

Submission to

**IPART Review of Bulk Water Prices from
2005/06**

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1. Introduction

The Ricegrowers Association of Australian Inc. (RGA) welcomes the opportunity to comment on the submissions by State Water Corporation (SWC) and the Department of Natural Resources (DNR) for the IPART review of Bulk Water Prices from 2006/07. The RGA views this process as important and builds on the work of IPART since 1996 to deliver a transparent decision making process for the prudent, efficient and relevant costs of delivering bulk water.

This submission does not address the accuracy or otherwise of the SWC and DNR submissions with regarding to asset planning, capital and operating expenditure. The RGA reserves the right to make a supplementary submission on these issues in particular when the PB Associates (the independent consultants engaged by IPART) report has been release by IPART for public comment.

Despite this, the RGA will reiterate its concerns that the transparency of costs for DNR and SWC and via them, those costs claimed by NSW on behalf of MDBC and River Murray Water (RMW). This issue is a particular concern for the NSW Murray Valley, where a substantial proportion of the costs in this valley is attributable to MDBC and RMW, and to a lesser degree the Murrumbidgee Valley.

The RGA is alarmed at the level of price increases sought by SWC and DNR, including those MDBC and RMW costs. RGA also finds it difficult to assess the quantum of costs for DNR only due to the inclusion of MDBC costs. The RGA is concerned that SWC refers to unconstrained prices as the efficient and relevant cost base has yet to be established. At this point in time, this discussion has the potential to cloud the somewhat complex issues for this determination, unless the determination is for a period longer than five years.

Both SWC and DNR submissions suffer from the monopolistic nature of their businesses and it is apparent that there is no attempt to include within their submissions, the prudent and efficient costs and of this, what is attributable to irrigators. Therefore, the RGA strongly supports a full and thorough analysis of costs and revenues of SWC, DNR, MDBC and RMW. To do otherwise would be most egregious and will result in perverse pricing outcomes.

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 employment¹.

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. IPART Review

The RGA supports the ongoing role of IPART in setting Bulk Water Prices in NSW. IPART has previously contended that both DNR and SWC and their predecessors have failed to address the provision of sufficient, timely and adequate of information on which to make decisions regarding bulk water pricing.

In general, SWC has provided more information on its cost base than DNR. The latter, are now writing submissions addressing the issues only and seeking that IPART set the prices, i.e. there has been no inclusion of tariffs on a valley basis. DNR has provided no information on the costs of access licence dealings and insufficient information to transparently determine the user share of DNR costs on a valley basis. This does not allow water users to make comment, particularly at a valley level, on the quantum of the DNR user share costs.

With regard to MDBC and RMW costs, RGA contends that neither SWC nor DNR have provided sufficient information regarding these costs and particularly on the user share of costs on an individual valley basis.

On this basis the report by PB Associates becomes critical for transparency of SWC, DNR, MDBC and RMW costs.

Recommendation 1: That IPART ensures that PB Consultants fully investigates the capital and operating expenditures of MDBC and RMW

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

and publicly reports to the Inquiry on the relevance, timing and quantum of all costs.

5. National Water Initiative

It is apparent that both SWC and DNR have chosen to “selectively” apply the principles of the National Water Initiative (NWI) in their submissions. However, their interpretation of the NWI requirements regarding water pricing leaves much to be desired.

The NWI Clause 64 states that water pricing and institutional arrangements should be implemented that: -

- Promotes economically efficient and sustainable use of water resources, infrastructure assets and government resources;
- Ensures sufficient revenue streams to allow efficient delivery of the required services;
- Facilitates efficient functioning of water markets;
- Gives effect to the principles of user pays and achieves pricing transparency for water storage and delivery and cost recovery for water planning and management;
- Avoids perverse or unintended pricing outcomes; and
- Provides appropriate mechanisms for the release of unallocated water.

In particular: -

- For rural water storage and delivery costs (i.e. SWC and RMW), the NWI (Cl. 65(v)) states that achievement of full cost recovery at lower bound pricing in line with existing NCP commitments, continued movement towards upper bound pricing where practical and transparency of community service obligations (CSOs).
- For water planning & management (i.e. DNR and MDBC), the NWI (Cl. 67-68) states that identification of the costs attributable to water access entitlement holders which are linked closely to the costs of activities or products but excluding charges undertaken for the Government (e.g. policy development).

On this basis, the application of lower and upper bound pricing applies only to those charges for SWC and RMW but not to DNR and MDBC. Movement to upper bound pricing by SWC should only occur where practical.

There is confusion about the definitions of lower and upper bound pricing and RGA suggests that the National Water Commission (NWC) be called upon the transparently provide a clear explanation of what exactly is intended by lower and upper bound pricing and how this differs from previous comments by IPART.

Recommendation 2: That IPART seeks a clear and transparent explanation of upper and lower bound pricing from the NWC.

Explicitly, the NWI states that implementation of water pricing should avoid perverse and unintended consequences. The RGA are extremely concerned about the SWC submission which appears to move immediately to upper bound pricing and discusses “unconstrained” prices i.e. if full cost recovery was applied within one year.

RGA is of the view that it is the role of IPART to determine what full cost recovery is not SWC, including what are the prudent, relevant and efficient costs attributable to irrigators.

6. State Water

RGA supports the establishment of SWC as a corporatised entity, however the RGA are concerned that SWC is not yet “commercially” focussed. This could be expected given the past year of establishing the entity, including new accounting systems and the requirements under legislation to establish operations under the operating licence.

SWC is required via legislation & the operating licence to be commercially focused, however, the RGA believes that SWC is inhibited in moving towards this necessary corporate culture by the onerous commitments required to continue to comply to NSW Government policy, such as wage increases (see SWC submission, Table 8.6, p. 100) approved by the NSW Government from 1 July 2005. In a truly commercial operating environment, any wage increase would have been approved by the Manager of the employee usually following an annual staff review or via increases in award rates.

The RGA understands that staffing costs are a significant proportion of the operating expenditure of SWC and that there is difficulty in obtaining expertise in some operational areas. The Murray Lower Darling CSC has supported the increase in staffing required and made recommendations for attracting suitably qualified personnel to SWC South Area.

6.1 Sources of capital

Also see Section 7 regarding the inclusion of RMW in the SWC RAB.

The RGA continues to be concerned by the request from SWC to introduce a RAB and notes the discussions in both the current submission by SWC and also the 2005/06 submission. The RGA are of the view that for any commercially competitive business operating independent of Government, the consideration of funding capital investment can and often takes a number of forms, including debt funding, share floats. Neither of the latter two suggestions or an assessment of the different combination of capital sources has been included in the discussions to date, and until there is full assessment of ALL options, then the RGA cannot support a RAB only approach on the basis that that is how other like water business fund capital expenditure.

The RGA are concerned by the lack of relationship between the proposed RAB and the 1997 line in the sand. The starting point for the RAB may be critical. However, there has been no analysis of this by SWC so a valid comment cannot be made. RGA urges IPART to investigate this option.

RGA reserves the right to comment further on debt funding options following the release of the PB Consultant’s report.

Recommendation 3: That IPART ensures that a full assessment is undertaken of ALL options and combinations of options for funding capital, such as debt funding, share floats, RAB, annuity etc.

6.2 Dam Safety

The RGA supports the existing principle of 100% Government funding until all dams are upgraded to 1997 standards – the line in the sand. However, post this time, there needs to be some analysis of the requirements for State Water to comply with the Dam Safety Committee (DSC) standards, and whether these levels are “gold plating” or standards acceptable for irrigated agriculture. Inherently, there will be a difference.

It should be stated that irrigators support the protection of communities and life and the minimisation of risk. However, the rather onerous standards of the Dam Safety Committee should be considered in the light of whether these standards are set purely to protect irrigation, or whether these high standards (i.e. one in million years or one in 10,000 year flood events) are for other community standards. The RGA supports a continued Government CSO in the future which accepts an increased level of dam safety standards to ameliorate community risk.

Recommendation 4: That, in the future and following completion of legacy dam safety compliance upgrades, IPART includes a continuation of part Government funding for Dam Safety Compliance which accepts the increased level of dam safety for obligations other than irrigation, e.g. recreation, towns, communities, dryland agriculture etc.

6.3 Income stream risk management

The RGA supports the move to change the existing cost recovery ratios from majority fixed to 40% fixed, 60% variable. However, RGA acknowledges that it may be necessary to fix the actual ratio differently for different valleys.

The RGA is of the view that the income stream risk for SWC is minimised and almost negated by inclusions, such as one standard deviation (OSD) from average. SWC, although stating that it is sharing the risk, in reality is not. This approach is more in line with income streaming and does not expose SWC to variable income due to droughts. RGA notes the discussion at the recent IPART hearing in which SWC acknowledged that the OSD that this particular approach affects more valleys than others, in particular it has less impact in the southern valleys.

The RGA also acknowledges that the use of average valley usage is contentious and suggests that the average figure used is that in the Water Sharing Plan. This is consistent with other methods used by SWC, eg security premiums.

It should be noted that RGA rejects any attempt to charge supplementary use with a fixed bulk water charge. If SWC and DNR wish to apply a fixed charge to supplementary water, then there must be an equivalent change to permanent entitlements. It is the policy of the NSW Government to phase out supplementary water over time, and supplementary water has been viewed as a less secure entitlement. Therefore, the application of any fixed charge should be totally rejected.

Recommendation 5: That IPART rejects any proposal to introduce a fixed charge to supplementary water extractions.

6.4 High security premiums

The RGA agrees with the methodology used to determine the high and general security ratios in the Murray and Murrumbidgee Valley, which does not include a premium to store water for two years for high security, i.e. this is negated by the Snowy Required Annual Release.

7. River Murray Water – Capital Expenditure & RAB

See also Sections 6.1, 10.3 and 10.9.

River Murray Water provides the water delivery functions to NSW, Victoria and South Australia. Whilst the RGA accepts the role and function of RMW, the RGA are alarmed at the significant increase in costs attributable to both MDBC and particularly RMW. This is discussed in more detail elsewhere in this report, and again the RGA reserves its right to make further comment upon the release of the PB Consultants report. In particular, there should be full analysis of all expenditure and the exclusion of non-irrigation related expenditure (such as recreation facilities at dams and the Bethangra Bridge across Hume Dam) from the assessment of user costs.

The MDBC/RMW costs which are “billed” to NSW include NRM and water delivery functions (both operating expenditure and capital expenditure). Of note for RMW is that NSW is billed for the actual capital expenditure incurred each year, i.e. there is no provision for future capital expenditure by way of annuity or RAB. RGA understands that this arrangement was accepted by the State Governments at the time it was implemented, despite the sometimes lumpy nature of capital expenditure.

SWCs predecessor within DNR (or DLWC at the time) requested and IPART agreed to charge Murray Valley irrigators an annuity to ensure the approach in the Murray Valley was consistent with other valleys. This annuity has been collected from irrigators since 2001 and it cannot be established whether this was passed onto RMW (or retained in the NSW Government’s General Revenue account).

Often, large amounts of capital expenditure are “hidden” within the operating expenditures of RMW and it is difficult to accurately assess the cost of operating expenditure and capital expenditure for RMW.

Consequently, the RGA are concerned that double dipping could occur in two instances, capital expenditure counted as operating expenditure and the payment for capital expenditure as well as the annuity. In the first instance, a full audit must be undertaken to ensure the correct apportionment of operating expenditure and capital expenditure to their respective categories. In the second instance, there should be either an annuity/RAB collection OR payment of capital expenditure as it occurs – not both!

RGA does not support the continuation of charging NSW Murray irrigators either an annuity or a RAB for RMW future capital expenditure. The NSW Murray valley is unique from other NSW valleys in that it attracts much higher total costs for both NRM and water delivery (e.g. 20% of SWC revenue² will be sourced from the Murray Valley alone) and it can be argued that it should be treated differently from the other valleys. To demonstrate this further, the Murray Valley portion of the RAB (including

² SWC submission, Table 8.8, p. 107

RMW) is 29% of the total SWC RAB; the Murray Valley user share of the RAB (including RMW) is 41% of the total user share of the SWC RAB. These are extraordinarily high proportions, considering there are eleven valleys in total!

SWC has taken the lazy approach and states that it has “passed through” RMW costs, however SWC has not simply passed through these costs but established a RAB within its own RAB for RMW. RGA cannot support the preferred approach of SWC with regard to RMW capital expenditure and nor should IPART support double dipping by charging for all capital expenditure as well as an annuity or RAB.

Due to the above discussion, the RGA rejects the inclusion of MDBC/RMW assets as part of the State Water RAB and the charging of all RAB related capital items, such as return on assets and return of assets.

Recommendation 6: That IPART rejects the inclusion of a RWM/MDBC RAB within its own RAB for capital expenditure, and that there is full analysis of all RMW costs to ensure that capital expenditure is not included in operating expenditure.

8. DNR

The RGA does not support the claim by DNR that its costs must increase to support the integrity of NSW water access entitlements. This claim is at best misleading. The permanent water market itself governs the value on these access entitlements, and this value cannot be enhanced or detracted by the activities of DNR.

The role of DNR is as the regulatory and compliance agency which gives effect to the Water Management Act 2000. Furthermore, many licences remain operational under the Water Act 1912, which adds a further layer of complexity.

The other role claimed by DNR is that of WRM. However, the RGA are of the opinion that a significant portion of WRM will be undertaken by Catchment Management Authorities (CMAs) and consequently the role of DNR in WRM is questionable. In particular, if CMAs are being asked to implement WRM outcomes, to what level should DNR WRM costs be reduced and is there a level of duplication. If duplication does exist, then irrigators should not be asked to commit revenue to DNR to support unwarranted costs. PB Consultants should be able to make realistic comments regarding this significant duplication issue.

8.1 New definition of water resource management

The definition of WRM continues to be a contentious issue. Previously, the IPART has defined WRM as those costs which “*arise out of the need to manage a resource that is being consumed by a wide range of users groups...*”.

The RGA rejects the proposal by DNR regarding the new definition of WRM³ which appears to be a very narrow interpretation of the NWI, does not recognise that the beneficiaries of WRM are the environment and wider community and seeks to justify the change on the basis of the activities are of commercial benefit to irrigators – RGA doubts whether many irrigators would accept that any of the activities of DNR result in commercial benefit.

³ 2005 DNR, Submission to IPART to set Water Resource Management Charges from 1 July 2006, Part A, p. 9-10

This definition seeks to shift the costs of WRM from previous IPART principles which said that irrigators alone cannot be expected to bear the whole cost of WRM and particularly should not bear legacy costs. This new definition takes advantage of the fact that the irrigation sector is the only "user" capable of being charged (i.e. an access entitlement).

If IPART chooses to introduce a new definition of WRM, this should fully and inclusively accept the other beneficiaries or impactors of the river system and consequently accept apportionment of cost shares to these users (see discussion on other users in Section 10.11). The RGA suggests that the existing definition is used, and if needed amended to recognise all of the beneficiaries of WRM.

Recommendation 7: That IPART rejects the DNR proposal to amend the definition of water resource management.

8.2 Cost shares

Along with the change from product codes to activities based expenditure assessment (see Section 10.2) and a new definition of WRM, the DNR has changed many of the user government cost shares. In regulated systems, the increase in user share has gone from 55% in 2001 to a predicted 78% in 2006/07 – a 42% increase for regulated systems. Most of the user share proportion of activity profile increases to 100%, those that remain unchanged were already at 100% and those that decrease are related to coastal/estuary management or policy.

Furthermore, DNR justifies the proposed increased user share on protecting the integrity of the water system and protecting users' entitlement security and justifies this via a very subjective decision making framework⁴! Surely this moves the intent of determining cost shares from impactor or beneficiary pays directly to a false pretence of protecting entitlement security or that these WRM activities are of commercial benefit to irrigators. According to the Act, the DNR has to undertake certain WRM compliance functions and water management consent transactions, the latter for which DNR is seeking fee for service. The claim by DNR to change the cost shares between Government and user on such poor justification is rejected because it does not recognise other beneficiaries, does not provide commercial benefit to irrigators and changes previous IPART WRM cost sharing principles.

Recommendation 8: That IPART rejects the proposal by DNR to change the Government and user cost shares applying to the new activity profiles.

RGA supports the continuation of valley by valley accounts for DNR and furthermore, that DNR either puts in a process for consulting with water users on these costs or utilises the existing framework provided by the SWC Customer Service Committees but in a more formal way, i.e. by way of a report to each CSC meeting. The reason being that DNR costs make up a significant proportion of irrigators bulk water charge and therefore should undergo similar scrutiny to SWC and this will provide a degree of transparency that is not currently present.

⁴ 2005 DNR, Submission to IPART to set Water Resource Management Charges from 1 July 2006, Appendix 3

Recommendation 9: That IPART require DNR to make formal reports to SWC CSC meetings regarding their financial performance to budget and against the IPART determination.

8.3 Water management consents

RGA supports the principle of user pays for the efficient costs of water management consents. However, the information contained in the DNR submission regarding water management consents is insufficient on which to make comment. At this stage, DNR has only made comment on the types of consents and the volume of consents in each category.

The RGA reserves the right to comment on this issue further should additional information be made public regarding the quantum of these costs.

8.4 Proposed Staffing Increase

The RGA does not support the proposed increase in DNR staff at the expense of irrigators unless this is better justified and DNR can demonstrate that this will result in a better service to irrigators. The RGA is of the view that it cannot as the staffing increase is in the area of WRM of which the beneficiary/customer is the environment and therefore there can be little or no improved customer focus for irrigators. The RGA does not support the increase in staffing when many of DNRs staff were deployed to the CMAs to undertake a similar role in the CMAs. The increase in staff will clearly lead to duplication and the RGA does not support that irrigators should fund this bureaucracy!

8.5 Fixed and Variable Tariffs

The RGA supports a two part tariff for DNR. The DNR claim for all revenue via fixed costs (which equates to no risk) and no variable charges and supported by a claim that valleys are using 100% in any case, is untenable. The last scenario is incorrect and in every valley, the MDBC Cap and the implementation of Water Sharing Plans will lead to the situation where 100% usage will never be achieved again, e.g. in the Murray Valley, the average usage will decrease to ~83%.

Furthermore, the claim by DNR for fixed costs only will reduce the incentive to be more efficient, will increase the revenue obtained from irrigators, and based on previous over recovery, cannot be justified. RGA questions whether the reduced cost based on DNR since the 2001 determination may be considered "efficient"!

The DNR suggestion of uniform tariffs across groupings of valleys should be rejected as cross subsidisation, i.e. valley by valley tariffs are preserved.

Recommendation 10: That the DNR tariff includes both fixed and variable components and that the proposal for uniform tariff across valley groupings is rejected.

9. MDBC

The RGA notes that the MDBC are responsible for the cross jurisdictional management of natural resources. Inherently this does result in duplication.

The RGA understands that the MDBC has been asked to review its budget and provide a report to the last MDB Ministerial Council meeting – the details of which

are not public knowledge. Furthermore, the RGA understands that the MDBC has been asked to constrain its budget expenditure to existing levels. Therefore the inclusion in the DNR submission of a “middle range cost scenario” for MDBC is untenable and the DNR submission must be adjusted i.e. decreased to reflect the last approved MDBC budget.

Recommendation 11: That the DNR submission is adjusted to reflect the last approved MDBC budget.

The information contained in the DNR submission regarding MDBC costs is not of sufficient detail on which to make any informed consent (see comments on costs in Section 10.3). Therefore, the RGA urges IPART to ensure that PB Consultant’s fully investigates the MDBC costs within the context of its consultancy and reserves the right to comment further on MDBC costs.

10. Other Issues

10.1 Duty of care

Both SWC and DNR hinge their submissions on the notion of access entitlement security and value depends on the increased pricing level obtained under this determination.

This is an egregious notion. The NWI provides the security, enacted via NSW legislation, which underwrites the long term security of irrigation access entitlements, i.e. licences in perpetuity. For both SWC and DNR it is the level of service in respect of their functions. In the main, the NRM functions of DNR support a wider catchment than irrigators – irrigators fund part of their functions. There is certainly a closer linkage between service levels of SWC and irrigators, but again the role of each CSC is to assist SWC in identifying appropriate levels of service. To this end, it is a bottom up advisory approach and if SWC wants to implement a higher level of service to what is recommended, perhaps this is a cost that SWC should wear.

The service provided by SWC and DNR does not enhance or add value to these access licences. Furthermore, the concept of duty of care claimed by DNR is part of the regulatory and compliance function of DNR. Irrigators should not pay additional bulk water prices because of this.

10.2 New product and activity profiles

SWC, DNR and MDBC have chosen to implement new activity/product profiles for this determination. The RGA are of the view that this makes realistic assessment of the forecast costs to historical costs extremely difficult at best, making the task of auditing compliance with previous determinations nearly impossible (i.e. analysis of apportionment of revenue received from previous determinations to expenditure incurred). The RGA is critical of the timing for this change.

10.3 Costs

The RGA are quite concerned with the exorbitant increase in costs from 2001 for both Murray and Murrumbidgee regulated systems. Table 1 on page 13 shows projected increases of 43% for Murrumbidgee and 130% for Murray. It is doubtful that this is acceptable in any circumstance, but particularly not in a post drought

environment where irrigators are struggling to put their businesses back into profitable circumstances.

The majority of this increase is largely due to the MDBC/RMW costs. In the 2001 Determination, IPART accepted water delivery costs (RMW) of \$3.5 million and water resource management (MDBC) costs of \$10.7 million. Of this, the user share was \$9.2 million^{5 6}. According to the DNR and SWC submissions⁷, the 2006/07 projected cost of MDBC and RMW has over doubled since the 2001 Determination to at least \$20.332 million (the exact figure is unobtainable as the DNR submission only provides the user share of MDBC costs). This is clearly unacceptable.

Table 1: Comparison of 2006/07 Submissions to 2001 Determination

| | Fixed | Variable | Total | % change from 2001 |
|--|----------------|----------------|-----------------|--------------------|
| 2001 Determination | | | | |
| Murray Valley | \$ 4.09 | \$ 1.10 | \$ 5.19 | |
| Murrumbidgee Valley | \$ 3.36 | \$ 0.88 | \$ 4.24 | |
| 2005-06 Determination | | | | |
| Murray Valley | | | | |
| SWC/RMW | \$ 4.02 | \$ 1.09 | \$ 5.11 | |
| DNR/MDBC | \$ 1.26 | \$ 0.34 | \$ 1.60 | |
| | \$ 5.28 | \$ 1.43 | \$ 6.71 | 29.3% |
| Murrumbidgee Valley | | | | |
| SWC/RMW | \$ 3.11 | \$ 0.82 | \$ 3.93 | |
| DNR/MDBC | \$ 0.95 | \$ 0.25 | \$ 1.20 | |
| | \$ 4.06 | \$ 1.07 | \$ 5.13 | 21.0% |
| 2006-07 Submissions⁸ | | | | |
| Murray Valley | | | | |
| SWC/RMW | \$ 3.78 | \$ 5.76 | \$ 9.54 | |
| DNR/MDBC | \$ 2.37 | \$ - | \$ 2.37 | |
| | \$ 6.15 | \$ 5.76 | \$ 11.91 | 129.5% |
| Murrumbidgee Valley | | | | |
| SWC/RMW | \$ 1.64 | \$ 2.92 | \$ 4.56 | |
| DNR/MDBC | \$ 1.52 | \$ - | \$ 1.52 | |
| | \$ 3.16 | \$ 2.92 | \$ 6.08 | 43.4% |

Generally, the following comments should be noted for regulated systems:

- Table A1, p. 13 and Appendix 2, Table A2.1 includes MDBC costs (see comment in DNR submission, p. 13) and therefore makes it difficult to discern actual DNR historical costs.
- Appendix 2, Table A2.5 MDBC costs do not reconcile to information provided to the Murray-Lower Darling CSC and nor does it clearly indicate whether

⁵ IPART 2001 Determination, p. 36 and Appendix 10

⁶ Pers. comm. Russell Simons, SWC

⁷ SWC submission, Table 8.8, p. 107 and DNR submission, Table A2.12 (DNR submission only includes the user share)

⁸ SWC figures at unconstrained prices for 2006-07, p. 129 SWC submission.

the costs are NSW or user only costs, e.g. the table's total costs for 2004/05 (including Table A2.6) is \$6,008,000 and the CSC information shows that total NSW cost is \$8,132,000 and the user share of these costs is \$2,335,000.

- Appendix 2, Tables A2.7, A2.11 and A2.12 does not state whether MDBC costs are included or excluded and the real forecast costs for DNR. Simply deducting MDBC costs does not assist as these are not allocated to one valley and the proportion of the basin-wide costs between valleys is unknown.
- Projected increase from 2001/02 to 2006/07 is ~40% for Murray and ~15% for Murrumbidgee against an increase during the same time of ~10% for MDBC/DBBRC (Table A2.1 to A2.7, A2.12 & A2.13). During the same time, total regulated costs will increase by ~24% indicating that a large proportion of the increase is due entirely to DNR and or MDBC Murray increased costs.
- There appears to be a correlation between the decrease in MDBC costs and a decrease in the Murray regulated costs (Tables A2.11 and A2.12).
- There should be the provision of user cost shares across all projected years, not just 2006/07 (Table A2.11).

The RGA are concerned by the apparent collection of revenues set by IPART in recent years and that were not spent. This over collection should be considered as part of the current process and prices offset to ensure full transparency. This situation supports calls by the irrigation sector for auditing of the funds collected from irrigators and the subsequent expenditure of these funds.

As previously stated, RGA reserves to right to comment on all costs following public release of the PB Consultant's report.

10.4 Scarcity Tax

One of the most contentious pricing issues over the last year has been the discussion regarding whether scarcity taxes should be introduced as part of bulk water charges, in this State or others. It has certainly generated significant media attention from high profile advocates.

The RGA totally rejects any move to include scarcity taxes. There is no justification and the RGA sees the inclusion of any form of scarcity tax as a move to introduce a tax or revenue raising regime on irrigators for the NSW Government coffers.

The temporary and permanent water markets adjusts the price of water entitlements to reflect the "scarcity" of availability and this is the appropriate mechanism rather than an added regulatory compliance measure which artificially inflates the price of water.

Recommendation 12: That IPART rejects any calls to introduce scarcity taxes as part of the NSW Bulk Water Pricing regime.

10.5 Wholesale Discounts

RGA accepts the submissions of the NSW Irrigation Corporations and NSW Irrigators Council in this discussion.

The RGA notes the discussion on wholesale discounts for irrigation corporations that apply to variable charges in both the State Water and DNR submissions. However, RGA sees merit in widening the discussion from the narrow focus of both State Water and DNR 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. DNR should be asked to provide this information to IPART in order to properly analyse this issue.
- ~ 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. Where IPART agrees to withdraw the bulk discounts, there must be the introduction of an appropriately agreed fee for service.

Recommendation 13: That wholesale discounts to the irrigation corporations for variable charges continue are part of the commercial reality of doing business.

10.6 Separate Valley Accounts

RGA strongly recommends continuation of the ring fencing of each valley's accounts for both SWC and DNR and the provision of these separate valley accounts to the CSCs for analysis and recommendations on levels of service. There should be no cross-subsidisation between valleys, particularly relating to capital expenditure and where this has occurred, that satisfactory arrangements are made to repay these funds as soon as possible.

Furthermore, the RGA supports calls to audit the revenue received by SWC and DNR (and their predecessors) to ensure that all funds received have been applied appropriately and as IPART determined. In addition, the RGA seeks auditing of the previous SWC capital annuity funds contributed by irrigators and a full explanation provided for where these funds have been applied in each valley. This is especially of concern for the SWC South area (i.e. Murray & Murrumbidgee Valleys) as this area provides a significant proportion of the revenue for SWC.

10.7 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 DNR, SWC and their predecessors. Improved cost recovery for groundwater and unregulated systems was also limited by the impact of high price increases on these 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 current Determination, whether regulated systems are at full cost recovery is yet to be determined.

The RGA are somewhat concerned by the large increase in costs projected by SWC and DNR for the Murray Valley and to a lesser degree, Murrumbidgee Valley. It is acknowledged that a large proportion of these costs related to MDBC and RMW costs which are largely borne by the NSW Murray Valley. RGA would question the validity of the efficient cost base of DNR, SWC, MDBC and RMW and hopes that the PB Consultant's report may provide some transparency in this respect.

Given that irrigators' state wide have just come through the worst drought since records commenced (114 years), there is ample evidence of the downturn in farm incomes and there will be a longer drought recovery period (many irrigators could not receive drought support), RGA urges IPART to consider the impact of substantial price increases on irrigators, their farm businesses, and their communities.

RGA are concerned that previous IPART determinations have analysed the impact to irrigators based on a flawed DPI report on the Peel Valley for the 2001 Determination. This report was flawed as it only considered the variable bulk water price in its gross margin analysis rather than the variable and fixed costs. The reason for investigation of variable costs only, was the wrongful assumption that irrigators would include the fixed prices as part of their overhead costs due to their fixed nature. In reality, irrigators include both variable and fixed costs when compiling gross margin budgets. When most of the bulk water costs are fixed, the DPI analysis grossly understated the impact.

A further issue is that gross margin budgets are only valid to compare different enterprises on an individual farm and does not consider total farm financial situation, capital costs nor labour costs. Consequently gross margin budgets should not be used for any other purposes. The Productivity Commission released a staff paper in 2004⁹ which analyses this in more detail and RGA strongly urges IPART to obtain a copy. RGA acknowledges that IPART has let a consultancy to ABARE to determine the impact of price increases and looks forward to the public release of this document. RGA reserves the right to comment on this report when it is released.

10.8 Government dividend

The RGA rejects any move by SWC or DNR to seek to include a dividend for the NSW Government as part of bulk water prices or for the NSW Government to seek to impose a dividend via bulk water pricing.

The 2004 Auditor General's Report on the Hunter Water Corporation stated that the "distributions to Government (i.e. dividends plus income tax payable) are high to very high, ranging from 183.7 per cent to 119.2 per cent of pre-tax operating profits over the past four years"¹⁰. Furthermore, any distributions above 100% have to be paid out of retained earnings and that "distributions at the current levels cannot be sustained indefinitely".

⁹ 2004, Douglas, R. et al, Activity Gross Margins and Water Reform, Productivity Commission

¹⁰ 2004, Auditor General's Report to Parliament, Volume Four, pp. 112 -1117

Given current Treasury constraints, if the NSW Government were to seek to impose a dividend payment by SWC and DNR via bulk water pricing, then the RGA would strongly oppose this. Generally, these businesses are monopolies, and not exposed to the normal commercial dealings. In addition, to strip a corporatised entity in the early stages of any profits would be jeopardising its financial viability and stability.

10.9 Murray-Darling Basin Commission & River Murray Water – apportionment of costs

The RGA would like to reiterate the Association's comments in its submission for the 2005/06 IPART determination regarding the apportionment of River Murray Water costs.

RGA notes that MDBC is responsible for natural resource management and River Murray Water is responsible for water delivery and that the efficient prudent costs of these services should be apportioned to water users. However, 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 2) and the different proposals for sharing costs, with the final determination of cost shares being average annual shares adjusted for dilution flows (Table 3). 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 2: Cost Sharing between Governments of MDBC Expenditure¹¹

| Decision Basis | Year | Cost Sharing Between Governments | | | | |
|---|------|----------------------------------|-------|-------|-------|--------|
| | | Cost To Be Shared | NSW | Vic | SA | C'With |
| 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 3: Management Scenarios Associated With Restructuring Cost Sharing Formulae¹²

| 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 |
| SA¹³ | 1850 | 32 | Very High | 1154 | 22 | 1386 ¹⁴ | 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 Basin¹⁵.

¹¹ Martin, W. 2004, A Hand Book for Murray Irrigators on Water Policy History on the Murray River, SRI, unpublished.

¹² Ibid

¹³ 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).

¹⁴ Ibid

¹⁵ MDB Ministerial Council 1999, *The Salinity Audit of the Murray-Darling Basin: A 100-year perspective*, MDBC, Canberra.

A further issue is the change to these average water shares due to the implementation of the NSW water reforms, as well as The Living Murray and National Water Initiatives, which could further skew averaging shares and therefore cost sharing percentages.

Table 4 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 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."*¹⁶ For irrigation areas & wetlands, this means that they act as salt sinks and in the long term will be impacted by this.

Table 4: Salt Mobilised in the Murray-Darling Basin¹⁷

| 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, the NSW Government should 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 Governments authority to question to validity, timing, and quantum 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.

¹⁶ Ibid, page 9

¹⁷ Ibid, Summarised from Table 1, page 8

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.

Over the past four irrigation seasons, the NSW Murray Valley has suffered the consequences of the worst ever drought on record¹⁸. 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 average 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. DNR, 4 April 2005)^{19 20}. 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 14: That IPART considers the outcomes of the internal MDBC review of expenditure and the possible positive or negative impacts on bulk water prices.

10.10 Environment to pay a share of costs

Again, the RGA reiterates the comments in its submission to the 2005/06 IPART Determination for bulk water pricing regarding the environment (or the NSW Government on behalf of the environment) should pay for the costs of storing and delivering water to the environment, particularly when adaptive environmental water is competing in the same temporary trading market as irrigators at a significant advantage (i.e. water delivery costs are not paid).

¹⁸ River Murray Water 2004, *River Murray System – Drought Update*, November 2004, MDBC, Canberra.

¹⁹ 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>.

²⁰ 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.

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, reduced extractions due to the implementation of water sharing plans and the purchase of water entitlements) has reduced the volume of the consumptive pool that is required to meet increasing costs for water delivery 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 will possibly result in dire outcomes for irrigators, their businesses and rural communities dependent on irrigated agriculture.

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 or alternatively, the NSW Government should cover these costs.

Table 5 portrays current and proposed environmental allocations in the NSW Murray Valley and indicative income stream for State Water.

Table 5: Current and Future Environmental Allocations in the NSW Murray

| Name | Volume | Indicative Income to State Water ²¹ |
|---------------------------------------|---|--|
| Barmah Millewa Forest Allocation | <ul style="list-style-type: none"> ~ 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 | <ul style="list-style-type: none"> ~ 50 GL @ \$5.82 = \$291K ~ 25 GL @ \$5.28 = \$132K ~ 25 GL @ \$1.43 = \$36K |
| Moirra Savings | <ul style="list-style-type: none"> ~ 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 | <ul style="list-style-type: none"> ~ 2 GL @ \$5.82 = \$12K |
| Murray Irrigation Losses | <ul style="list-style-type: none"> ~ 30 GL of adaptive environmental water ~ Managed by the Murray Wetlands Working Group ~ Can be sold | <ul style="list-style-type: none"> ~ 30 GL @ \$5.28 = \$158K ~ 30 GL @ \$1.43 = \$43K ~ Assumed general security product |
| Water For Rivers | <ul style="list-style-type: none"> ~ 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 | <ul style="list-style-type: none"> ~ 70 GL @ \$5.28 = \$370K ~ 70 GL @ \$1.43 = \$100K ~ Assumed general security product |
| The Living Murray | <ul style="list-style-type: none"> ~ Return of 249 GL from NSW ~ Volume and status depends on where the water is sourced | <ul style="list-style-type: none"> ~ 249 GL @ \$5.28 = \$1315K ~ 249 GL @ \$1.43 = \$356K |
| Murray Catchment Management Authority | <ul style="list-style-type: none"> ~ Currently purchasing licensed entitlements from irrigators for The Living Murray Initiative | <ul style="list-style-type: none"> ~ N/A – included in above |
| Water Sharing Plan | <ul style="list-style-type: none"> ~ Return of ~3% on average (approximately 58 GL) by reducing the yield on licensed entitlement | <ul style="list-style-type: none"> ~ 58 GL @ \$5.28 = \$306K ~ 58 GL @ \$1.43 = \$83K |
| The National Water Initiative | <ul style="list-style-type: none"> ~ Commences in 2014 ~ If robust sciences demonstrates need, will return up to 6% back to the environment | <ul style="list-style-type: none"> ~ N/A ~ Irrigators accept the risk of climate change and normal fluctuation of the resource due to climate variability. |

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 \$3.2 million annually worth of future revenue based on the 2005/06 IPART Determination. It is untenable that other water users are to be asked to bear the current and future 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 storing and delivering environment water 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

²¹ Prices as per the 2005/06 Determination, Table 4.3, p. 18

Government should bear the cost on behalf of the community. In other words, a defined Community Service Obligation (CSO). The other methodology which could be introduced is a clear change in the Government user shares to incorporate this cost. However, it is too easy in the future, to change such shares. Therefore, RGA supports to provision of a defined 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"²².

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 an inequity and 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 where an adaptive environmental licence is held. 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 previous IPART principles, i.e. that irrigators only pay for those efficient costs attributable to irrigators.

Recommendation 15: That environmental water attracts the appropriate bulk water charges (i.e. fixed and variable) for the costs involved with storing and delivering this water through either a charge on entitlement and or via a defined NSW Government CSO.

10.11 Other users

RGA again reiterates comments in its submission for 2005/06 determination. The 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)

²² IPART 2004, *Bulk Water Prices from 2005/06 Issues Paper*, page 29.

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.

A recently released report stated that the total economic value of river dependent activities in the Murray upstream of the SA border is \$752 M and for the Murrumbidgee Valley is \$214M²³. Therefore, there is considerable benefit to other users from the use of the river and associated habitats (such as forests, lakes, foreshores, wetlands etc).

It is indeed a sad state of affairs when only those users with an entitlement and a clear mechanism to be charged 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, DNR, 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 16: That IPART ensures adequate identification of all other users or beneficiaries of the water delivery and water resource management functions of SWC and DNR and apportions appropriate cost shares directly to those users or to the NSW Government as a CSO.

11. Conclusion

The RGA continues to be concerned about the quantum and transparency of costs for SWC, DNR, MDBC and RMW. The RGA questions how regulated river systems can be at full cost recovery in 2003/04 (according to the 2001 IPART Determination) and yet be far from this in 2006/07. The RGA supports a thorough analysis of the cost bases for SWC, DNR, MDBC and RMW.

The submissions by DNR and SWC request changes to previous IPART principles, cost shares and tariff regimes to name a few. RGA urges IPART to ensure that, unless there are extremely valid and good reasons for change, previously agreed principles are again applied, such a preservation of the 1997 line in the sand legacy costs.

²³ 2004 Hassall & Associates Pty Ltd & Gillespie Economics, Quantifying the economic value of river dependent industries in the Southern Murray-Darling Basin