



Australian Government



Office of the Chief Executive

7 October 2009



Mr J Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
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Dear Mr Cox

Water Issues Papers 2009

Thank you for the opportunity to provide comment on the two Issues Papers reviewing prices for State Water Corporation and Water Administration Ministerial Corporation.

Your review is timely and comes after a period of major change in the Murray-Darling Basin due to both severe and prolonged drought and major water policy reform.

In 2006 the Australian Government invested \$500 million into the Murray-Darling Basin Commission ("the Commission") to ensure that significant policy commitments, principally related to the Living Murray Initiative, could be met over the next five years. The investment also allowed the programs associated with construction of new salt interception schemes and renewal of existing assets to be accelerated. As a condition of the investment, partner governments committed to maintain existing levels of funding, in real terms, for the following four years (up to and including 2010-11).

Such investment by the Australian Government effectively doubled the expenditure of the Commission over the five year period, allowing substantial progress to be achieved across the entire program.

At the time of writing this letter, no agreement has been reached between partner governments on funding from 2011-12. Corporate planning to date has been on the basis that future funding will reflect current levels in real terms. Information on future costs of Murray-Darling Basin Authority, to be provided to IPART separately, will reflect this approach unless there is a contrary decision prior to these costs being provided.

Record low inflows to the River Murray System in 2006-07, followed by two further years of very much below average inflows have led to significant changes in water management, particularly in the southern inter-connected Murray-Darling Basin. A recognition that inflows in a given year may not be sufficient to operate the River Murray System and only meet Critical Human Water Needs (CHWN) has led to a co-operative approach by governments to dry inflow contingency planning. A Senior Officials' Group comprising the senior water managers of the Australian Government, the states of NSW,

Victoria and South Australia, the Australian Capital Territory operated from December 2006 to December 2008. The Group oversaw the development and implementation of special water sharing arrangements, which were approved by First Ministers and implemented through the provisions of the former Murray-Darling Basin Agreement.

The Water Act 2007 established the Murray-Darling Basin Authority (the Authority) as a statutory authority of the Australian Government, with principal responsibility to develop a Basin Plan. Amendments to the Water Act passed in 2008 extended responsibility of the Authority to include responsibilities under (an amended) Murray-Darling Basin Agreement. In December 2008 the functions of the Commission were assumed by the Authority.

Activities of the Authority in relation to Basin Planning are funded by the Australian Government whilst activities of the former Commission (essentially relating to river operations and natural resource management) are funded by the six partner governments in accordance with the terms of the Murray-Darling Basin Agreement.

The 2008 amendments to the Water Act included, amongst a number of changes to the Agreement, provisions for Ministerial Council to determine annual annuity contributions in respect of either or both of:

- a) investigation, construction and administration costs; and
- b) major or cyclic maintenance.

With fixed contributions having been agreed for jurisdictions up to 2010-11, these annuity provisions have not yet been adopted but are under consideration.

Whilst the above covers the wide range of changes that have occurred in the Murray-Darling Basin since the IPART determinations of 2006, there are a number of specific issues that the Authority wishes to raise, in relation to the two Issues Papers, as set out below.

1. Security of Urban Supplies.

Under dry inflow contingency planning, water required to meet critical human water needs has been given the highest priority. The volumes covered by these provisions are generally sufficient to meet urban and stock and domestic needs but subject to relatively stringent restrictions on use.

The very high security for such water is not currently, reflected in the water charges determined by IPART.

2. Security of NSW High Security Water.

Apart from restrictions in 2006-07 due to the extreme low inflows being well below both historic minimum and the minimum used for planning at that time, the NSW high security water in both the Murrumbidgee and Murray Valleys has proven to be more secure than any other water entitlements in the southern inter-connected Basin.

This level of security is not reflected in the water charges determined by IPART.

3. Price Structures.

The 2006 price structure determined by IPART provided for 40% of revenue for State Water to be recovered from fixed charges and 60% from usage charges. At the time there was no historic precedent for the low usage levels that would eventuate in the following three, and possibly four, years.

At least in relation to River Murray operations costs incurred are essentially totally independent of the volumes of water managed or used by irrigators. Experience over the past few years has been that operational costs for the Murray actually increase in times of water scarcity due principally to additional costs of using the low level outlet at Dartmouth Dam and operating dredges at the Murray Mouth to maintain connectivity between the sea and the Coorong. Hydro revenue also decreases in a drought whilst operations of salt interception schemes may reduce as groundwater levels along the River fall.

With temporary water trades at prices consistently in excess of \$300/ML over the past three years and at times in excess of \$1000/ML, there is ample incentive through trading mechanisms to ensure that there are adequate price signals for water to move to its highest economic use. The record volumes traded during a period of record low allocations is testament that the market is working.

If prices should be as cost reflective as possible then there is a case for water charges to be fixed and not based on usage.

4. State Water's MDB Costs

In considering the River Murray operations costs the Authority has categorised its costs as follows:

Category 1 major water assets required for whole of system operation.

Category 2 minor water assets that provide local benefits in river regulation.

Salt Interception

Murray Mouth

Environment

River Murray Water Office – cost of Authority staff in directing river operations and asset management programs.

The Category 1 assets have been further divided into those required to regulate the Murray upstream of the Murrumbidgee junction and those downstream.

It is understood that in its 2006 Determination, IPART shared the costs relating to Category 1 assets downstream of the Murrumbidgee junction, salt interception and Murray Mouth between both the Murray and Murrumbidgee valleys based on cap entitlements in each valley.

The Authority supports the continuation of such approach as these works are necessary as a consequence of diversions across the southern inter-connected Basin and not just the Murray.

5. DWE's MDB Costs.

Authority programs have historically tended to have different levels of focus for different parts of the Basin.

In relation to DWE costs, as part of the 2006 IPART review, the then Commission assisted DWE and IPART to categorise its NRM costs as one of:

- a. whole of Basin;
- b. northern Basin;
- c. southern inter-connected Basin;
- d. Murray/Lower Darling.

As the Living Murray Initiative and the Murray Valley salt interception program are being implemented as a consequence of diversions across the southern inter-connected Basin and not just the Murray, their costs were included as southern inter-connected Basin. The Authority supports the continuation of such approach.

6. Impact on Water Charges of \$500 million investment by Australian Government.

In preparing cost and revenue information for IPART, the Authority has considered how the impact of this substantial investment by the Australian Government on water charge regimes should be considered by IPART.

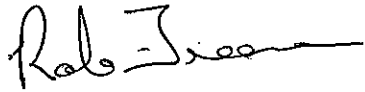
In broad terms the \$500 million investment allowed the former Commission and now the Authority to progress all its programs. However, from the point of view of the IPART determination process, the Authority recommends that the \$500 million investment be deemed to be applied principally to:

- a. water recovery (notionally \$200 million);
- b. accelerating environmental works and measures program (part of Living Murray);
- c. accelerating salt interception scheme development;
- d. accelerating renewal of existing assets, particularly replacement of navigable passes at locks and weirs and dam safety projects;
- e. acquiring additional land to the north of Lake Victoria;
- f. accelerating the river improvement program between Hume and Lake Mulwala;
- g. upgrading Mildura Weir.

Relevant cost and revenue information for the Authority will be provided to IPART separately.

Should you require any further information or wish to clarify or expand on any matters raised above please contact David Dreverman our Executive Director, River Murray on (02) 6279 0161.

Yours sincerely



Rob Freeman
Chief Executive

7/10/9.

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