irrigators and government for both State Water and DNR costs, where both State Water and DNR are attempting to shift a greater share of their costs to irrigators.
- MDBC costs, transparency, efficiency and appropriate sharing between NSW irrigators and with government.
- Wholesale or bulk discounts.
- Valley based accounting that ensures income collected from each valley will be retained for expenditure in that valley.
- Impacts on irrigators of proposed price increases.

The MJA submission identifies and discusses;

- Significant issues arising from the review of State Water capital and operating expenditure including discrepancies between actual and forecast expenditure, accountability for expenditure.
- The cost impacts of the State Water's approach to capital on State Water revenue and discusses issues associated with wholesale discounts.
- The impact on water prices paid by irrigators of State Water's risk management to retain revenue.
- Wholesale discounts.
- The MJA submission also clearly identifies where additional comments will be provided as the determination progresses.

This submission focuses on providing information about the impact of State Water's and DNR's proposals for increased water prices on Murray Irrigation's bulk water account. It also highlights our significant concerns with the treatment of MDBC costs and the increase in DNR costs being passed onto irrigators under the guise of the National Water Initiative.

Time restraints combined with limited valley specific cost information being available in the DNR submission has restricted Murray Irrigation's capacity to comment on specific product based cost information in both the State Water and DNR submissions.

## Background

Murray Irrigation is an unlisted public company. It is the single largest private irrigation company in NSW and a significant customer of State Water, South. Our shareholders are also our irrigator customers. Murray Irrigation supplies irrigation and drainage services to 2,416 farms owned by approximately 1,400 farm businesses in the southern Riverina. Murray Irrigation's area of operation covers nearly 800,000 hectares of farmland just north of the Murray River.

Murray Irrigation is a gravity, off river irrigation system that includes 3,600 kilometres of earthen supply channels and 1,222 kilometres of stormwater drainage channels. Our infrastructure has a replacement value of \$500 million.

Murray Irrigation is the implementation authority for the Murray Land and Water Management Plans (LWMPs) that were endorsed by the NSW Government in 1995. Since implementation of the Murray LWMPs began in 1995, landholders have invested \$347 million in improved land and water management. This investment has been matched by a government investment, under the LWMP agreement of \$67.5 million.

Murray Irrigation has an annual turnover of between \$33 million and \$50 million depending on water sales and is a major employer with approximately 129 permanent staff. We also extensively use local contractors.

In 2004/05 Murray irrigation diverted 1.285 million megalitres from the River Murray system. Murray Irrigation was credited 0.499 million megalitres for releases through Murray Irrigation's credited escapes into the Billabong Creek and Edward, Wakool and Yallakool Rivers. Most of the credited releases were to assist State Water and River Murray Water meet downstream water orders.

Murray Irrigation's bulk water account from State Water in 2004/05 was \$5.55 million. In 2004/05 the average price paid for water delivered on farm was \$34.26 per megalitre.

Murray Irrigation invoiced State Water and River Murray Water \$277,000 excluding gst or less than \$1.00 per megalitre for releasing water through our credited escapes to meet their downstream irrigation demands.

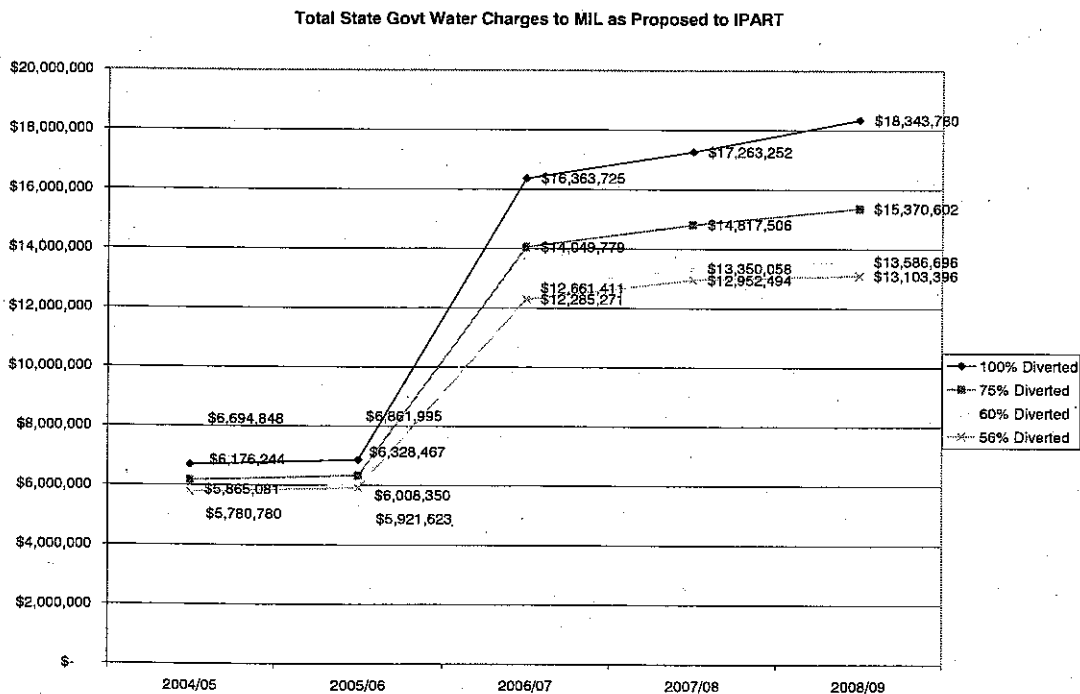
In addition to State Water bulk water charges as determined by IPART, the company pays the DNR a fixed licensing fee of \$93,000 and an annual variable licensing fee. The variable licensing fee is for license compliance and funds DNR staff costs for reviewing Murray Irrigation's annual license compliance report, the DNR's variable licence review fee is usually between \$50,000 and \$55,000.

## Impact of proposed price increases on Murray Irrigation's water prices

Murray Irrigation has used the bulk water charges in the State Water submission and DNR's estimates of price increases to calculate the impact of the proposals on bulk water charges paid by Murray Irrigation. In this analysis Murray Irrigation assumed the DNR charges in the 2005/06 IPART determination increased by 30%. This assumption was necessary because no valley specific information on water price increases was provided in the DNR submission.

The graphs below show the impact of the proposals on Murray Irrigation's total water account (figure one) and the cost per megalitre diverted by Murray Irrigation (figure two). The graphs include costs for 2004/05 and 2005/06 based on the previous IPART determinations and prices from 2006/07 to 2008/09 based on State Water and DNR's proposals.

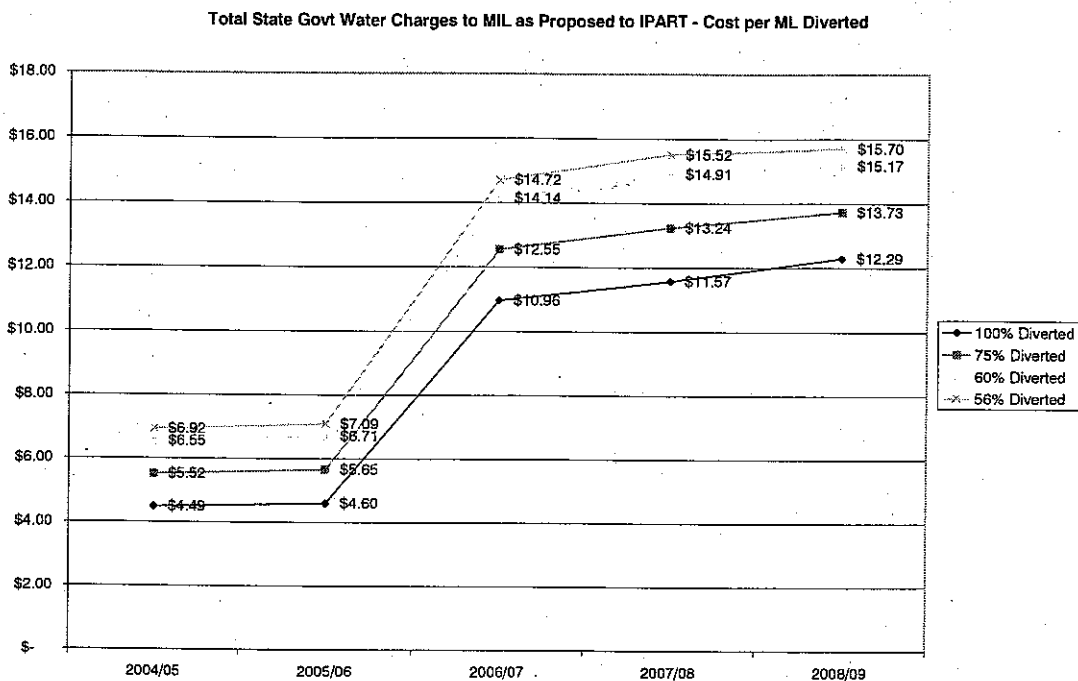
**Figure one – Total State Government water charges to Murray Irrigation as proposed to IPART**



The calculations are based on water deliveries equal to 53%, 60%, 75% and 100% of Murray Irrigation's licenced entitlement. The price increases over the three years range from an increase of 205% in a resource constrained year to 238% in a year where 100% of entitlement is diverted by Murray Irrigation.

Murray Irrigation's budget is based on water sales on farm equal to 75% of Murray Irrigation entitlements, the impact of the proposed price increases on prices paid per megalitre on farm of approximately \$8.50 per megalitre. Murray Irrigation is currently faced with increasing demands from our shareholders for better service levels and more efficient delivery of services.

**Figure 2 – Cost per megalitre diverted by Murray Irrigation for the total State Government water charges to Murray Irrigation as proposed to IPART**



Murray Irrigation does not have significant capacity to generate further costs savings and efficiency improvements to cushion our shareholders from any prices increased allowed by IPART. Any increased costs imposed on Murray Irrigation will have to be passed on to our irrigators.

If anything like the price increases sought by State Water and DNR are allowed by IPART, the impact on farm viability in this region and the competitiveness of irrigated agriculture will be significantly and negatively impacted.

The impact of the proposals on water prices calculated by Murray Irrigation is larger than State Water’s calculation because of State Water’s proposal to completely remove the wholesale discount initially established by IPART.

The proposals also result in significant prices increase because of State Water’s approach to risk assignment, where water sales are assumed to be one standard deviation below the average. This conservative approach will automatically increase the per megalitre cost because pricing is based on below average water sales. As State Water’s costs are largely fixed, this approach effectively builds in a regular windfall to State Water.

Whilst in theory, State Water is proposing an adjustment scheme where there is over or under collection, past experience demonstrates any surplus funds will be either confiscated by government or, based on State Water’s published accounts, spent elsewhere in NSW by State Water.

The assumptions made by IPART about water sales are an important issue with significant ramifications for the per megalitre water charge paid by irrigators. The



likelihood of over collection are greatest in the southern valleys where water sales, until the recent severe drought, are typically more stable than water sales in central and northern NSW.

### **MDBC and River Murray Water costs**

Costs incurred by River Murray Water are significant for NSW Murray water users, where most of the costs involved in our water supply are associated with the capital and operating expenditure associated with the River Murray system. The higher bulk water costs in the NSW Murray compared with the Murrumbidgee Valley are largely caused by the high cost of the MDBC's River Murray Water.

Increasingly River Murray Water and Murray Darling Basin costs are being driven by growing community demand that river regulation provide amenity and an enhanced environment for the Murray River. These demands increase the cost of policy development and also the capital and operating costs of the River Murray system, NSW is attempting to pass these increase costs directly onto water users in the NSW Murray- and perhaps disproportionately given the impact of the main tributaries on a number of indicators of the river's flow and environmental health. At the same time these increased demands have decreased the water available for irrigation and are likely to continue to decrease the water available to water users.

In the River Murray where the benefits of the regulated river system are widespread and dispersed throughout the regional community, and indeed a very significant number of urban Australians, there is an argument for governments to pay a higher proportion of NSW Murray costs than in other valleys.

The issues for MDBC and River Murray Water can be summarised as follows:

- High cost of maintaining and refurbishing the locks and barrages associated with river regulation in the River Murray, mostly downstream of NSW and Victorian diversions from the River Murray. Most in-river regulation is in South Australia, however the largest proportion of costs are paid by NSW. The majority of NSW water is diverted from the Murray River at the first weir downstream of the dam wall.
- The free rider issues associated with increasing regional development along the River Murray which places demands on river regulation which is likely to prevent the least cost options being adopted, and potentially not even considered.
- The institutional structure which includes multiple states, agencies within States (but actually funded indirectly through MDBC initiatives) and to an extent now also the CMA's, has high transaction costs which irrigators are funding but cannot influence.
- The potential for cost shifting between MDBC costs for policy development and intergovernmental co-ordination to River Murray Water.
- The "in house" institutional structure where partnering governments are contracted to River Murray Water, this does not necessarily lead to efficient costs.
- Complete, open and transparent disclosure of River Murray Water and MDBC costs, and the introduction of scrutiny of these costs similar to that applied by IPART to State Water costs.

- Cost shifting of natural resource management costs from individual State to the MDBC and River Murray Water so that costs are shared with other States, specifically the transfer of salt interception schemes to the MDBC.
- Failure of the NSW Government to negotiate cost sharing ratios through the MDBC that are in the best interests of NSW Murray water users and reflect actual costs to store and deliver water to NSW Murray irrigators.
- Sharing of River Murray Water costs between water users in NSW. Obviously NSW Murray Water users should contribute a large proportion of NSW water users' shares of River Murray Water costs. However, Murray Irrigation believes all water users in the Murray –Darling Basin within NSW have a responsibility to contribute to costs associated with River Murray Water, in particular salt interception schemes and operation and maintenance of environmental enhancements and water recovery.
- Isolation of costs incurred by State Water which is paid for by River Murray Water in the NSW Murray accounts.

IPART has been reluctant to closely review River Murray Water costs or MDBC costs. These costs are significant for NSW Murray water users which deserve close scrutiny by IPART.

Murray Irrigation notes that MDBC water resource management costs have risen significantly since 2001/02 (DNR submission page 53, table A2.5. Many of these costs- for example fish passage management- are announced with fan fare by governments as projects with widespread community benefit, but NSW appears to be recovering their contribution from irrigators.

### **Department of Natural Resources - Water Resource Management Costs**

Murray Irrigation does not support DNR's attempt to shift the costs of water resource regulation onto irrigators. Murray Irrigation also does not support irrigators paying for the excessive costs of the MDBC, which was \$5.535 million in 2004/05.

Murray Irrigation supports the role of water resource management activities in improving water management. However, Murray Irrigation argues many of the activities described as water resource management are core government responsibilities that should be paid by the government. Activities essential to water supply should be transferred to State Water and DNR should continue with a set of fees and charges for administration of licences.

The costs of policy development and implementation are government's responsibility.

Further more detailed comments on DNR's submission will be provided in a supplementary submission.