



SUBMISSION

FOR

**REVIEW OF PRICES FOR STATE WATER
CORPORATION**

TO

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**

OCTOBER 2009

SUBMITTED BY:

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1. Background Information – Western Murray Irrigation Limited (WMI)

Western Murray Irrigation Limited (WMI) is a not for profit unlisted public company limited by shares. WMI customers hold a high security entitlement of 60,518ML. WMI manages three irrigation areas, Buronga, Coomealla and Curlwaa. The irrigated area represents 4,400 hectares.

The water is pumped directly from the River Murray via three separate pumping stations and delivered through fully pipelined delivery infrastructure. Each pumping station has its own meter, owned and operated by WMI and is supplied water under a bulk water licence arrangement.

WMI also undertakes extensive drainage water management, monitoring and reporting. Drainage schemes in each area ensure removal of hundreds of tonnes of salt each year and prevent drainage water from entering flood plains.

WMI is at full cost recovery and has a combination of fixed and variable pricing which has allowed the company to be self sustaining during the last three years where periods of drought has reduced allocation and usage. WMI prides itself on the company's strong financial performance since privatisation.

WMI supports the submission prepared by the New South Wales Irrigators Council but provides further details and arguments on those areas of the "review of prices for SWC Corporation" which directly impact on WMI.

As a general comment WMI does not support cross-valley subsidies.

2. The last three years of drought and low allocations – flawed argument that high security entitlements should receive higher fixed charges based on higher allocations and ability to pay (reference IPART Issues Paper Section 5.6 and State Water Corporation Submission 10.3)

Since the last IPART determination the Murray Darling Basin has continued to suffer from a prolonged dry spell. This has adversely affected allocations to irrigators and has forced a change in the way water has been managed and shared to ensure human needs could be met at all times.

The NSW Office of Water has advised that 80% of all high security water entitlement is used in an irrigation season. This includes water supply to large industry, towns and permanent plantings. State Water Corporation (SWC) has asserted that Murray Valley high security licence holders enjoyed supernormal gains by trading their entitlements during the dry years. In reality this is not the case as a significant portion of the traded water in the last three years has come from the Murrumbidgee valley where the allocations have been higher and in the 2005/06 and 2006/2007 period, from Victoria and from NSW Murray Valley general security carried water balances. If SWC looked closer a significant proportion of the NSW high security water that is traded moves to properties in other states or NSW valley's that are owned by the same person so there is not a financial gain from the water trade itself.

The submission from SWC has referred to introducing a new formula for calculating the high security premium with the assumption high security users will only pay more when the capacity to pay increases ("scarcity pricing"). The capacity to pay is based on the average temporary water market price in 2006-2009 against the SWC high security charges. As stated above in many cases in 2006-2009 the high security entitlement holders **were the buyers of allocation not the sellers** and the water market pricing is not representative of a "normal

water market.” Prior to 2006 the average price per ML on the water market was less than \$50.

The capacity to pay does not relate to the cost of the service or the higher standard of service (as noted by IPART in establishing the premium of 1.5 times in the 2006 determination) and scarcity pricing leads to ambiguity when political decisions are made to allocate water at times for different users e.g. running of creeks to support fish population. If water was stored to guarantee two years of supply to high security entitlement holders the premium of 1.5 times would be acceptable. Water **has not** been stored to guarantee supply to high security as evidenced by zero allocations for high security at the start of the last three irrigation seasons.

The new formula will change the balance of fixed costs borne by high security against general security. WMI believes the price determination should reflect economic calculations based on the cost of delivery services and maintenance of infrastructure. The cost of delivery of one ML of water is the same regardless of whether it is high security entitlement or a general security entitlement. The cost of storage of water and maintaining the storages for when there is water is a fixed cost to be borne by all entitlement holders. As general security is approximately 85% of NSW entitlement WMI submits that the cost review needs to factor in the much higher need to store volumes of general security water **including carryover**, which is now deemed to have **first priority** in the allocation of each irrigation season.

The fixed costs of a system should be recovered from all entitlements and the conversion factor set down in the water sharing plan adhered to. The water sharing plan is in place until 2014 and IPART should not determine a different conversion factor from the Water Sharing Plan.

The two tier allocation system in NSW was established to provide a level of water security. In addition to the two tier system are stock and domestic entitlements that receive a higher priority than high security entitlement and form part of the critical human needs. These have not been specifically segregated in the SWC submission but would need to be considered by IPART.

Conveyance water licences for predominantly general security entitlement areas have also received allocations before high security has received full allocation but there is no mention in the submission of pricing conveyance licences at a higher rate. In the year when critical water was supplied conveyance water which exceeded the total volume of critical water was also supplied to Murray Irrigation. There remains unpaid “water borrows” from the Snowy Hydro deals in 2005/06.

WMI as a high security bulk entitlement holder has had the following allocation sequence:

Year	Allocation	Comments
2006/2007	50%	High levels of general security carryover from 2005/2006 which impacted on the following year. The water sharing plan was suspended and water removed from high security accounts in October and November. General security carryover received equal priority to high security allocation in this year but under normal circumstances the general security carryover takes first precedence as it has already been allocated. Water was allocated as inflows were received. There was nothing in storage for high security.

Year	Allocation	Comments
2007/2008	25% plus critical water, approx 40%	High security entitlements could carryover for the first time as the water sharing plan was suspended. Critical human needs took first priority and a critical water program was run for permanent plantings, this water was subsequently paid back as allocations returned. The suspended carryover was returned. When the temporary water market spiked at levels above \$600 and as high as \$1,200 it was the permanent planting growers purchasing this water predominantly from the general security carryover accounts in the Murrumbidgee and Murray valleys and from Victoria. Water was allocated as inflows were received. There was nothing in storage for high security.
2008/2009	95%	The allocation was received by 15 October after starting with zero allocation and access to carryover was limited. The water sharing plan remained suspended and general security entitlements received allocation. Water was allocated as inflows were received. There was nothing in storage for high security.
2009/2010	97%	The full allocation was received on 1 October after starting with zero allocation. Of note in this season was the state sharing arrangements to allow 100% carryover to be honoured at the start of the season. NSW had to borrow water from Victoria to meet this commitment. At the time of writing NSW general security had received 9% in allocation which is roughly equivalent to the total volume of water given to the full allocation of high security. In this year the costs proportion to date would be the same as the volume of water to be delivered.

WMI requests IPART adhere to its approach of:

Determining the efficient costs of services and setting the bulk water prices with the aim of recovering the true “users share” of efficient costs. In using this approach WMI requests IPART carefully assess the impact of drought and the relevance of incorporating long-term changes in pricing to meet current revenue shortfalls of SWC. High security was designed to provide reliability for permanent plantings in the majority of both wet and dry years. This should not be reinterpreted as a “scarcity advantage.”

General security provides for opportunistic cropping and the size of the farms where the majority of general security entitlement are held allow for diversity in dry land farming and livestock. Permanent plantings rely 100% on water and there is no ability to change farming practices given the average size of the holdings.

WMI notes large volumes of general security have been purchased by the Federal Government for the environment. IPART should not reduce general security fixed charges where a significant holder of entitlement is Government.

WMI does not agree with scarcity pricing based on capacity to pay.

IPART notes the costs in providing high security entitlements are higher than those for general security licences because greater storage capacity is required. WMI contends even in drought years where general security allocation is low conveyance water to Murray Irrigation also requires storage capacity. General security also has the ability under the water sharing plan to **carryover water** from one season to the next which requires storage capacity. High security cannot carryover water. The infrastructure is designed for all NSW entitlements with

general security being 85% of entitlements and requiring more storage capacity in normal seasons.

In the Murray and Murrumbidgee Valleys the cost of providing high security water against general security costs little if any more to provide. On other rivers in NSW **provision has to be made** to guarantee high security water for future years. This **is not** so on the River Murray as it is guaranteed by minimum releases from the Snowy Hydro scheme.

WMI contends the storage capacity costs would not differ between high security and general security entitlement and the current conversion factor in the water sharing plan should be used by IPART to determine the premium. It is too early to contend the change to the security of supply of high security licences against general security licences is a permanent change.

SWC notes in its submission it wishes to redistribute the burden of costs faced by high security and general security licence holders and believes there is an inequity between its customers. WMI notes that high security licence holders did not receive full allocations in two of the four years of the determination period but continued to pay fixed charges. The NSW State Government has been asked for fixed charges relief a number of times during the drought and has remained steadfast in its response that entitlement holders must continue to pay for the system.

WMI understands provision must be made for community service obligations to those regions where full cost recovery would result in unacceptable community outcomes. The price path set by IPART must reflect the real impacts on rural water users.

WMI asserts IPART should not attempt to redistribute the burden of costs based on a perceived inequity and if necessary community service obligations from Government should be used to assist general security entitlement holders with the exception of the Federal Government Environmental Water Holder. High security entitlement holders should not be penalised.

3. General Security Carryover

When the water sharing plan is on general security can carryover 50% of their licenced entitlement. High security cannot carryover. Since the water sharing plan has been suspended general security and high security can carryover 100%. SWC will have the figures of how much volume has been stored against each type of entitlement at the end of each irrigation season. The carryover and the conveyance water to deliver carryover takes priority over high security.

In 2008/2009 a significant volume of carryover was stored in the Murrumbidgee system for delivery to purchasers located in other areas of the basin. It has been agreed to deliver 200 GL of this water through the Murray River via the Snowy system to reduce conveyance losses that would be incurred from delivering the water through the Murrumbidgee River. This type of transfer has cost implications for NSW delivery infrastructure.

WMI requests IPART consider a premium to be charged on general security carryover equivalent to the 1.5 times high security premium as the general security carryover now receives more rights than high security and requires storage capacity for longer periods of time.

WMI requests IPART to assess the cost of these transfers of volumes of water through the Murray River system rather than through the Murrumbidgee River system and identify if there is a case for a charge from one valley to the other.

4. Lowering of rebates (reference IPART Issues Paper Section 5.5.3 and SWC Submission 10.4)

WMI believes that it contributes to the operations of SWC in a positive and timely manner. The rebate calculated for WMI is a fixed amount of \$38,000 adjusted annually for CPI. The work performed for SWC includes assisting SWC's management of flows by providing four and seven day advance extraction forecasts, as well as actual daily extraction figures. WMI as an irrigation corporation simplifies this process through its bulk licence where the company retains all responsibility and costs associated with meter reading and billing of irrigators. WMI also supplies water without any conveyance loss and receives no benefit for being efficient users.

SWC notes as entitlement owners transform under the Water Market Rules legislated under the Federal Water Act the rebate should reduce. Where a transformation occurs the irrigator **retains the right to delivery** in the irrigation corporation that still necessitates meter readings for usage and billing. Therefore while SWC may have a different WAL for the fixed charge the irrigation corporation still provides the same level of services as the customer remains. The irrigation corporation will still be responsible for the variable charge. Transformation **cannot** be used as an argument to reduce the rebate.

SWC may have a case for rebate reduction if the total customer is removed i.e. water entitlement is permanently transferred to an external WAL, the metered outlet is disconnected and a termination fee is paid. WMI notes however that many of its customers are only partially terminating delivery entitlement which still leaves them as a valid irrigator.

WMI recommends the rebate remains the same for this determination as it is too early to assess if there will be any impact from transformation or termination.

5. Impact of price increases on WMI irrigators and their ability to pay

A specific requirement of the IPART act is to maintain consumer protection. In particular:

- protecting customers from abuse of monopoly power;
- ensuring there are standards of quality, reliability and safety of the services concerned; and
- assessing the social and economic impact of its decisions.

Pricing must exhibit a sense of responsibility towards regional development. At Appendix One a table is included showing the increased price for the WMI irrigation area for the determination period. In the first year the fixed charge recommended by SWC will mean a 52% increase for high security entitlement holders. The variable charge for high security entitlement holders will increase by 22%.

WMI have undertaken an analysis of the increase of charges and have provided as an example the impact on the Coomealla Irrigation Area.

<i>Year</i>	<i>Fixed Charge</i>	<i>Percentage of Water Charge*</i>	<i>Variable Charge per ML</i>	<i>Percentage of Water Charge</i>
2009/2010	\$2.75	5.4%	\$4.00	7.8%
2010/2011	\$4.17	8.1%	\$4.90	9.6%
2011/2012	\$4.66	9.1%	\$5.48	10.7%
2012/2013	\$4.91	9.6%	\$5.78	11.3%
2013/2014	\$4.63	9.1%	\$5.45	10.7%

*Based on \$51 per ML (not adjusted for CPI) access charge in Coomealla Irrigation Area for 2009/10 year.

WMI **does support** the retention of 60% of operating costs through the variable charge. This allows the irrigator some choice and encourages water use efficiency. At the end of the determination period if the SWC recommendation was implemented bulk water prices will account for 19% of the water charge using the Coomealla irrigation area as an example and will be charged over and above the WMI water charge.

If SWC were in a competitive market based environment price increases of this magnitude would not be accepted by customers. Benefits associated with the price increases need to be quantified at the irrigator level to allow acceptance of the price rise.

Assessing the social and economic impact of its decisions

Increasing the prices will have a defined negative economic impact on the WMI region. The horticultural industry in general is suffering from poor returns and individual irrigators' profitability is at present marginal. All farming is under extreme cost pressures at present. Of note is the severe wine grape glut. Increases in government charges are passed directly to the irrigator. The increased water prices will mean there is less capital available for on farm investment and employment.

WMI irrigators are highly efficient water users with a high take up of the latest on farm technology. The irrigators in the WMI districts will not benefit from the Federal Government funding being offered for on farm works. The majority of the Government funds are clearly targeted at general security areas to improve water user efficiencies.

WMI recognises its growers need to be commercial and viable in the longer term but feel it is important for IPART to be aware of the situation in the WMI region at present.

Rising input costs and falling returns (declining terms of trade) along with the **cyclical** nature of prices are facts of life in agriculture and WMI irrigators have adapted to this by increasing efficiency, improving yields, adding value and expanding to achieve economics of scale. When terms of trade decline gradually or are confined to one crop then this can be managed. Irrigators respond by investing capital in expansion and new technology to remain competitive. At present it is more profitable to grow rice than wine grapes.

In 2009, across the board commodity price reductions combined with the drought and low water allocations are resulting in declining property values and high operating losses. This means that access to capital becomes difficult even for the most viable of businesses.

Addressing this problem is fundamental to the WMI region's recovery. The increase in bulk water prices needs to take into account the need for the irrigators and industries to recover to profitable levels.

6. Maintain temporary trade fees

WMI supports SWC's recommendation to maintain the temporary transfer fees at current levels.

7. Metering Costs (reference SWC submission 10.8)

At present WMI runs its own meters and maintains the meters including undertaking annual calibrations to comply with the operating licence. WMI has developed telemetry systems to monitor each of the three pump stations meters to allow provision of daily information to SWC. SWC has not yet resolved how the ownership of the irrigation corporations' meters will be transferred.

Internally WMI charges its customers the full cost of the installation of the metered outlets.

WMI supports the proposed metering service charge once ownership is transferred and a meter is installed. WMI also support a rapid installation of meters across the State to allow water accounting and data management to be significantly improved.

Appendix One – SWC proposed price increases per WMI irrigation area during the determination period (assuming the 60/40 ratio is kept)

High Security Charge per ML*	2009/2010	2010/11	% increase on previous year	2011/12	% increase on previous year	2012/13	% increase on previous year	2013/14	% increase on previous year
Fixed	\$2.75	\$4.17	52%	\$4.66	12%	\$4.91	5%	\$4.63	-5%
Variable	\$4.00	\$4.90	22%	\$5.48	12%	\$5.78	5%	\$5.45	-5%