Murray Irrigation

WaterNSW and WAMC Price Proposals
Submission to IPART
9 December 2024

www.murrayirrigation.com.au
PO BOX 528 DENILIQUIN NSW 2710 | 1300 138 265

Murray Irrigation

TABLE OF CONTENTS

1 Executive Summary

Murray Irrigation is very concerned about the significant increase of proposed water charges and emerging volume of government regulation that appears to be the underlying drivers (or excuses) for these price increases. These are not services sought by our customers, and future fee increases should not be any greater than CPI of current prices. Any difference above this should be funded by government with financial incentive schemes in place to reign in exorbitant expenditure from fee charging agencies.

We encourage IPART to adopt an interim one year determination (of current fees plus CPI) to enable more time to better understand the cost drivers of fee charging agencies, the activities our organisation undertakes that duplicate some of these services and to develop the most cost-efficient charges before being imposed on our customers.

IPART faces an immense task in balancing the competing objectives of affordability, sustainability, and fairness in WaterNSW's pricing proposal – this balancing should have been undertaken by WaterNSW over many years. WaterNSW has proposed exorbitant price increases but left it up to the regulator to determine the fairest and best level of increases. While WaterNSW and WAMC have together proposed a near tripling of Murray Valley prices, their own customer feedback has indicated that such increases are neither desired nor supported. Furthermore, the independent Deloitte review (despite our perceptions of its shortcomings) concluded that rural customers could not afford these proposed increases. Rather than addressing these findings and acting on the learnings of years of engagement with its customers, WaterNSW has instead deferred its responsibility for determining the appropriate trade-offs to IPART, leaving the Tribunal with a short time to address these critical issues.

We recommend that, in response to these information gaps and WAMC and WaterNSW's lack of commitment to aligning its proposal with customer needs, IPART should consider issuing a one-year interim determination for rural valley prices, with prices held at CPI. Such a decision would compel WaterNSW to focus on delivering real customer value and ensure that its next submission appropriately reflects the priorities and financial realities of rural communities. This would ensure IPART is able to undertake a detailed review of rural valley prices as a standalone activity (rather than at the same time as several other major reviews) and reinforce the importance of meaningful customer engagement and accountability in future WaterNSW and WAMC regulatory processes.

2 About Murray Irrigation Limited

Murray Irrigation is Australia's largest private irrigation company delivering water to over 1,300 family-farm businesses through 2,778km of gravity fed channels and operating more than $1 billion of infrastructure. We also play a critical role in the delivery of water within the Murray-Darling system (Figure 1) and deliver water for environmental purposes and to reduce pressure on the Barmah-Millewa Reach.

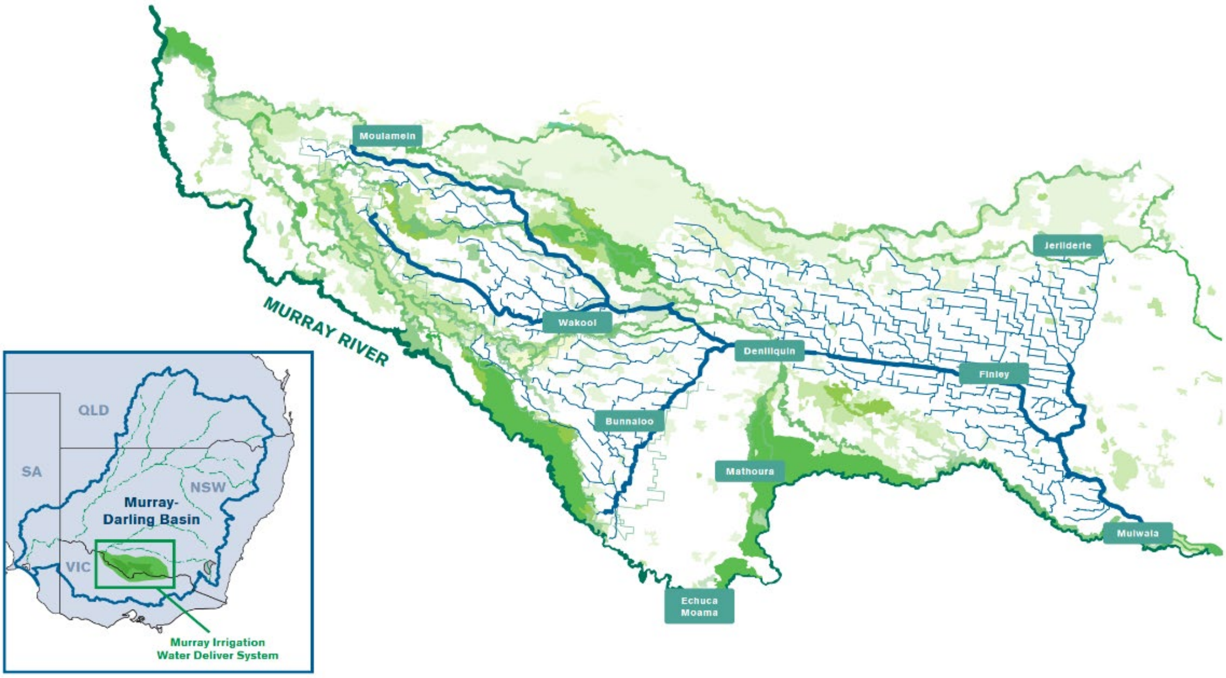


Figure 1. Location of Murray Irrigation's Area of Operation

Murray Irrigation is licensed by the NSW Government and manages mostly NSW Murray (general security) water entitlements along with smaller volumes of other NSW Murray water entitlement types (conveyance, high security, and town entitlements). Water is supplied and metered into Murray Irrigation from the Murray Regulated River system at just two points. In addition to asset management and customer services related to water delivery, Murray Irrigation's licence includes requirements for both real time and frequent monitoring, compliance and reporting to NSW Government agencies. These commitments are comprehensive and require significant resources to be applied by Murray Irrigation.

The company has 798,984 NSW Murray general security water entitlements. This represents approximately 50 percent of all NSW Murray River general security water entitlements on issue. Average water delivery to Murray Irrigation's customers since the creation of Murray Irrigation as an irrigator-owned company in 1995 has halved, from around 1,200GL in 1995 to around 600GL today. During this transition we have observed sharp declines in local irrigation-dependent industries such as dairy and rice (i.e. since the introduction of the Murray Darling Basin Plan and the water recovery programs related to this initiative). Meanwhile our infrastructure that was installed largely in the 1940s and '50s (canals, regulators, supply outlets, bridges, culverts, etc) has continued to require maintenance and replacement, despite water delivery volumes halving over this time.

Murray Irrigation is committed to long-term sustainability of our operations and communities that depend on us. Achieving the balance between environmental responsibility and agricultural production is at the core of our business model.

Together with our farmers, we have developed agile solutions to the challenges of drought and water shortages and are acutely aware of the importance of water for our local ecosystems and communities.

While we note that WaterNSW has experienced significant operating expenditure increases in recent years with the current proposal indicating much more to come, Murray Irrigation has been able to contain our operating expenditure so that price increases in most recent years have been at or below CPI.

Recommendation 1: That IPART directly considers the impacts of customer affordability on regional and rural irrigators for all aspects of its deliberation on WaterNSW and WAMC price increases.

3 Lack of customer support

This is the first full WaterNSW Price Proposal to be undertaken using IPART's 3Cs Framework, which is centred around pricing proposals that promote customer value. We support the notion of a customer-centric regulatory framework and encourage IPART to continue to represent the long-term interests of NSW consumers of monopoly services. We are responsible to water users, and we are continually generating efficiencies and returning these to our shareholder-customers through reduced water bills. Our region's annual agricultural output relies on our ability to efficiently provide water across our broad region. Our Directors are accountable to our shareholders through regular elections.

We acknowledge some cost has been incurred by WaterNSW in conducting its recent customer engagement. However, IPART should not misinterpret this for genuine customer support of price and expenditure increases. Some of the engagement questions asked by WaterNSW did not include an option for customers to reject expenditure or price increases, and we do not understand how our customers' values and preferences have directly influenced expenditure or pricing decisions. WaterNSW noted that it deemed 40% of the price increase to be outside its control, however there is no demonstrated evidence about customer willingness to pay for the 60% balance, or indeed any of the proposed increases. Best practice engagement would use genuine customer choice modelling where bill-payers can see in real time the impact of their selection for each proposed initiative and cumulatively across all initiatives.

As the engagement did not include the option of a CPI-only (or CPI-minus) price path as an option, it cannot be interpreted that customers "support" any degree of price increases proposed. In fact, it is clear our customers strongly oppose the price increases proposed.

Some examples of shortcomings in customer engagement include:

- **Lack of engagement by Murray-Lower Darling customers**: p109 of Appendix B notes that only 45 customers provided feedback via the CAG end-of-consultations survey. We note that no customers from our region (Murray-Lower Darling) contributed to this survey. The engagement report omits the number of customers invited to respond to this survey – we contend the response rate would be a solid indicator as to the assessment of the lack of quality engagement undertaken by WaterNSW. We note comments during the IPART public forum that expressed similar sentiments for other regions.
- **Lack of clarity regarding the price increases to be proposed:** WaterNSW outlined pricing outcomes equivalent to Scenario 1 in its engagement with customers. It was not clear that WaterNSW's actual proposal would be prices significantly higher than those noted in Scenario 1. (To avoid doubt, we contend that even the Scenario 1 price increases are very high and manifestly unreasonable).

- **Lack of representation**: Phase 2 of the WaterNSW customer engagement report notes that engagement explored 11 questions, including "Level of investment in reducing our greenhouse gas emissions." Contextual information included that "*There are likely soon to be legislative and regulatory requirements for WaterNSW to ensure our assets and operations are resilient to climate change.*" Of the 63 people engaged, 18 made no choice, suggesting nearly a third of people were not provided sufficient information to make an informed decision. While there was a near-equal split between "Minimal investment" (16 people), "Do a little" (15 people) and "Do this in full" (14 people), WaterNSW has used this to justify an expenditure of $2.5-$3.5 million beyond its legislative requirements. Concerningly, only 13 of those engaged were noted as "Customer (has a water access licence)", and these customers were strongly opposed to discretionary expenditure on this topic. By contrast, the largest demographic was "Resident/Community" (24 people), who we assume are either non-bill payers or unlikely to experience any material impact on their water charges. No reference was made to the potential use of passthrough approaches to more adequately deal with uncertain expenditure based on yet-to-be implemented legislative requirements. Customers were not provided with individual or stacked bill impacts of their 11 engagement questions, denying their ability to meaningfully confirm service/price trade-offs. While we support reasonable climate action, we do not believe that WaterNSW can justify this expenditure or expenditure related to the other questions in this series. Expenditure on discretionary items should only occur with full customer engagement and support of the directly associated bill impacts.
- **Lack of response to key issue**: The engagement reports noted that a key issue of concern is proposed price increases. However, with the inclusion of significant discretionary expenditure by WaterNSW, there is no evidence that WaterNSW responded to this key issue of concern by modifying expenditure plans. On the contrary, Operating Expenditure continues to increase at an alarming rate and many items of discretionary expenditure are included in the revenue requirement and customers' bills. WaterNSW could have used this key issue of concern to include a specific customer Outcome related to keeping operating expenditure in line with proposals (rather than just "reporting on" expenditure). Disappointingly, WaterNSW Outcomes appear based on its pre-determined Corporate Priority rather than based on direct customer engagement.

WaterNSW has proposed a headline increase of over 180% for Murray Valley customers. If it were genuinely customer-centric, it would have listened to its own customers and capped price increases rather than leaving it as a scenario for IPART to consider. WaterNSW notes it has been engaging with customers for two years. IPART has now just seven months to land a binding determination. We recognise this places IPART in a difficult decision having to "choose" which of three scenarios to apply that best reflects the long-term interests of WaterNSW's customers.

Recommendation 2: That IPART undertakes a fresh period of customer engagement with customers of Murray Irrigation and other Irrigation Infrastructure Operators (IIOs) so as to gain a greater understanding of their views on the proposed price increases on WaterNSW's and WAMC's customer engagement and duplicated services that are undertaken.

Recommendation 3: That IPART reject WaterNSW's self-assessment of its customer engagement as "between Standard and Advanced."

4 Expenditure

4.1 Operating expenditure

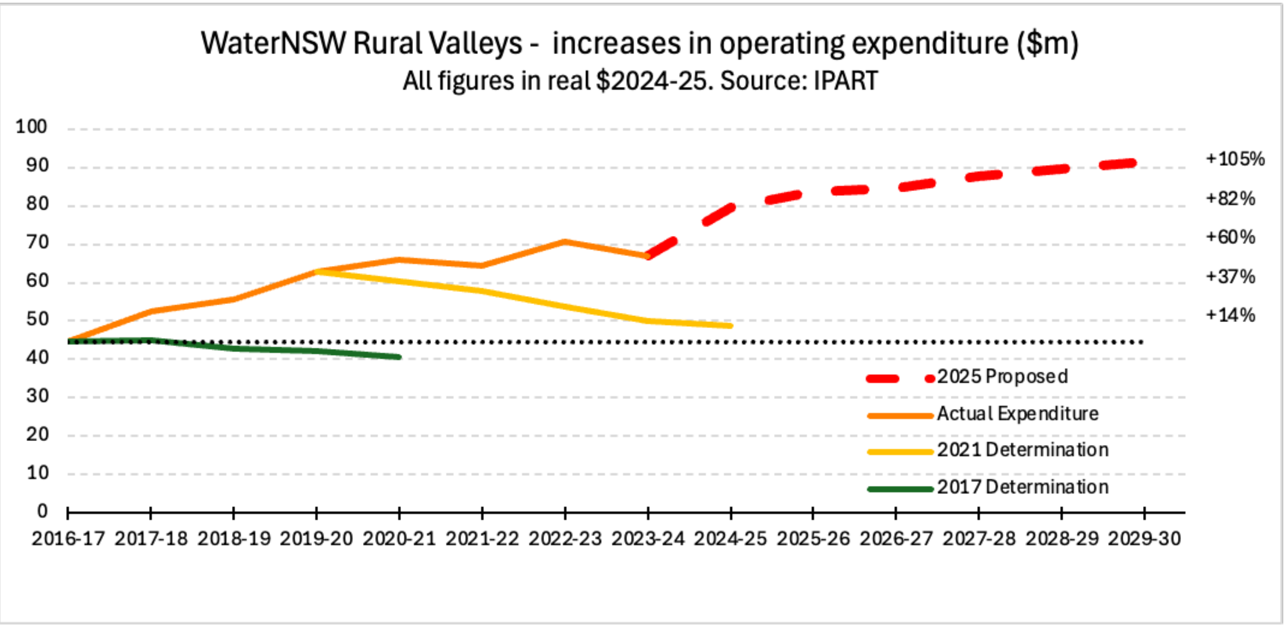
Local expenditure

Given the lack of provided detail regarding expenditure within our region, we have found it impossible to comment on whether we believe that local expenditure is fair and reasonable. We are also unable to comment on the trade-offs (if any) that have occurred locally. As noted earlier, Murray Irrigation has two structures on the river that are monitored by WaterNSW and all other delivery, compliance and reporting logistics are undertaken by ourselves with our costs recovered from our customers directly. We do not see how any increase in WaterNSW and WAMC charges will contribute to local expenditure or local service enhancement.

Recommendation 4: That IPART require WaterNSW and WAMC to clearly outline local operating expenditure priorities, and to engage locally on these priorities.

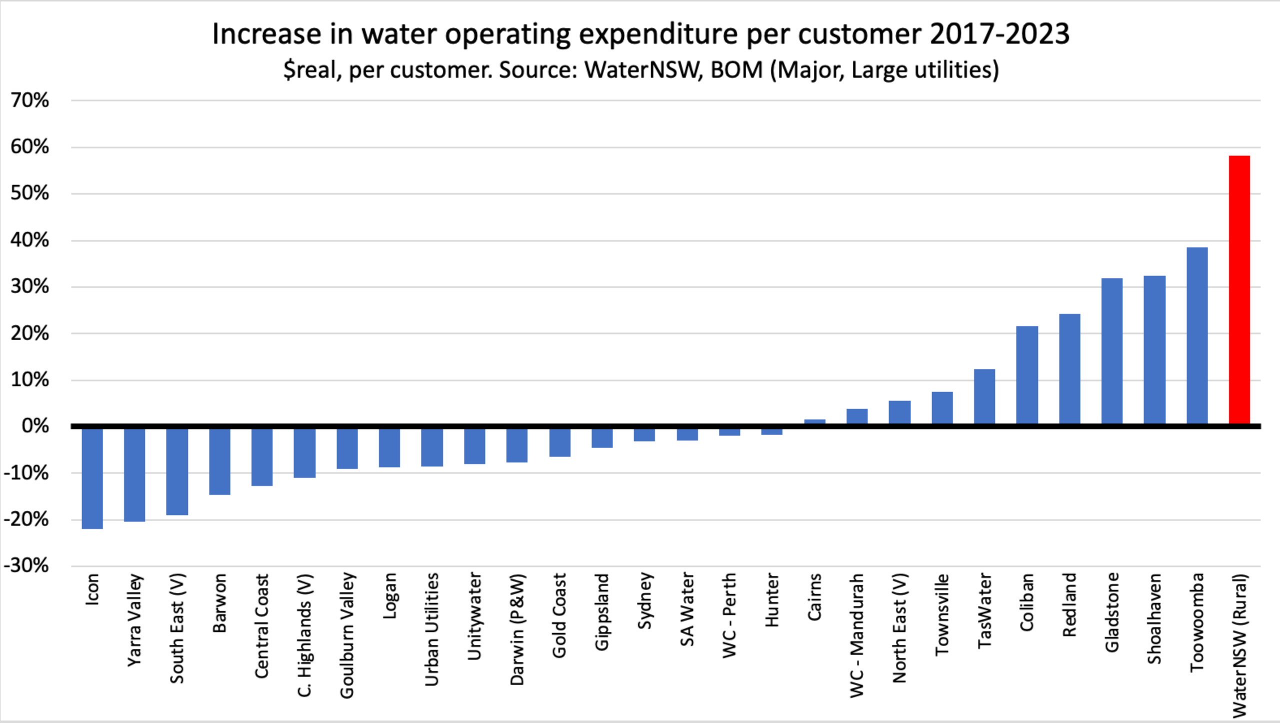
Overall rural valley expenditure

We have compiled a graph from various IPART and WaterNSW documentation that outlines the extremity of increases in operating expenditure over many years.



This graph shows that WaterNSW has been issued with successive price determinations with prescribed operating expenditure reductions. However, in each case, WaterNSW has significantly increased operating expenditure. The total increase in operating expenditure from 2017 to 2030 is forecast to be 105%. This means that rural valley operating expenditure in real terms would have doubled, despite WaterNSW delivering significantly less water by 2030.

To provide IPART additional insight to the cost pressures faced by customers, we have calculated the increase in operating expenditure per customer from 2017 to 2023 (the last available year of data from BOM).



While we understand this is possibly an imperfect comparison between urban utilities and rural utilities, we note that no single urban utility has had cost increases since 2017 that are similar to rural cost increases of WaterNSW. Several other utilities listed in this chart also manage dams and significant volumes of raw water.

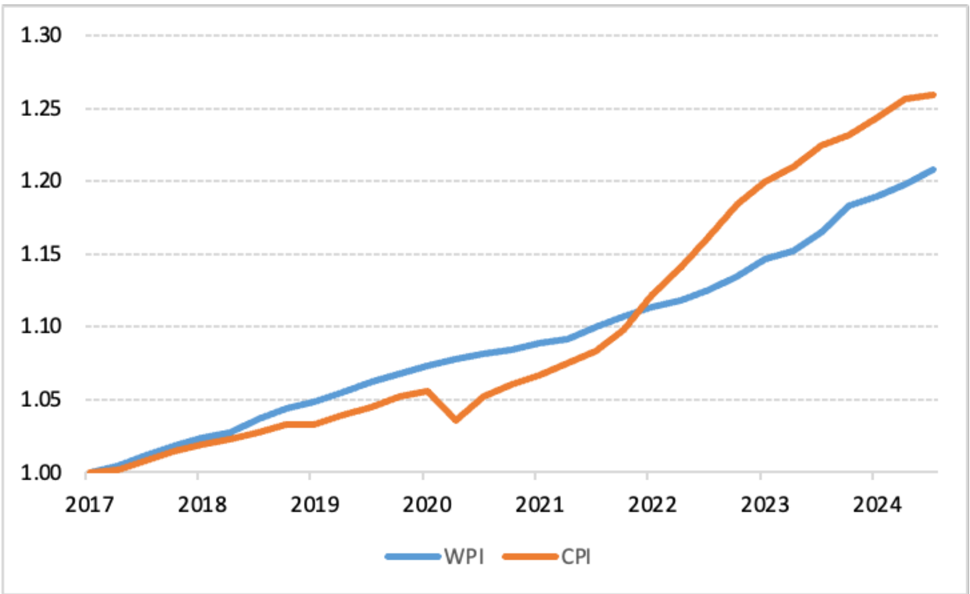
WaterNSW claims it has achieved $133 million of efficiencies. However, we are concerned how a business with a track record of exceeding operating forecasts over the last decade can reasonably claim operating expenditure efficiencies of this magnitude.

Recommendation 5: That IPART rigorously reviews WaterNSW and WAMC operating expenditure with the aim of ensuring customer value.

Recommendation 6: That IPART does not recognise the "efficiencies" claimed by WaterNSW, as these are against a background of significant and repeated increase in overall operating expenditure.

Labour costs

WaterNSW notes that labour costs increasing above inflation are a driver of real operating expenditure increases. However, we would encourage IPART to take a longer-term view of labour cost increases. In particular, we note that Consumer Price Indexation (CPI) has actually increased faster than the Wage Price Index (WPI, series A2603039T) since 2017. The following chart indicates how WPI and CPI have changed over time.



While it is plausible that real wage reductions may have contributed to declines in operating expenditure per customer for other water utilities, we note that WaterNSW's operating expenditure has increased despite real wage reductions across the economy. If WaterNSW is seeking to claim increases in real operating expenditure going forward, these should be offset against operating expenditure savings (due to declining real labour costs) that were not delivered in the period leading up to 2024.

Recommendation 7: That IPART applies a longer-term view of the expected real labour cost changes when receiving proposals from agencies to increase prices, as recent national real labour cost increases have been negative.

Capitalised overheads

During its preparation of its submission, WaterNSW advised Murray Irrigation that *"Other operating costs have also increased due to reduced capitalised overheads."* We note that compliance with WaterNSW's cost allocation framework would tend to imply that capitalised overheads attributable to rural valleys should decrease as WaterNSW embarks on an ambitious capital expenditure program for Sydney.

Recommendation 8: That IPART carefully review the allocation of overheads to avoid the risk that a much higher share than reasonable has been included in operating expenditure for rural valleys.

Historical inclusion of detail

We note that WaterNSW's 2017 submission includes additional detail by rural valley. Information such as revenue requirements, capital expenditure (total and user share), operating expenditure (total and user share) and other adjustments (including tax allowance and working capital) was outlined for each rural valley.

Following the IPART forum, we emailed WaterNSW requesting they provide their Building Block models to enable us to obtain this information, so we can better understand how costs in the Murray Valley had been established.

To date, WaterNSW has not replied to our email.

We note WaterNSW's Customer Outcome 6 "WaterNSW will be open and transparent (about customer charges and WaterNSW's expenditure)" and we struggle to reconcile how the choice to not provide expenditure by valley is consistent with this customer outcome.

Recommendation 9: That IPART consider the extent to which governments have inflicted regulatory burden on WaterNSW and WAMC and require the cost of this burden to be fully funded by government.

Recommendation 10: That IPART rejects operating expenditure increases beyond inflation as the evidence provided does not support their justification.

4.2 Capital expenditure

Prior non-delivery

We draw IPART's attention to WaterNSW's under delivery of capital expenditure. Its submission notes it had underspent its approved capital expenditure by 40%. It is not apparent from WaterNSW's submission the extent to which this under-delivery contributed to prices being higher than a genuine cost-reflective level. Further, for a significant under-delivery, it is not apparent the extent to which this issue was highlighted during customer engagement and whether customers were offered an opportunity to comment on approaches to return this over-collection back to customers.

We urge IPART to strongly consider WaterNSW's track record of delivery of capital expenditure when setting an efficient, deliverable benchmark for the upcoming regulatory period.

Further, we suggest IPART could consider including a much lower level of capital expenditure (say, about half of the proposed level) in prices, with additional amounts actually incurred passed through to prices on a year-to-year basis. This would avoid the risk of customers again receiving prices above the efficient level and WaterNSW again not delivering its planned investments.

Recommendation 11: That IPART consider applying a much lower level of capital expenditure to avoid the risk of customers receiving prices above the efficient level of service, with additional capital expenditure included in prices subject to an ex-post review.

Local expenditure

We note from page 28 of Attachment 18 that WaterNSW is proposing spending $36 million in the Murray Valley over the upcoming period. However, we could not readily locate any information that outlines the projects that contribute to this expenditure.

Accordingly, we cannot provide any comment as to the veracity or customer need of any of this expenditure. We seek to get a better understanding of this proposed expenditure and how this will improve the services to our Murray Irrigation customers. We strongly encourage IPART to critically review this proposed expenditure.

We are also keen to understand how NRAR and MDBA expenditures are invested locally.

Recommendation 12: That IPART require WaterNSW and WAMC to clearly outline local capital expenditure priorities, engage locally on these priorities and how this will improve service to Murray Irrigation customers.

Cost allocation

We note a significant increase in capital expenditure in Sydney and in operating costs generally. In accordance with the Cost Allocation Manual (Appendix 7), it would be logical to conclude that overheads attributable to Sydney would have increased and overheads attributable to the rural valleys would have decreased. We raised this question in the IPART forum for Sydney Water, and we sent a request for more granular information to WaterNSW. However, we were not provided access to any data that would confirm our understanding of the application of the Framework.

We encourage IPART to undertake a rigorous review of WaterNSW's compliance with its Cost Allocation Manual.

Further, it is unclear how the implementation of the three scenarios will have flow-on effects to cost allocations more generally. It would be logical to expect that exclusion of some rural costs would increase the share of corporate and shared costs attributable to Sydney.

If infrastructure is gifted, the capital expenditure is not paid by customers. However, the ongoing operational expenditure remains part of WaterNSW's cost base. This creates potential inefficiencies in cost recovery and raises concerns about transparency and accountability in operations. In particular, communities may expect higher standards in operational performance as time goes on.

Recommendation 13: That infrastructure installed and paid for by government going forward should include a portion to be held in trust by WaterNSW for future maintenance.

Recommendation 14: That IPART undertakes a detailed review of WaterNSW's compliance with its cost allocation policy.

5 Cost shares

5.1 Cost shares

Costs associated with delivering social benefits, such as environmental programs or equitable water access, should be borne by government funding rather than being passed onto water users. Shifting these costs to users distorts economic signals, creates inequitable burdens and risks undermining the intended public outcomes. Governments are best placed to fund these initiatives as they deliver value to the broader community, not just specific water customers.

We are particularly concerned about the transition towards WAMC full cost recovery in coming years. This results in the share of the revenue requirement being paid by customers increasing over 2025-2030, effectively changing the balance of government and customer funding of public good services.

Many cost increases have been related to public good services, such as compliance and environmental benefits. These costs should be borne by government as investments in these services provide benefit to the whole community.

Recommendation 15: That IPART maintains the current cost share of customers and the government for WAMC costs through 2025-2030, without transitioning to full cost recovery.

5.2 MDBA Charges

As well as paying significant WAMC and WaterNSW charges, NSW Murray Irrigators incur significant charges related to the operational costs and cap-ex programs of the MDBA.

Our understanding is these are the combined costs that are incurred by the three state agencies in storing and delivering water to all users along the regulated Murray River . The costs are distributed to states based on agreed cost shares between NSW, Victoria and SA. NSW then simply assigns the NSW share of these costs of operations and cap-ex to irrigators.

The key concerns Murray Irrigation is requesting IPART to investigate and to consider when establishing water prices include:

- **Value for Murray users:** The proposed costs per ML of entitlement for NSW Murray entitlement owners and water users are significantly higher than those for the Murrumbidgee, a system which has a similar mix and scale of water storages, water users and operational structures (several mid-river regulating structures enabling supply to large irrigation districts) .
- **Accountability:** The full make-up of the MDBA operational costs which form the basis of the costs to NSW irrigators, and the assessment of any value -for -money analysis has not been provided.
- **Cap ex program:** The proposed Murray River capital program is large, and there is no detail about the value irrigators are receiving for most of the works proposed. The works planned seem excessively expensive.
- **Community benefits are higher:** More than almost any river in Australia, the ecological values, combined with river-based tourism, recreational fishery and other leisure values provided by the regulated Murray River along almost its entire length, are enormous, and worthy of independent analysis.

Recommendation 16: That IPART investigate the MDBA charge component of the proposed fees and seek to understand how these charges benefit Murray Irrigation customers.

5.3 Irrigation Corporation District (ICD) Rebates

Through its functions as the owner and operator of supply infrastructure in accordance with our licence conditions, and customer water deliveries over its 700,000 ha footprint, Murray Irrigation performs a significant role within our region that government agencies would otherwise need to do. This includes undertaking water planning, natural resource monitoring, water monitoring, compliance and investigations, water delivery functions (through its network of escapes), water releases to achieve environmental outcomes, flood management, and a wide range of other water management services. Murray Irrigation recovers the costs of these services with our own charges to our customers. A low ICD rebate effectively means our customers are paying twice for these services. Evidence of some of the work we undertake each year is outlined in our annual compliance and monitoring report that can be found here: https://www.murrayirrigation.com.au/customers/compliance-and-monitoring

WaterNSW has proposed a continuation of the ICD rebates in relation to activities “customer billing” and “metering and compliance”. Given the significant cost increases proposed for these and other compliance-related services, we would recommend to IPART that ICD rebates increase in line with average prices within each valley. This would ensure equity for IIOs that deliver a wide range of timely, cost-effective and valuable services that would otherwise have to be undertaken by WaterNSW.

During the 2022 floods, most waterways across the southern Murray-Darling Basin experienced flooding. We undertook remedial work to repair infrastructure and to maintain the integrity of levees. Our presence in the region meant we did this for our customers, and avoided additional costs for the state.

We note the lack of reasoning within WaterNSW’s submission for the non-indexation of these important payments in line with other cost increases claimed by WaterNSW. While we note the purpose of ICD is to reflect saved costs of WaterNSW, we also note that the value of ICDs as a percentage of WaterNSW’s revenue requirement has dropped from 1.8% in 2017 to 1.6% over 2021-2025, and to 1.0% by 2030. We encourage IPART to review these rebates and to understand and publish WaterNSW’s rationale for calculating the levels of the ICD rebates.

Recommendation 17: That IPART increase the level of the ICD by the same percentage as WaterNSW prices increase for each year of the determination.

6 Additional concerns

6.1 Attachment 30 WaterNSW gross margins analysis

The analysis in Attachment 30, prepared by WaterNSW’s quality assurance advisor, Deloitte, raises important questions about the relevance and methodology of its approach to evaluating "capacity to pay" for irrigators. We note this report was dated 20 September 2024, just 10 days before the submission was provided to IPART, and therefore could not possibly have influenced customer engagement undertaken prior to this date.

While it is part of WaterNSW’s justification for proposed pricing increases, this analysis has notable shortcomings that limit its applicability to IPART’s regulatory decision-making.

- **Methodological Concerns**: The report combines data from regions with differing water markets, such as the northern valleys and the southern-connected Murray-Darling Basin. These areas have distinct characteristics in terms of water availability, economic dynamics and production risks.
- **Relevance of Capacity to Pay**: The concept of capacity to pay is a questionable criterion for setting bulk water charges. Pricing of bulk water must reflect the cost of bulk water supply and not extract all the consumer surplus, while the traded water market allows irrigators to balance costs and resource use. Focusing on capacity to pay risks diverting attention from core principles of WaterNSW efficiency and tariff fairness.
- **Misleading Metrics**: Metrics such as the water intensity of different industries fail to capture distinctions in risk, profitability and variability in water use. This oversimplifies the complexities of agricultural decision-making and limits the usefulness of the analysis.

- **Climate variability:** As climatic conditions fluctuate from year to year, so too does the returns from farming. The report itself notes that the 2018-19 year saw negative financial returns in all regions – higher prices in negative years would increase the debt burden faced by all farmers, eroding the long-term viability of Australia's food bowl.
- **Economic Implications**: The analysis does not separate costs associated with bulk water from those arising from water trading, creating unclear financial conclusions.

While the analysis may have some merit in highlighting affordability concerns, its findings are less relevant to the principles of efficient pricing that should guide IPART's determination. A sharper focus on bulk water efficiency would better achieve regulatory objectives.

We note another recent Deloitte report (https://www.deloitte.com/au/en/Industries/consumer-products/perspectives/transforming-australia-into-a-food-superpower.html) and suggest that the price increases proposed by WaterNSW and WAMC could directly inhibit Australia's transformation to a food superpower.

Recommendation 18: That IPART investigate whether the criteria to assess affordability are reasonable.

6.2 Sydney WACC lower than regional NSW

We note that the Weighted Average Cost of Capital (WACC) proposed by WaterNSW between Sydney and regional areas is inherently unfair and disproportionately burdens regional customers.

Region	WACC
Sydney	3.6%
Rural valleys	4.3%

While WaterNSW's decision to not provide us its building block models makes it very difficult to calculate the impact of this on customer bills, we estimate that the difference between the WACCs imposes approximately $53m of additional costs on rural valley customers.

The higher WACC for regional areas undermines fairness by exacerbating affordability issues for rural customers, noting irrigators and rural communities are reliant on water for their livelihoods. WaterNSW has not demonstrated that the higher WACC is caused by higher risk, especially as a purported benefit of the creation of WaterNSW was to enable the entity to operate more efficiently. It was stated by IPART during the 2017 price review that:

> *Since 2014, WaterNSW has realised efficiency gains. It has reduced its actual operating expenditure below the forecasts of efficient operating expenditure made by the ACCC in its 2014 Decision. This has largely been the result of savings achieved through the merger of the former State Water Corporation and the former Sydney Catchment Authority. WaterNSW has proposed that continuing efficiency gains can be realised in operating expenditure in each year of the 2017 determination period.*

The 2025-2030 proposal fails to acknowledge the disproportionate impact of water price increases on rural areas compared to urban centres, where customers have greater economic resilience and diversified service industries. We feel this effectively subsidises urban customers at the expense of rural affordability and sustainability. This inconsistency challenges the principles of equity and fairness.

As credit rating is determined at the entity level, we recommend IPART establish a single WACC for WaterNSW. In determining the parameter inputs to the WACC, IPART should directly consider:

- Revenue cap for Sydney region
- Revenue cap for rural valleys (if endorsed)
- Fixed charges payable by the environment
- Price paths increasing in real terms (if endorsed)
- Growing customer base (in Sydney)
- Forecast profit and dividend levels

These contribute to a more stable financial outlook for WaterNSW and reduce its inherent revenue risk. IPART could consider debt margin and equity beta modifications to take account of these factors.

Furthermore, we note these factors are all considered favourably by credit analysts such as Moody's, Fitch and S&P. Credit analysts review regulated entities as a whole entity and do not distinguish for subsections of the entity. IPART, too, should apply a single WACC for WaterNSW that reflects its overall risk profile.

Recommendation 19: That IPART apply a single WACC for WaterNSW that reflects its overall risk profile.

6.3 Risk of tariff structure reform

We strongly oppose any consideration of tariff structure reform at this time, such as increasing fixed charges from 40% to 80%, being introduced concurrently with significant price increases. While WaterNSW has flagged the notion of such reforms, it is fortunately not a core part of their pricing proposal. However, the potential for such changes poses a significant risk to customers.

We echo WAMC's caution that altering tariff structures at the same time as implementing substantial price increases can magnify price impacts, leading to disproportionate financial burdens for many customers. We urge IPART to reject any proposals for tariff structure reform during this determination period to ensure that price impacts remain as manageable and equitable as possible. Any discussion of such reforms should occur separately, following extensive customer engagement and impact assessment, and at a time that WaterNSW is proposing flat or declining real prices.

Recommendation 20: That there is no change to the fixed to usage cost share tariff structure.

6.4 Incentivisation

We recommend that IPART include financial incentive schemes, such as the Operating Expenditure Benefits Sharing Scheme (EBSS), Capital Expenditure Sharing Scheme (CESS), and Outcome Delivery Incentives (ODIs), as part of the final determinations for WAMC and WaterNSW. These schemes, outlined in IPART's Water Regulation Handbook, are critical for enhancing accountability, driving efficiency and aligning WaterNSW's performance with customer expectations. It is concerning that WAMC or WaterNSW has not proposed any such mechanisms nor engaged with customers on whether these should be implemented. Introducing these schemes would improve transparency and incentivise efficient delivery of services by WAMC and WaterNSW. We urge IPART to prioritise the inclusion of incentive schemes in its determination to strengthen WAMC's and WaterNSW's accountability and responsiveness to customer needs.

Recommendation 21: That IPART include financial incentive schemes as part of its final determination to WaterNSW and WAMC in an attempt to control and disincentivise spiralling costs.

6.5 Revenue cap

In Attachment 13 of WaterNSW's submission, the highlighted chapter summary notes: "Overall, the majority of customers (86% of respondents) were in favour of adopting a revenue cap with a side constraint as their preferred form of control structure." However, upon reading further into the attachment it becomes apparent that this is only when compared to the alternative of much higher fixed charges. We reiterate to IPART that the choice of status quo was not an option presented to customers, and unlike other engagement options a "no choice/not sure" option was not seemingly offered for customers to choose.

Murray Irrigation notes significant concerns relating to a revenue cap. In a series of dry years when farmers are most financially stressed, prices could rise significantly. In a series of wet years when farmers are experiencing higher profitability, prices will fall significantly. We believe that a revenue cap imposes higher costs to our customers when times are tough, and lower costs in the good years. While we have a slight preference for a revenue cap over higher fixed charges, note that we do not support the introduction of a counter-cyclical revenue cap.

We note the five pages of formulas that calculate the adjustments required as per the proposed revenue cap. We also note WaterNSW's verbal assurance that the 15% cap is a hard cap, as confirmed during IPART's hearing. However, we could not determine how the hard cap is incorporated into these formulas, and we could not determine how the scenario options (including 15% caps) would interact with the revenue requirement. Furthermore, we note the formula in section 4 (p37 of attachment) implies that any variance from actual revenue would be incorporated into the RAB at the end of the regulatory period. This is concerning as the gap between the hard cap and the cost reflective base case is significant for the Murray Valley. Implementation of these formulas could result in any discretionary reduction in price increases (eg Scenario 1) simply leading to higher prices in the future as this discretionary reduction is instead capitalised and transferred into the RAB to be paid for by future customers.

We strongly encourage IPART to rigorously interrogate the formulas to avoid any unintended consequence, and to mitigate any risk that any gap between cost reflective base case and actual revenue is a cost to be borne by customers after 2030.

Recommendation 22: That IPART rejects the proposed revenue cap.

Recommendation 23: In the event that IPART accepts any form of revenue cap, IPART rigorously interrogates revenue cap formulas to avoid any unintended consequences for future price changes, and publishes price calculation templates in an exposure draft manner in its Draft Decision.

6.6 Financeability

WaterNSW has indicated in discussions that its proposed price increases are driven in part by the need to maintain its financial credit rating and ensure its ongoing financial sustainability. However, upon review of its submission, there appears to be a lack of detailed financial modelling or transparent information that demonstrates how the proposed prices address these objectives. This absence makes it difficult for stakeholders, including the public and WaterNSW's customers, to assess and understand the financial position of the organisation and the actual risks it faces. Without such information, customers are left with insufficient context to evaluate whether the proposed increases are necessary or appropriate.

Recommendation 24: That IPART requires WaterNSW to publish clear, detailed modelling and analysis of its financial position, credit rating considerations, and associated risks to improve accountability and customer understanding.

6.7 Impact on water entitlement value

Fixed and usage charges for Murray Valley water entitlements are proposed to rise significantly, from $14 to $40 per ML over the determination period. This directly impacts the value of these assets, particularly the GS entitlement, as potential purchasers will account for the higher ongoing costs in their purchase price calculations. Many water entitlement holders rely on these assets for business viability. Higher fixed charges reduce the returns generated from holding entitlements, forcing sellers to lower their asking prices to reflect buyers' reduced profitability.

This proposed dramatic increase of proposed fees will also impact the capacity of NSW irrigation farmers to support their communities and ultimately places further long term burden on the NSW government, especially during low water allocation seasons.

We note that WAMC and WaterNSW have not considered or estimated the change in value in water entitlements as a result of large, proposed price increases. We recommend IPART investigates this as part of its due diligence review of WAMC and WaterNSW prices.

While we have not sought legal advice on whether a government regulation causing a material decline in asset values could trigger compensation obligations for the NSW Government, this is a matter we ask IPART carefully consider. The potential for significant financial harm to many entitlement holders, combined with broader market implications, raises questions of fairness related to the decline in asset value of entitlements. IPART should consider the risk of unintended consequences when assessing WAMC and WaterNSW proposed price increases, as they could lead to reduced market confidence and unforeseen legal or economic ramifications.

Recommendation 25: That IPART investigate if proposed price increases by WaterNSW and WAMC will impact the value of water entitlements and subsequent viability of water entitlement holders' businesses.

Recommendation 26: That IPART consider whether or not a legal risk exists of having to pay compensation to affected entitlement holders as a result of dramatic fee increases.

6.8 Customer outcomes

A particular example of concern is the outcome to report operating expenditure levels, which is redundant given that such reporting already occurs through Annual Reports. This falls short of meaningful accountability or progress. Reporting expenditure levels should be a standard practice not an aspirational outcome. This outcome could be strengthened to require WaterNSW to achieve its expenditure targets.

WaterNSW cannot claim to meet customer outcomes if it fails to deliver on expenditure targets. Customers have consistently identified affordability as a major concern and merely reporting costs does not address this priority. WaterNSW should establish and deliver measurable outcomes that demonstrate accountability for managing costs efficiently. This approach would align with customer priorities, enhance transparency and directly address the pressing need for affordability in pricing determinations.

We support the clarity that WAMC have applied to setting operating efficiency targets as part of its submission, however this too could be extended to further elements of operating expenditure.

Recommendation 27: That IPART include a specific customer outcome for WaterNSW relating to operating expenditure.

7 Conclusion

In conclusion, Murray Irrigation is very concerned regarding the magnitude of proposed fee increases from both WaterNSW and WAMC. There appears to be a number of underlying drivers for these proposed increases that our customers are yet to fully ascertain. These proposed fee increases are not services sought by our customers and we encourage IPART to consider carefully the long-term implications these proposed charges will have on our food producing farmers' viability, our communities that rely on them and our company.

We do not see why proposed charges should increase beyond CPI and, if necessary, government should contribute the difference. Taking into account all these considerations, we are of the view that IPART should not issue a five year determination for WaterNSW and WAMC. IPART should only approve an interim one-year determination, with prices set at CPI only over the period. This would enable WaterNSW and WAMC to address the shortcomings of their submissions and IPART to consider measures to improve cost efficiency. We would be open to hosting an IPART in-person engagement session in our region, and we would help IPART communicate and promote this session to our customers.

Recommendation 28: That IPART implements an interim determination (adjusted with CPI on current fees) for one year for WaterNSW and WAMC charges, to give more time to better understand cost drivers.

8 Summary of recommendations

Recommendation 1: That IPART directly considers the impacts of customer affordability on regional and rural irrigators for all aspects of its deliberation on WaterNSW and WAMC price increases.

Recommendation 2: That IPART undertakes a fresh period of customer engagement with customers of Murray Irrigation and other Irrigation Infrastructure Operators (IIOs) so as to gain a greater understanding of their views on the proposed price increases on WaterNSW's and WAMC's customer engagement and duplicated services that are undertaken.

Recommendation 3: That IPART reject WaterNSW's self-assessment of its customer engagement as "between Standard and Advanced."

Recommendation 4: That IPART require WaterNSW and WAMC to clearly outline local operating expenditure priorities, and to engage locally on these priorities.

Recommendation 5: That IPART rigorously reviews WaterNSW and WAMC operating expenditure with the aim of ensuring customer value.

Recommendation 6: That IPART does not recognise the "efficiencies" claimed by WaterNSW, as these are against a background of significant and repeated increase in overall operating expenditure.

Recommendation 7: That IPART applies a longer-term view of the expected real labour cost changes when receiving proposals from agencies to increase prices, as recent national real labour cost increases have been negative.

Recommendation 8: That IPART carefully review the allocation of overheads to avoid the risk that a much higher share than reasonable has been included in operating expenditure for rural valleys.

Recommendation 9: That IPART consider the extent to which governments have inflicted regulatory burden on WaterNSW and WAMC and require the cost of this burden to be fully funded by government.

Recommendation 10: That IPART rejects operating expenditure increases beyond inflation as the evidence provided does not support their justification.

Recommendation 11: That IPART consider applying a much lower level of capital expenditure to avoid the risk of customers receiving prices above the efficient level of service, with additional capital expenditure included in prices subject to an ex-post review.

Recommendation 12: That IPART require WaterNSW and WAMC to clearly outline local capital expenditure priorities, engage locally on these priorities and how this will improve service to Murray Irrigation customers.

Recommendation 13: That infrastructure installed and paid for by government going forward should include a portion to be held in trust by WaterNSW for future maintenance.

Recommendation 14: That IPART undertakes a detailed review of WaterNSW's compliance with its cost allocation policy.

Recommendation 15: That IPART maintains the current cost share of customers and the government for WAMC costs through 2025-2030, without transitioning to full cost recovery.

Recommendation 16: That IPART investigate the MDBA charge component of the proposed fees and seek to understand how these charges benefit Murray Irrigation customers.

Recommendation 17: That IPART increase the level of the ICD by the same percentage as WaterNSW prices increase for each year of the determination.

Recommendation 18: That IPART investigate whether the criteria to assess affordability are reasonable.

Recommendation 19: That IPART apply a single WACC for WaterNSW that reflects its overall risk profile.

Recommendation 20: That there is no change to the fixed to usage cost share tariff structure.

Recommendation 21: That IPART include financial incentive schemes as part of its final determination to WaterNSW and WAMC in an attempt to control and disincentivise spiralling costs.

Recommendation 22: That IPART rejects the proposed revenue cap.

Recommendation 23: In the event that IPART accepts any form of revenue cap, IPART rigorously interrogates revenue cap formulas to avoid any unintended consequences for future price changes, and publishes price calculation templates in an exposure draft manner in its Draft Decision.

Recommendation 24: That IPART requires WaterNSW to publish clear, detailed modelling and analysis of its financial position, credit rating considerations, and associated risks to improve accountability and customer understanding.

Recommendation 25: That IPART investigate if proposed price increases by WaterNSW and WAMC will impact the value of water entitlements and subsequent viability of water entitlement holders' businesses.

Recommendation 26: That IPART consider whether or not a legal risk exists of having to pay compensation to affected entitlement holders as a result of dramatic fee increases.

Recommendation 27: That IPART include a specific customer outcome for WaterNSW relating to operating expenditure.

Recommendation 28: That IPART implements an interim determination (adjusted with CPI on current fees) for one year for WaterNSW and WAMC charges, to give more time to better understand cost drivers.