

Murray-Lower Darling Customer Service Committee

20 April 2005

Mr Richard Warner
IPART
PO Box Q290
QVB POST OFFICE NSW 1230

Dear Mr Warner

Please find attached the Murray-Lower Darling Customer Service Committee (MLDCSC) submission on the IPART review of Bulk Water Prices from 2005/06.

The MLDCSC is a collection of representatives from different water user groups within the Murray and Lower Darling system who collectively have a significant interest in the review of bulk water prices. Outcomes from the Independent Pricing and Regulatory Tribunal (IPART) determination will directly impact upon the communities of users each MLDCSC member represents.

Collectively the group welcomes this opportunity to be part of this IPART bulk water determination process, and we look forward to IPART giving full consideration to all the points made in the attached submission.

If you require anything further, I am available on telephone 0429 403 195.

Yours sincerely



Colin Thomson
Chair
Murray-Lower Darling Customer Service Committee

State Water

Murray Lower Darling Customer
Service Committee

Submission to

IPART review of Bulk Water Prices
from 2005/06

April 2005

This submission represents the views of State Water's Murray Lower Darling
Customer Service Committee (MLDCSC).

Executive Summary

State Water's MLDCSC is a collection of representatives from different water user groups within the Murray and Lower Darling system. Regulated, unregulated and groundwater users are represented as well as users from irrigation corporations of varying sizes and private group irrigation schemes. Collectively the group represents a significant source of State Water's annual income.

Organisations which individual members of State Water's CSC represent have submitted separate submissions to IPART representing the views of their individual organisations.

As customers of State Water this group has close contact from a variety of perspectives with both the day to day services of State Water and dealing with larger management issues.

Outcomes from the IPART determination will directly impact upon the communities of users each MLDCSC member represents. Collectively the group welcomes this opportunity to be part of this process and is grateful to IPART for its consideration.

Thus far State Water has been very active and interested in organising informative tours of State Water infrastructure for CSC members. However, State Water's interest in following up and implementing customer advice has been limited.

Crucial to this determination are:

- Complete and unambiguous separation of DIPNR operations from State Water.
- Thorough accounting to ensure State Water can control cost allocations and is able to be openly scrutinised by those paying for the service.
- The continuing support of mechanisms to ensure that users can provide feedback to guide capital expenditure programs.
- DIPNR's unprofessional attitude to both delaying the determination process and subsequently providing little relevant information should be recognised and dealt with appropriately.
- Cost sharing determinations should be based on equitable distributions that recognise the multiple uses and design intentions of State Water assets
- State Water should not be able to artificially inflate the asset base by which a rate of return is estimated.
- Bulk discounts continue to reflect costs and are therefore still relevant and fair.
- Charges should be based on cost of supply not ability to pay.
- CSC members should have authoritative input into State Water capital expenditure.

Introduction

State Water's MLDCSC (Murray Lower Darling Customer Service Committee) is a collection of representatives from different water user groups within the Murray and Lower Darling system. The majority of members are regulated river water users. There are also representatives from irrigation corporations of varying sizes, group schemes, private river pumpers, groundwater users, unregulated river pumpers and Local Government. Two Catchment Management Authorities are also represented on the MLDCSC.

As customers of State Water this group has close contact from a variety of perspectives with both the day to day services of State Water and dealing with larger management issues. The MLDCSC meets approximately four times a year to discuss State Water South's activities in the Murray and Lower Darling.

Outcomes from the Independent Pricing and Regulatory Tribunal (IPART) determination will directly impact upon the communities of users each MLDCSC member represents. Collectively the group welcomes this opportunity to be part of this IPART bulk water determination process.

This submission represents the collective views of the MLDCSC members. Submissions to the IPART bulk water determination have also been made by organisations individual members of the MLDCSC represent.

Efficiency of State Water

The Tribunal welcomes comments on:

- * ***The efficiency of the projected operating costs outlined in State Water's submission***
- * ***Whether there is scope for State Water to achieve further efficiency gains over the next price determination period.***

A prompt and unambiguous separation of State Water from DIPNR is central to forming a framework for State Water such that it is able to implement efficiency gains appropriate to a commercial business entity.

Crucial to State Water becoming economically efficient is its ability to implement accurate and thorough valley based cost accounting methods.

State Water should be encouraged to follow best practise accounting standards. An important costing issue is the sharing of head office and new corporatisation costs such as board costs between valleys. Even as customer service committee members it is difficult to comment on the efficiency of State Water because of the inadequacy of financial information provided to members.

It is only with the complete separation of State Water which can produce a stand alone set of accounts including profit and loss, balance sheet and asset register will be it be possible to address the efficient operation of State Water.

Whilst attempts have been made to provide valley based accounts, results are limited.

Members note that Sate Water South has repeatedly failed to spend its entire capital budget, despite revenue being collected from customers. Where is the surplus?

Capital funding

The Tribunal welcomes comments on:

**** What approach to funding capital expenditure should be adopted when pricing water services to ensure that capital expenditure requirements can be met?***

Whilst achieving safety, environmental and efficiency standards for State Water structures is important, water users need to be assured that they are not paying to meet excessive specifications. A large proportion of the future capital expenditure is for dam safety, occupational health and safety and environmental enhancement. Governments have a responsibility to meet these capital costs.

Thorough cost benefit analysis needs to be instigated before all capital expenditure proceeds. This includes works designed for occupational health and safety and environmental outcomes.

The MLDCSC is concerned that the Regulatory Asset Base (RAB) delivers a return on pre July 1997 assets rather than future assets. This distinction is important since the objectives driving construction of past assets have not always been irrigation specific. Furthermore, old and future State Water assets have multiple uses and should make for serious consideration through cost sharing decisions.

The MLDCSC committee does not support the RAB proposal for funding capital expenditure as proposed by State Water, where they have inflated the asset base to meet their revenue requirements.

IPART have previously determined past capital expenditure in infrastructure was a sunk cost and a return on this investment was not warranted. There is no economic reason to change this principle established by IPART because the institutional arrangements for State Water have altered.

Rate of return

The Tribunal welcomes comments on:

**** An appropriate rate of return for State Water.***

The MLDCSC objects to taxing water use. Introducing a rate of return is equivalent to a tax on water consumption. If water use is to be taxed, it must be identified as such and taxation revenue must be clearly accounted for to ensure it does not hide inefficiencies in State Water's operations.

If a clear distinction is not made and taxation revenue is not clearly accounted for State Water would have an obvious financial incentive to inflate the value of the asset base upon which it is estimated.

Water Resource Management Costs

The Tribunal welcomes comments on:

**** whether there is a connection between the provision and use of water services and the WRM activities usually undertaken by DIPNR, and if so, the strength of this connection***

**** the efficient costs of providing WRM services***

**** the role of the CMAs in relation to WRM services***

*** *DIPNR's proposal to set WRM prices from 1 July 2005 to 30 June 2006 based on the current prices plus a CPI increase.***

The MLDCSC rejects Department Infrastructure Planning and Natural Resources (DIPNR) proposal to increase current prices plus CPI. The future of DIPNR is vastly different due to reforms. The continuing distinction and separation of State Water from DIPNR, the creation of Catchment Management Authorities (CMAs) which are funded by a new system and the new focus of DIPNR make DIPNR's suggestion irrelevant and unhelpful.

Until DIPNR provides a fully transparent submission justifying retention of existing costs (let alone CPI) than DIPNR should receive no income from water users.

DIPNR provide no justification for increased fees for new access, works and use licences nor for providing transfers. The MLDCSC believe that there should be one transfer fee regardless of the amount of water. There is no evidence that transferring water costs more as the volume transferred increases.

Murray Darling Basin Commission (MDBC) costs must reflect IPART determination principles not MDBC agreed splits. Many MDBC functions relate to non irrigation activities such as tourism, recreational, boating, fishing, salinity mitigation (big dryland component not irrigation) etc. Any difference between MDBC costs and IPART determinations should be government Community Service Obligation. To do otherwise is inequitable compared to other valleys.

The proposal to scale back and divert river gauging funding entirely on to users is contentious. River gauging needs improving and is relevant to all water management decisions not just for irrigators. Since all water managers need to know how much water there is real time metering available online to all users would make for improved decision making at all levels of water use.

Cost sharing

The Tribunal welcomes comments on:

*** *whether there are new arguments against the cost sharing approach used for the last determination***

*** *what costs should be considered as 'legacy costs'***

*** *what cost sharing arrangement should apply to compliance-related capital expenditure***

As previously stated the MLDCSC believes government should be responsible for dam safety, occupational health and safety and environmental enhancement.

The proposal by State Water to increase the cost share for water users for dam safety compliance is not accepted. Political and community choice influences dam safety standards and the level of acceptable risk, not irrigation, therefore it is a government responsibility.

In many cases proposed expenditure is to bring storages up to 1997 standards, this fits into legacy funding as defined by ACIL.

Irrigators should not be expected to pay for the costs of navigation, which are part of MDBC. These costs should be applied to those who use it.

Water users may consider paying more for river gauging if "real time" information was available because, the additional information should be useful to water users.

*** *whether there is a connection between water extraction and the various WRM activities, and the extent of this connection.***

The DIPNR water resource management activities need to be reviewed and the case for water users to pay for these costs justified. There is some evidence of duplication between MDBC – River Murray Water and DIPNR in the calculation on surplus flows, with calculations done by both River Murray Water and DIPNR for Supplementary Water Access announcements.

The Tribunal welcomes comments on the appropriate balance between fixed and usage charges.

The proposal to shift the balance between fixed and usage charges is likely to create reserves for State Water. What guarantee is there that these reserves will not be confiscated by other government departments or will be used specifically to fund infrastructure in valleys from which the reserves were created?

Alternatively, if reserves are not created how do State Water intend to manage its accounts to fund its operation in low resource years?

Balance between high security and general security

*** *The Tribunal welcomes comments on the appropriate balance between high security and low security entitlement prices.***

The MLDCSC support State Water's proposal to set water prices to reflect the costs of providing different security water.

Charges should be based on **cost** of supply not on the benefit of additional security of HS water.

In the Murray (and Murrumbidgee), high security water is not stored for two years because it is underwritten by the Minimum Notification Releases by Snowy Hydro Ltd.

Wholesale discounts

The Tribunal welcomes comments on:

*** *whether wholesale discounts are still appropriate***

*** *if so, what level of discount for wholesale customers is appropriate.***

The MLDCSC supports the previous IPART justification for bulk discounts. The claim that cross subsidisation exists is contrary to the basis of previous IPART determinations that determined the rates based on the economies of scale created through bulk purchasers.

Costs to read and service each additional river pumper are more than for one large corporation. In addition government regulatory requirements imposed on irrigation corporations are significantly more rigorous than for individual pumpers. Who monitors the quality of water discharged from private river pumpers?

State Water has instigated a philosophy of imposing stringent usage monitoring on the few large corporations who take 80% of the water on the assumption that if they account for that water losses will be minimised. Usage of the remaining 20% of the water by many small users attracts much less attention. Metering errors or theft of 30% of the 20% of water used outside the irrigation corporations is more than errors of 5% on the 80% within the irrigation corporations. All water is valuable and all water should be metered at the cost of the individual user.

Given that the discounts were estimated some years ago and irrigation corporations have invested heavily in water management to meet increasing regulations it is entirely likely that the historical rates are no longer relevant and the discount rates should be higher.

Transitional price path

The Tribunal welcomes comments on what transition path and rate of increase is reasonable for prices in valleys where prices are not yet at full cost recovery level.

The suggestion by State Water that water markets are somehow relevant to the appropriate path to full cost recovery is completely irrelevant and unhelpful. User's ability to pay is irrespective of the price of both annual water and water entitlements. State Water's assertion is that the rural community is wealthy and therefore can afford to pay. In the context of the worst drought sequence on record and low commodity prices this is a strange argument.

The timing of any water price increases must be a holistic approach to accounting for the impacts on rural communities including both increases in the traded value of water and the recent hardship placed on many rural communities.

Murray Darling Basin Commission – River Murray Water costs

A large part of the capital and operational costs in the NSW Murray are incurred through River Murray Water (RMW), the commercial water delivery business of the MDBC.

State Water is also a contracting agent for RMW. The MLDCSC has been continually frustrated about disclosure of the River Murray Water costs paid by NSW Murray water users.

The Murray accounts for State Water are also confused by costs for activities completed for River Murray Water which State Water is subsequently reimbursed for. Perhaps ring fencing of the income and expenditure of RMW within the State Water Murray Valley accounts would provide better clarity.

MLDCSC members also draw IPART's attention to the high cost of river regulation in the River Murray caused by the high cost of refurbishing the locks and barrages, largely in South Australia and the arbitrary cost sharing ratio for River Murray Water costs agreed to the states.

Other issues

There is an urgent need to clarify roles of DIPNR and State Water. State Water needs to have clear and defined responsibilities so it is to implement efficiency measures in its business independent of DIPNR.

The MLDCSC applauds State Water initiatives that identify and manage water efficiency improvements either through user charges or through attracting outside investment. No part of these deals should involve State Water ever owning water. Else, State Water would have a direct incentive to run systems inefficiently then fix them! Before initiatives proceed they must first be discussed with all stakeholders and agreed to. Any water efficiencies delivered must also be shared in proportion to investment. The majority of State Water funds spawn from user fees hence State Water funded savings should return to users.

There is a need to clarify the impact of increased environmental flows on State Water's business and who will pay for this.