



Independent Pricing and Regulatory Tribunal NSW
Level 15
2-24 Rawson Place
SYDNEY NSW 2000

email: ipart@ipart.nsw.gov.au

Monday 29 March 2021

Dear Tribunal Member,

**IPART Review of Water NSW's Rural Bulk Water Prices and WAMC Water Management Prices -
Response to draft report March 2021**

Murray Irrigation would like to make a further submission following IPART's draft determination. The submission incorporates both the WaterNSW Rural Bulk Water Prices and WAMC Water Management Prices.

Murray Irrigation commends IPART on its draft determination which means that the original proposed very substantial increase in combined government charges is now only a large increase.

As an organisation that manages the water delivery and associated compliance logistics to over 2,000 landholdings, most of whom are farming families, we have three significant concerns that we would like to raise with IPART before the determination is finalised.

- 1. Proportion of fixed charges seem very high-** The IPART / NSW Government commitment to maintaining the bulk of water charges as variable charges has not been honoured and fixed charges now appear much higher in a year of average use (see Attachment A).
- 2. Greater understanding of how MDBA charges are built-up:** The scrutiny of the MDBA costs to be passed-through to users by Atkins and the suggested 'areas for improvement' was very welcome- but much greater scrutiny of the make-up and services-delivered for the MDBA charges that are being applied needs to be done (see Attachment B).
- 3. The large-user rebate is reducing:** The rebate recovered by large users such as Murray Irrigation Limited is reducing. The level of cross subsidy by Murray Irrigation to support WaterNSW and WAMC operations for all other users is significant and growing (see Attachment C).

As a company that delivers around half the water it used to deliver since privatisation in 1995 but with effectively the same large infrastructure burden, on behalf of our farming families, we are very concerned about the likely charge increase that is proposed.

We would very much appreciate IPART's attention to these matters raised and look forward to the incorporation of these items into the final determination.

Yours Sincerely,

Philip Endley
Chief Executive Officer

Attachment A

The proportion of *fixed* charges proposed by IPART are very high and do not align with IPART's own principles

An analysis by Murray Irrigation calculates that the IPART proposed balance of fixed and variable charges is heavily weighted towards fixed costs. This is heavily influenced by the high fixed charges proposed as MDBA pass-through charges, which should not be immune from the application of IPART's principles.

A calculation based on a Murray Irrigation Limited customer, a water entitlement owner, with an allocation of 60% and using the full allocation indicates that 64.3% of combined WAMC, Water NSW and MDBA charges for allocations and the user share of MIL's conveyance water applied are fixed (see table below). In particular we draw attention to the line items in the table highlighted in yellow that do not appear to align with these charge principles.

The use of 60% allocation reflects a higher than average allocation and use we have experienced in the last five years for General security users in the NSW Murray Valley.

	FIXED Charge proposed	Proportion fixed charge at 60% use	USAGE Charge proposed	Proportion usage charge based at 60% use
WAMC	\$1.12	41%	\$2.65	59%
MDBA (WAMC related.)	\$0.63	80%	\$0.26	20%
WaterNSW	\$0.93	37%	\$2.65	63%
MDBA (WaterNSW Related)	\$3.83	78%	\$1.81	22%
Total charge	\$6.51	64%	\$6.21	36%

Table 1. Proposed charges NSW Murray and proportions of fixed and usage charging (excluding conveyance charges and bulk-user discount).

Murray Irrigation notes that IPART has recommended water prices for users are maintained at a 40% fixed/60% usage ratio. Specifically, IPART has stated in 10.1.2 in its draft report:

“ the two-part tariff structure – (i.e. a fixed and usage charge) with prices being set to achieve a fixed to variable revenue split of 40:60 for most valleys.”¹

Murray Irrigation encourages IPART revise its recommendation to apply the same fixed/variable water charging principles to all Murray user related charges (MDBA, NSW WAMC and Water NSW) to maintain the long-held principles which are again outlined in IPART's report.

¹ Review of Water NSW's rural bulk water prices March 2021 IPART pp 103

Attachment B

Much greater scrutiny of the make-up and services-delivered for the MDBA charges that are being applied needs to be done

Murray Irrigation encourages IPART to immediately seek a greater understanding of how MDBA charges are built-up and are justified. If this is not possible, a more constructive approach may be to establish IPART-endorsed NSW Murray prices against a benchmark based on efficient Murrumbidgee River charges.

Importantly, IPART engaged Atkins P/L to review the MDBA and Border rivers charges. Whilst IPART are to be commended for recognising MDBA pass-through charges are excessive, any comparative analysis confirms the proposed charges are extreme, unwarranted and relate to services and infrastructure management that cannot be justified. The qualitative findings from Atkins² following their review of the MDBA services provided were very critical and included the following commentary in regard to 5 key performance areas:

1. **Decision making:** *MDBA has strengthened prioritisation of investments. However, the justification framework, including urgency, remains weak.*
2. **Inputs:** *Understanding of the activities and expenditure delivered as part of the joint program is high level only. This does not allow MDBA, stakeholders or regulators to understand, interrogate and challenge activities and hence expenditure.*
3. **Outputs and outcomes:** *Benefits realisation definition and management are weak, meaning that it is hard to establish whether the objectives of expenditure are met, thereby potentially reducing the focus on these objectives.*
4. **Efficiency and incentives:** *Efficiency is not a key focus of the organisation. There is limited incentive for efficiencies with ownership/accountability thinly spread.*
5. **Multi-year planning:** *State Constructing Authorities (SCA's) tells us that sometimes approvals to spend arrive too late to mobilise and deliver effectively and efficiently.*

Despite this strong critical analysis, particularly in regard to efficiency and input-costs, IPART has recommended only modest 'efficiency dividends' be sought from the MDBA operations group. The proposed efficiencies reduce expected revenue over the 4-year determination period (FY22-FY25) from a requested \$123m to a recommended \$117.6m, a total reduction of only 4.6% or 1.2% p.a.

Clearly there are no benefits in scale, or the operation of Australia's largest regulated river with more annual use, and more users than any other regulated river valley in Australia. Perhaps it is best for IPART to simply establish efficient costs for the required services in the NSW Murray. Murray Irrigation is not advocating higher charges for users in the NSW Murrumbidgee, but rather a more sensible review or benchmarking of prices in the NSW Murray.

Murray Irrigation suggests that rather than review the largely impenetrable cost structure of the Murray River operations overseen by state agencies in multiple states and the MDBA's operations group, a more constructive and accurate measure may be to analyse the efficient infrastructure, services, water deliveries and related charges to be applied to NSW Murrumbidgee Irrigators and analytically compare these services to those in the NSW Murray. Given the similarities in the two systems (the NSW Murray and the Murrumbidgee) it is very

² Review of MDBA and BRC costs associated with WaterNSW and WAMC's activities March 3, 2021 ATKINS (member of the SNC-Lavalin group) Extract from table on pp 10.

difficult to understand why a large (600ML per year General Security) users in the Murray are facing combined charges almost 50% higher in the NSW Murray than those proposed in the Murrumbidgee Valley ³

Put simply in comparing the use and management of infrastructure in the NSW Murray and the Murrumbidgee:

- Both valleys use typically c 1-2 million ML of regulated river flows per annum
- Both valleys extract most water used into large irrigation areas within 150km of the dam wall
- Both valleys depend for storage on two large storages, one built before 1930, and one built after 1965.
- The structures and WaterNSW/WAMC services in the Murray River *downstream* of Murrumbidgee downstream of the Murray junction to regulate and manage flows, clearly serve flows from both rivers.
- Both valleys have significant environmental assets requiring careful water management, and protection from unseasonal inundation. In terms of environmental management, downstream of Murrumbidgee junction, it is simply one river.

In brief, Murray Irrigation requests MDBA charges to be passed through to water-users are further discounted (perhaps by 50%, to align proposed prices to those to be applied in the Murrumbidgee Valley) until a comprehensive, clear and transparent view of the *actual* efficient service and delivery costs attributed to the MDBA/state joint venture can be properly established.

³ Graphical representation in Fig 11.2, pp133 of IPART March 2021 draft determination. [Review of prices for the Water Administration Ministerial Corporation IPART](#)

Attachment C

Reductions in the large user rebate are unwarranted and should be increased or retained.

IPART's stated principle and the actual price recommendation appears to be at odds. Even after allowing for inflation, the draft decision reflects a falling rebate for NSW ICD is all valleys over the 4-year determination period.

The rebate of more than \$500,000 p.a. is important to Murray Irrigation customers and is reflective of much greater savings to all government water agencies, State and Federal, servicing Murray water-users particularly the MDBA operations group.

The statement (reproduced below) appears to indicate a commitment to increasing the rebate to users within NSW irrigation corporations over time.

“ In our 2017 price review, we reviewed Water NSW’s calculation of the discounts and found the overall method appeared reasonable and generally reflective of its avoided costs.^{iv} However, we adjusted the customer numbers used in the calculation to reflect the actual numbers reported by the ICDs. We consider this approach remains appropriate and have updated the customer and entitlement numbers for the 2021 determination period.

This results in rebates that generally increase slightly over the period. It also results in \$4.8 million of avoided costs over the determination period, as shown in Table 6.4.⁴ “

Murray Irrigation maintains that the savings to WaterNSW, the MDBA and the WAMC of dealing with a single customer are very significant, and warrant much greater understanding by IPART, and the reinstatement of a much higher level of rebate. The regime of farm amalgamation, and individuals owning multiple farms is not limited to the irrigation corporation areas, so any revision (downwards) based on an analysis of customer-numbers needs a thorough understanding and justification by IPART (and Water NSW).

Murray Irrigation requests the level of services and costs avoided by the provision of an extensive range of reporting and customer information & services by Murray irrigation as a large NSW ICD is again carefully reviewed by IPART (rather than depend on the 2017 determination methodology), and that the benefits of the current levels of rebate to WaterNSW, The MDBA River operations and to the WAMC are better understood and the rates of rebate are increased accordingly.

⁴ Review of Water NSW's rural bulk water prices March 2021 IPART pp 68