

Murrumbidgee Private Irrigators Inc
PO Box 964
Shepparton VIC 3632
Phone (03) 5821 7811
Fax (03) 5821 7822
MPII@bigpond.com



3 November 2005

Review of Bulk Water Pricing 2005/2010
Independent Pricing and Regulatory Tribunal
Level 2
44 Market Street
Sydney NSW 2000

Dear Sir/Madam

REVIEW OF 2005 - 2010 BULK WATER PRICES.

Thank you for the opportunity to make a submission to the Review of Bulk Water Prices.

As a general comment, we must say that State Water's submission could be termed 'blinding us with bulk'. State Water's 141 page submission with some 70 pages of appendices makes this a daunting task for stakeholders to try and make sense of the process. The Executive Summary did not in fact attempt to summarise the important issue for groups such as mine – being the changes in bulk water prices from the 2004 determination to this one.

In short we make the following recommendations which are contained in our submission.

- That State Water in consultation with stakeholders undertakes a thorough review of service levels enabling an analysis of the price changes which may accompany changes in the level of service.
- That regulation is a core function of government and as such costs associated with Government regulation of State Water not be included in pricing of water to consumptive users.
- That State Water seek independent advice on the appropriateness of current safety levels of infrastructure. Where standards have increases due to reduced tolerance of risk by the community then this cost should be borne by the government on behalf of the community.
- That the Government be required to pay State Water any monies owed to it through the IPART process that have not been paid up to this point.
- That IPART ask State Water to provide a reconciliation of monies collected via the levy and expenditure of those monies against programmes agreed to as part of the IPART determination.
- That the State Government provide funding to State Water to upgrade all pre 1997 assets to meet necessary asset maintenance standards.

- That State Water RAB reflects the costs of assets built after 1997 and not reflect assets maintained after that period to bring them up to 1997 standards.
- That State Water explain how RAB has been allocated to the individual valleys
- That State Water's asset base and resulting TAMP be reviewed to ensure that State Water has the necessary asset base to deliver its services.
- That irrigators do not pay for works that are not triggered by a compliance requirement. These costs including operating, maintenance as well as remaining lifecycle costs are borne by the party requesting the work.
- That the government pay the costs of delivery of environmental water and that those costs be calculated on a proportion of the total water resource delivered.
- That State Water manages its business risk through normal business practices and not establishes a usage estimate as a way of mitigating business risk.
- That prices that State Water charge should reflect the costs of delivering bulk water and take into account economic and social impacts of increases in prices.
- That wholesale discounts be given as a means of encouraging investment in technologies which decrease costs to State Water.
- Stock and Domestic users should be classified as a customer of State Water and charged for their water.

Again we would like to thank the commission for the opportunity to make a submission into this process. We would be pleased to discuss the issues we have raised at a public hearing.

Murray Shaw
Chairman

Lee Furness
Chief Executive Officer

MURRUMBIDGEE PRIVATE IRRIGATORS INC.

**PO Box 964
Shepparton 3632
(03) 58217811
mpii@bigpond.com**



**SUBMISSION TO THE REVIEW OF BULK
WATER PRICING (STATE WATER) BY THE
MURRUMBIDGEE PRIVATE IRRIGATORS
INC.**

The Murrumbidgee Private Irrigators represents the irrigators on the Murrumbidgee and its tributaries who pump directly from the river. These are the irrigators who are not in the Murrumbidgee Irrigation Area or the Coleambally Irrigation area. They represent some 680 irrigators with 30% of the entitlement of the Murrumbidgee Valley. They range from small holdings of up to 100 ML entitlements up to large stations with over 30,000 ML of entitlement.

We would be pleased to attend a hearing to discuss our submission and any issues relating to our submission.

We wish to make some overall general comments about the process and will then make comments about issues arising from first the State Water Submission and then the DIPNR submission.

1 NEW SOUTH WALES IRRIGATORS COUNCIL

We are member of the New South Wales Irrigators Council and are in broad agreement with their submission to this process.

2 GENERAL COMMENTS

2.1 LENGTH OF STATE WATER SUBMISSION

We believe that the State Water Submission was long on bulk and short on detail in a manner which can be reasonably understood by its stakeholders. While it is important for State Water to state the rationale for its pricing and calculation for RAB, changes because of corporatisation etc – most of the material could have been contained in the appendices. The real “guts” of the pricing determination is of course the proposed new prices per valley (which are not given) and the changes to price in comparison with prices from the last determination. These are located on page 132 of the submission and do not rate a mention in the executive summary. If the Government wants this process to be meaningful then State Water must provide information in an easy to read format – not bury important bits of information in a long and wordy submission.

2.2 COAG, NATIONAL COMPETITION POLICY AND THE NATIONAL WATER INITIATIVE

Much is being made of the above agreements and policies as a basis for increasing prices. While all of the above government initiatives are aimed at ensuring that water is used effectively and efficiently the main mechanism for achieving this is what could be broadly termed “user pays”. We are fed up with the selective interpretation and implementation of COAG, NCP and NWI. User Pays means just that. State Water has made no attempt to charge other users or beneficiaries for the benefit that accrues from its assets. This would include the likes of tourism businesses, recreational fisher people, towns that benefit from flood mitigation and the like. If we are genuine about implementing COAG, NCP and NWI in a meaningful way then irrigators should not be left to pay all costs simply because the Government has a simple charging mechanism being via water bills.

2.3 CORPORATISATION OF STATE WATER AND ITS EFFECT ON PRICES

MPI was in favour of State Water being run in a more business like way but this has not been reflected in their submission. SOCS are not private organizations but we welcome a business discipline approach to State Water's management which has been lacking for some time. We believe that the role of government is to support the overall well being of the people, not to make inordinate profits from the people. This would amount to nothing more than highway robbery. So then what should we be seeing as a result of State Water's corporatisation? Given that State Water are now going to be run on a more business like manner we would have expected costs and therefore prices to decrease not increase. Although State Water is proposing a decrease in its bulk water price for Murrumbidgee Valley general security irrigators, other valleys are facing steep increases. The submission still does not give any detail on how the business will become more efficient, how they will use technology to streamline their business (such as internet ordering of water) and how those efficiencies will be used to drive down costs and therefore prices.

While it is laudable for the organization to want to provide a high level of customer service, there does not seem to be anywhere in the submission about the appropriate level of customer service. Do we always need a Rolls Royce solution when a bicycle will suffice? There clearly needs to be a thorough review of the levels of service and their appropriateness. It would seem that it may be helpful if irrigators were given a series of choices about levels of services and the impacts they have on price. If this information was readily available then both State Water and irrigators could engage in some meaningful debate about levels of service and pricing.

RECOMMENDATIONS

- **That State Water in consultation with stakeholders undertakes a thorough review of service levels enabling an analysis of the price changes which may accompany changes in the level of service.**

2.4 BUSINESS DRIVERS

State Water gives a comprehensive picture of the regulatory framework that it operates under and the various stakeholders who have an effect on their business on Page 33. This shows two things.

- 1 That doing business in the state of New South Wales is a complex thing and businesses are probably over-regulated and
- 2 Irrigators are forced to pay twice for government regulation. Once through their taxes and then again through their water charges.

What is somewhat galling is that these costs to State Water have to generate a financial return for their shareholder. Irrigators should not be paying for government regulation of State Water. Regulation is a core function of government and as such should be paid for through the taxes paid by individuals and businesses.

RECOMMENDATION

- **That regulation is a core function of government and as such costs associated with Government regulation of State Water not be included in pricing of water to consumptive users.**

2.5 WATER SHARING PLANS

We note that on Page 45 that State Water details a number of obligations it has under the Water Sharing Plans. While State Water does have a statutory obligation to meet these, DNR should be paying State Water for the delivery of outcomes associated with Water Sharing Plans. Again, a Water Sharing Plan is a regulatory instrument that the government uses to share water between the environment and consumptive users and there fore as regulation is a key function of government it should be paid for by government and not the likes of our members.

2.6 PRICING FRAMEWORK

State Water makes much about the impact of its physical infrastructure and its impacts on pricing. It is true that should one of its structures fail then the results could range from catastrophic (e.g. Blowering Dam) to annoying (Hartwood Weir). We have concerns about the level of safety being applied to the structures. We believe that State Water should seek independent advice on what the appropriate safety levels are for the structures it owns and manages. If the government wishes to impose safety standards which are higher than necessary then they should foot the bill. While we agree that for public infrastructure, standards have increased due to reduced tolerance of risk by the community and the individual (p71) the likes of our members should not be left to pay for this on their own. The community must also pay whether that is directly via a levy or through its taxes.

It must also be remembered that the dams not only provide water storage but they also have a myriad of uses such as flood mitigation, recreational uses and the like. There has been no attempt to charge other groups for the benefits that accrue to them from this infrastructure.

RECOMMENDATION

- **That State Water seek independent advice on the appropriateness of current safety levels of infrastructure. Where standards have increases due to reduced tolerance of risk by the community then this cost should be borne by the government on behalf of the community.**

2.7 OPERATING EXPENDITURE

Page 77 of the Submission gives us a picture of the internal machinations which went on between the (then) department (DLWC) and State Water with regard to budgets. State Water was not given the money it requested to undertake the work. In fact money which was collected for activities was not spent on those activities. We believe that this would be illegal. The IPART

process is about collecting money off users for predetermined programmes of work. If these programmes are not carried out, or the money is not spent on what the Department said it was spending money on – then what did the money get spent on? We have continued to be critical of the lack of reporting from State Water (as has IPART) and the admission that money was collected and not spent on what it should have been, again further adds weight to our contention that State Water needs to have more robust and accountable reporting systems. We have noted that State Water is changing their reporting structures. This will make it extremely difficult for users to compare expenditure on a year by year basis to get some clarity on the issues. Similarly, we need assurances that monies collected have been spent appropriately.

RECOMMENDATION

- **That the government be required to pay State Water any monies owed to it through the IPART process that have not been paid up to this point.**
- **That IPART ask State Water to provide a reconciliation of monies collected via the levy and expenditure of those monies against programmes agreed to as part of the IPART determination.**

We also note that since 2002 staffing FTE's have increased from 258 to 310 being somewhere in the vicinity of a 20% increase. This has occurred at the same time as the worst drought on record and at a time when State Water would not have been delivering or delivering reduced amounts of water. There has been no effort by State Water to cut its cloth to fit its table like many of our members were forced to do. Again there is also no effort to look for more efficient ways to deliver its business or to use technology to assist with efficiencies. We can not support continued increases in staffing levels at State Water without that being accompanied by a thorough review of State Water's levels of service.

2.8 REGULATORY ASSET BASE (RAB)

We do not agree with State Water's proposition that it needs to have a RAB in order for it to borrow money. State Water's shareholder is the government and it will be this fact that determines whether or not banks will lend money. To suggest that this is how businesses operate in reality is a farce.

It has been a well known fact that the State Government has not given State Water the necessary funds to maintain its assets. This has been happening over a long period of time. State Water indicates that it has not received required funding to complete its maintenance program for the three years of the most recent pricing determination. The government should give State Water a cheque for the amount it was supposed to. State Water should not be required to explain or make submissions for this funding. If the money is not passed on then this amounts to no more than taxation. When the Irrigation areas were privatised (or put into local ownership) there was recognition that government investment in their infrastructure had been lacking and all received government funding to bring the condition of their assets up to standard. We believe that this should happen with State Water. The government should fund the upgrade of all pre 1997 assets to meet necessary asset maintenance standards.

RECOMMENDATION

- **That the State Government provide funding to State Water to upgrade all pre 1997 assets to meet necessary asset maintenance standards.**

Given that the Murrumbidgee has had no new infrastructure works carried out on it for the last ten years – how was the Murrumbidgee figure calculated? State Water gives no indication to how this was done. The way the RAB has been calculated has been undertaken as a way to ensure that State Water has enough cash flow to sustain its business. The softener for us is that the RAB is only \$302 million and the asset base is \$2.5 billion and so we are supposed to feel glad about that. All assets prior to 1997 should not be included in any RAB or any calculations for building up pricing and neither should assets which are now being upgraded to meet 1997 standards.

RECOMMENDATION

- **That State Water RAB reflects the costs of assets built after 1997 and not reflect assets maintained after that period to bring them up to 1997 standards.**
- **That State Water explain how RAB has been allocated to the individual valleys**

To our mind there are still some fundamental issues to be sorted with regard to its asset management philosophy. There are a number of questions which need to be asked.

- Are all the assets which State Water has on its books needed for delivery of water?
- Should some assets be decommissioned and not maintained?
- Should State Water focus on being an efficient water delivery operator and sub-contract asset management?

There is missing in the pricing submission, any thought of reviewing the level of assets State Water currently own and manage. We get the sense that everything is vital and in fact we will be building and refurbishing even more. Any additions to State Waters assets need to be examined in terms of State Water's ability to raise capital to fund its construction and also its ability to fund the depreciation of that asset into the future. Most businesses realise that the only good asset is one which produces income for the business. We believe that a thorough review of State Water's asset base should be undertaken with a view to ensuring it has an asset base which is needed to provide the services it delivers.

RECOMMENDATION

- **That State Water's asset base and resulting TAMP be reviewed to ensure that State Water has the necessary asset base to deliver its services.**

We strongly object to the notion that if works are undertaken voluntarily, for desirable environmental outcomes, but not triggered by a compliance requirement that State Water would treat this as any other asset, whereby the operating and maintenance costs as well as remaining lifecycle costs would be borne by the water users. We should only be paying for those works essential to deliver services to irrigators. If a third party (including the government) wishes to undertake work then they should pay for this as well as the operating and maintenance costs and remaining lifecycle costs.

We also note that world terrorism now means that the State Water is required to increase security at its major infrastructure sites as part of the NSW Critical Infrastructure Protection Program. Again we would argue that this is not a cost which should be borne by irrigators alone. Just as increases to police numbers because of terrorism are borne by the whole community through our taxes.

RECOMMENDATION

- **That irrigators do not pay for works that are not triggered by a compliance requirement. These costs including operating, maintenance as well as remaining lifecycle costs are borne by the party requesting the work.**

2.9 DELIVERY OF ENVIRONMENTAL WATER

State Water undertakes the delivery of environmental water for governments. In their submission State Water are signalling that they may not be paid for the delivery of this water. More water for the environment will mean less water for producers and therefore less revenue for State Water. The government should pay for the delivery of environmental water. This should also include costs of storage and delivery. Further these costs should be in proportion to the amount of irrigation water delivered. So for instance if the total resource consisted of 65% environmental water and 35% irrigation water then the government should pay 65% of the costs involved in the delivery of that water.

This would meet the COAG principle which states:

The full cost of providing water services to specific beneficiaries or impactors should be recovered through charges to those parties.

There needs to be transparency in the amount and timeliness of delivery of environmental water. Both Irrigators and environmental groups agree on this. Both want to see the maximum efficiency and benefits in the delivery and use of environmental water. The cost of this is not something which should be paid for or subsidised by irrigators alone. The government has an obligation to deliver this water and should therefore pay its share of the costs of delivery.

RECOMMENDATION

- **That the government pay the costs of delivery of environmental water and that those costs be calculated on a proportion of the total water resource delivered.**

2.10 PRICING

The Irrigators Inc. draft policy on Water Pricing states:

Water Pricing must be accountable and transparent.

- There must be an independent process, removed from government, to determine water pricing.
- This process must include significant public consultation.

Water pricing should be based on recovery of costs directly attributable to water users:

- Efficient storage and delivery of water users' shares of the resource (with efficiency established by recognised benchmarking).
- Infrastructure maintenance and refurbishment costs established by a transparent, rigorous and accountable asset management planning process and based on a realistic risk profile.

Governments must pay in full for the costs associated with:

- Planning for and managing water for the environment.
- All legitimate community service obligations involved in the storage, delivery and management of water for public benefit eg flood mitigation, recreational use of facilities, stock and domestic supplies.
- All research required in association with planning processes

Natural Resource management cost can be shared between water users and governments in accordance with nationally defined principles that recognise and clarify:

- The significant benefits to the community as a whole from water planning and management
- The positive contribution that irrigated production makes to the economies and social amenities of the regions in which it occurs.

Water pricing must not involve:

- The payment of a rate of return on public infrastructure built for public benefit.
- Depreciation charges on assets
- The use of pricing over and above the recovery of efficient costs as a mechanism for structural adjustment
- Charges for environmental impact
- Charges based on the principle of 'scarcity'
- A component aimed at modifying the behaviour of water users
- Dividends, taxes and interest on loans payable to state treasuries or other state financial institutions.

We are not in agreement that State Water should establish the usage estimate at one standard deviation below average flows because of its

increased risk exposure arising from a greater reliance on usage charges. The government has signalled that greater reliance on variable user charges is a mechanism whereby it can force efficiencies into the business of State Water. This is just like any other business should do. If you have wild variations in the way in which your money is received then your business strategies and resulting expenditure have to match that. State Water can not have it both ways. If the irrigation community is going to continually have to wear all the risk then they might as well take the whole business over and run it themselves. That way at least they can be sure that the level of risk is commensurate with their own individual operations.

RECOMMENDATION

- **That State Water manages its business risk through normal business practices and not establishes a usage estimate as a way of mitigating business risk.**

2.11 UNCONSTRAINED BULK WATER PRICES

State Water has proposed prices which while good for our members (-5%) will cause businesses to fail in other valleys. This again is a reflection of the way in which the NWI and COAG are being selectively implemented. The governments who signed up would not have envisaged or indeed expected the level of perverseness that has been seen with State Water's proposed new prices.

Should the government wish to use this kind of pricing as a way of shifting people off the land and towards the major cities then it should be honest and say so. State Water is a monopoly – a government monopoly and the mere suggestion that water can increase from a charge of \$5.42 to \$535.59 is absurd to say the least.

Again this begs the question of whether or not State Water is in fact a cash cow for a government who is going broke?

RECOMMENDATION

- **That prices that State Water charge should reflect the costs of delivering bulk water and take into account economic and social impacts of increases in prices.**

2.11 WHOLESALE DISCOUNTS

We do not agree with the way wholesale discounts are being operated. We do not believe that a discount should be given on the fixed charges. This is because fixed charges relate to the integrity of the system and as such all irrigators should pay the same amount. The purpose of a discount is to reward large users/consumers and to further encourage them to use more. We are not sure that this is the right signal to be sending. We believe that discounts should be available to people who invest in improving their system thereby decreasing costs to State Water. An example of this would be installing metres which transmitted water readings thereby having no need for a metre reading. The present wholesale discounts have shown an apparent

lack of consistency in the way they have been applied. While it can be argued that the Irrigation companies may provide services to State Water then this role needs to be clearly identified and the costs made transparent by a fee for service.

RECOMMENDATION

- **That wholesale discounts be given as a means of encouraging investment in technologies which decrease costs to State Water.**

2.12 STOCK AND DOMESTIC WATER ACCESS

State Water comments that it receives no specific payment for stock and domestic water. We believe that in line with the National Water Initiative, full cost recovery for all rural surface and groundwater based systems needs to occur. They also recognized that there will be some small community services that will never be economically viable but need to be maintained to meet social and public health obligations. If stock and domestic supplies are not viable then this should be transparent and the government should pay for those services. Irrigators should not be subsidising stock and domestic water access.

RECOMMENDATION

- **Stock and Domestic users should be classified as a customer of State Water and charged for their water.**

2.12 YANCO CREEK AND TRIBUTARIES ADVISORY COUNCIL SUBMISSION

The Yanco Creek and Advisory Council are a constituent group of the Murrumbidgee Private Irrigators. We continue to support their request for a levy to be put on their water accounts of \$0.90 per megalitre for works associated with the implementation of their natural resource management plan.

RECOMMENDATION

- **That State Water place a levy on Yanco Creek System irrigators for implementation of their natural resource management plan.**