

Location: Leeton, NSW
Contact Name: Geoff Hipkins
Our Reference:
Your Reference: 03/14

Richard Warner,
Program Manager,
Bulk Water Pricing,
Independent Pricing and Regulatory Tribunal of NSW
Sydney NSW 2000

Dear Richard,

Murrumbidgee Irrigation has been advised that IPART will now be making an interim determination on bulk water prices for 12 months with a workshop to be conducted in Sydney on 20 May. Also, State Water Corporation (SWC) has made a supplementary submission. In light of these events I would be grateful if you would accept this letter as a supplementary submission by Murrumbidgee Irrigation. In particular we would highlight the following:

1. Prices should not exceed current levels for the 12 month determination. The 12 months will enable SWC and DIPNR time to prepare more detailed costs and price justifications than at present.
2. Although the TAMP 2004 was published on 1 October 2004 (p6 of SWC supplementary submission), Murrumbidgee Irrigation (as a member of the Customer Services Committee) is still unable to obtain details about proposed capex in the Murrumbidgee Valley. It is too late to have meaningful consultation before the 12 month determination. But such consultation is critical, and alternatives should be considered in future. For example, in the next determination IPART's independent consultant could provide capex details to and obtain feedback from stakeholders. This approach may also help to identify efficient levels of opex.
3. The supplementary submission from SWC identifies \$3.53m in additional costs associated with 'corporate plan requirements'. The proposed cost shares being \$3.445m to users and \$85,000 to Government (as interest expenses will likely be passed on to paying customers one way or another). As noted in MI's first submission these costs should be matched with corresponding benefits, and net benefits (costs) should be shared equitably. If this is not done, MI would argue that costs of public sector reforms are a legacy of past decisions by Government, and should not be simply passed to 'users' (or paying customers).
4. SWC provides a new program structure in section 4 (which decouples links with past actual expenditure) and proposes relevant 'user' shares "based on consultations with various stakeholders and recent reports identifying beneficiaries" (p15 SW supplementary submission). MI was certainly not consulted. We would be interested to know who was, and what their recommendations to SWC were. We would also like an opportunity to review the recent reports identifying beneficiaries of SWC services. In light of these gaps in information and consultation, MI recommends that there be no change to current cost sharing between 'users' and CSOs until a comprehensive review of cost drivers has been conducted.
5. Section 5 of SWC's supplementary submission (involving transfer of assets and functions) highlights the difficulties associated with having separate service providers (DIPNR and SWC), and the current uncertainties about roles. We reiterate our earlier recommendation that SW take on all service provision (including WRM) and maximise opportunities to rationalise costs. DIPNR should become a regulatory and advisory agency to Government. These cost saving and efficiency measures should be introduced before increasing the resources allocated to bulk water provision.

6. SWC's supplementary submission indicates changes to capex (section 6), mainly by postponing these costs in a budget sense. There should be greater opportunities to do this as that would significantly alter the incidence of capex over time in SWC's TAMP. Opportunities for 'real' savings should also be maximised. Additional capex associated with an appropriate financial system and relocation costs for SWC should be included in the costs of 'public sector reforms' and either matched with benefits that are shared equitably or treated as legacy costs (see also point 3 above).
7. The SWC supplementary submission attempts to explain the increase in budgeted costs relative to actual costs in 2004 (section 7). It is interesting to note that the explanations reveal some of the major problems that MI has with the current assessment of 'costs'. For example, what are non-cash costs of hydrometric monitoring? Cost recovery in excess of financial costs in the context of the current IPART price determination framework is effectively a tax. New costs are identified in 731 Industry, envt, and Local Government Liaison. Yet MI as a major water user cannot access basic information through the existing CSC. (It is also worth noting that SWC recommend 'users' meet 100% of these costs). It is also not clear what services the proposed CCC will provide to 'users', so it is somewhat premature to suggest that they meet these costs. Corporate Governance costs (511) are the costs of public sector reform and should be treated as outlined in points 3 and 6 above. SWC acknowledges (p28) that River Operations expenditure "was previously constrained by not receiving the full IPART determined funding". This was not because of failure on the part of 'users'. It seems clear that CSO revenue was not collected and that SWC intends to redistribute these costs to 'users' in future. SWC also acknowledges (p28) that it has CSO costs associated with insurance but recommends users pay 100% of these costs.
8. SWC needs a comprehensive and stable framework for identifying efficient costs and allocating them fairly to customers and CSOs, and then ensuring appropriate revenue is collected. If SWC keep water prices where they are and collect CSO charges, they would have sufficient revenue to meet actual costs of almost \$30m (a substantial increase over 2004 actual costs of \$20.3m). SWC should be given another opportunity to do better with those resources before being provided with any additional resources.

In short, we believe that SWC's supplementary submission remains confusing, and seems to be a 'grab' for more resources at the expense of paying customers. The capex 'savings' merely shift the capex into the future while opex and capex increases are very 'real' (at least in terms of budget lines).

The submission does nothing to increase confidence that SWC has moved to a commercial basis and is developing a strong and more cooperative customer service culture.

These notes are intended as a brief update based on new information. The Company would be happy to assist with further work if you need any particular data analysis, or further clarification and/or information.

Yours sincerely



Geoff Hipkins,
Chief Executive
3 May 2005