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Submission to IPART

NSW Office of Water (NOW)
Price Determination
from 1 July 2011

DRAFT DETERMINATION

29 November 2010

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators are on regulated, unregulated and groundwater systems. Our members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

This document represents the views of the members of NSWIC. However each member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

Executive Summary

This submission contains the views of NSWIC and its Members. It should be identified however, that individual members are likely to respond with valley specific submissions. We (NSWIC) fully support these individual submissions as well.

NSWIC would again like to point out how difficult this determination has been for all involved. The delays experienced with the “stop the clock” provisions and the subsequent submissions from NOW have meant an inordinate amount of resources have been required to address this determination.

NOW delivers monopoly services on behalf of the Water Administration Ministerial Corporation (WAMC) and as such is lucky there is no competition. With the level of increases proposed, the level of service provided and efficiency of the overall operation, if there were any competition NOW would struggle to keep its customers.

One of our greatest concerns in respect of the Draft Determination is the inclusion of a return on assets for NOW. Surely this is an oversight on IPARTs part. How can a State Government Department charge its customers a return on the assets that it owns? This must be urgently reviewed.

We believe IPART is missing an opportunity to increase minimum charges to a more realistic level. Support from both NOW and stakeholders for a larger increase than what IPART is proposing has been received and should be revisited.

NSWIC is struggling to understand the huge variances between what NOW has requested and what IPART in its Draft Determination has assigned. This process appears to be greatly out of alignment. NOW asked for massive increases, we think knowing full well that IPART would not agree to all of them, but was hoping some might get through. We are at a loss as to explain this massive discrepancy any other way.

Further, it is frustrating to note that although IPART recognises that NOW has been unable to address issues from the last determination (transparency, control, and accountability of its expenditure are not sufficiently robust to support efficient pricing¹), substantial price increases are now still being incurred by stakeholders. We do note that “... these considerations resulted in lower price increases than would otherwise have been the case.”² So is then working in our favour?

¹ Review of prices for the Water Administration Ministerial Corporation – IPART page 185 (13.4)

² Review of prices for the Water Administration Ministerial Corporation – IPART page 184 (13.3)

Positive Outcomes

Several positives have been achieved between the original NOW proposal and this Draft Determination, so it is prudent to acknowledge these.

The start date and length of this determination is indeed the only practical answer due to the delays experienced. We accept this determination covering three years from 1 July 2011 until 30 June 2014.

NOW's proposal to allocate a significant percentage of its increased contribution to the MDBA to users, was always going to be a point of contention. We agree that the information provided was insufficient to support the impactor pays principle and therefore will not be increasing.

Draft Determination

Increases in revenue recovered from users

NSWIC is pleased to see that IPART assessed the NOW request to increase user contributions to its MDBA costs with the same level of scrutiny that we did. Maintaining the user share at \$1.7 million for the 2011 Determination is the only logical answer to this request.

With regards to the Scenario 2 costs, IPART have determined that \$1.4 million of the \$1.8 million granted as an increase will be passed onto users. NSWIC understands that this is a significant reduction in the user share of additional Scenario 2 costs, relative to NOW's proposal, but still maintains that there should be no increase.

These costs must be 100% funded by the Commonwealth Government. The Scenario 2 costs are estimates of additional costs for funding Commonwealth activities and purely based on that should in no way be passed onto users.

6.2 Geographic Split of Prices

NSWIC agrees with maintaining the valley-based prices for regulated and unregulated rivers.

We however do not support the transition to an inland and coastal division for groundwater. NSWIC questions any benefit that such a change will achieve? NOW's argument that they do not have any reliable cost information on a valley basis and that aquifers do not align with surface water valleys and therefore are not practical to price by valley or WSP area, is absurd. How is NOW running a business without this information? Lack of work on their part should not be rewarded and negatively affect customers.

Changing to an inland and coastal division will lead to cross-subsidy, and therefore must remain on a source by source basis.

6.3 Fixed Charges and Variable Usage Charges

We agree with IPART's assessment of 2-part tariffs being comprised of a fixed and usage portion where meters are utilised and a 1-part tariff where meters are not.

6.4 Price Path

Compared to other states, NSW is far advanced in its cost recovery structure and therefore any further increases will only exacerbate the competitive disadvantage experienced by irrigators and their interstate colleagues.

We appreciate that IPART did not agree to NOW's request for 100% cost recovery, but are disappointed that a 6% increase is felt necessary, even if the glide path approach has been maintained. Until cost recovery is at an equitable level with other states, there should be no increase in cost recovery.

To also remove the cap on actual bills because NOW finds it too complex to administer is absurd. How can an organization with NOW's experience and staffing not manage this billing variance?

6.5 The Minimum Bill

IPART's Draft Determination proposes to increase the minimum bill for zero or small entitlement Water Access Licences users from \$60 to \$95 per year (an increase of approximately 60%). Although we understand and agree with the desire to stay within a 20% per annum increase in forecasted bills³, we believe in this instance the support for an even larger one time increase to bring these licences in-line with the associated costs of maintaining them is warranted.

Support from NOW and stakeholders suggests that an increase, up to \$200, would be agreeable and at this level would be much more effective at promoting amalgamation of licences and subsequently improving efficient operations within NOW.

6.7 Rebates for Large Entitlement Holders

It is disappointing that IPART has chosen not to acknowledge the benefit that large entitlement holders offer NOW. Any consolidation of customers from many individuals to several, surely results in efficiency and therefore a financial benefit. This should be passed on, even if only a small amount, to those who are affecting it.

³ Review of prices for the Water Administration Ministerial Corporation – IPART page 5

Usage Forecasting

We are not surprised to see that IPART has decided to copy the State Water determination for how usage forecasting is determined. This was obviously the most convenient option.

IPART states “We consider that no new evidence has emerged that would justify using different usage forecasts to calculate the regulated river charges levied by State Water and NOW. Therefore, our draft decision is to adopt the regulated river usage forecasts that were applied by us in the 2010 State Water Determination.⁴”

NSWIC disagreed with the original 15 year model for consumption forecasting and still do not agree now that IPART is proposing a 20 year model. To base a model on only 20 years of data where 10 of these have been in drought conditions is short-sighted, especially now that record rains and inflows are passing through NSW.

The Consumption Forecasting model or “fall back” approach put forth by stakeholders should again be considered as a better option. The amalgamation of IQQM and current usage will give a more accurate outcome, taking current events into consideration while transitioning to this new forecasting model.

Hydrometrics / River Gauges

As part of the Draft decision to allow a 41% increase (by 2014) of NOW’s total efficient costs, the expanded hydrometric network has been included. This expanded network is not only receiving a substantial increase in stations (128) but will now also get almost twice as many visits.

The costs for implementing these efficiency improvements are falling mostly on irrigators (anywhere between 100% for Water balances / accounting to 50% for Surface water quality management). We understand better models, information and maintenance will benefit irrigators, but will also most definitely benefit towns and the environment.

A better allocation of these costs, with a larger percentage being allocated as a Government responsibility is required.

Consent Transaction Charges

IPART’s focus in regards, to consent transaction charges should again be to removing any form of cross-subsidy. Transaction charges must be recovered from individual transaction fees and not included in the overhead costs or general cost base.

⁴ Review of prices for the Water Administration Ministerial Corporation – IPART page 114

General Comments

There are several points from this Draft Determination which we wanted to ensure we monitored for future determinations.

“IPART’s draft decision is to not set charges for basic rights holders (stock and domestic), but instead consider this issue at the next determination of NOW’s prices.”⁵

We will watch this closely as recent developments in potential trade of stock and domestic entitlements could impact on the decision to set charges.

“We have also made a draft decision to establish a reporting framework for NOW over the 2011 Determination period, to ensure that both IPART and NOW’s stakeholders have adequate information relating to its expenditures and activities over the period, and to enhance review of NOW’s proposal at the next price determination.”⁶

Again, we will be very keen to see the outcomes from this draft decision.

⁵ Review of prices for the Water Administration Ministerial Corporation – IPART page 94

⁶ Review of prices for the Water Administration Ministerial Corporation – IPART page 15