

16th September 2016

Submission to the

Independent pricing and regulatory tribunal

WaterNSW's Rural Bulk Water Pricing Review

1st July 2017 to 30th June 2021

Introduction

I am a licensed irrigator at [REDACTED] in the Hunter Valley. I am involved in a family partnership operating a dairy farm producing 4,000,000 litres of milk per annum. I am a member of the Hunter Valley Water Uses Association. I support the HVWUA and the NSW Irrigators Councils submissions.

In our area of the Hunter valley we average about 25 inches rainfall per annum. We rely heavily on irrigation for our stock feed. Not only pasture for milkers but also to grow feed for dry cows and replacements. Dry cows and replacements are fed a full ration year round.

Water prices

A comparison between water charges from 2000 to 2016 and milk price for same period.

In 2000 State water charges were:

Regulated water admin/service charge	1.00	\$45.00	\$45.00
Low security Entitlement fixed charge	336 Megs	\$3.22	\$1081.92
Regulated water usage charges	336 Megs	\$3.66	\$1229.76
		Total water charges	\$2356.68

Electricity for irrigation 11.24 cents per kWh.

Income milk price April 2000 54.53Cpl.

2016 Water NSW charges	336 Megs	\$8.86	\$2976.96
Regulated water usage charge	336 Megs	\$14.77	\$4962.72
		Total water NSW charge	\$7939.68

Dpi Water charges access general \$2.73 usage general \$1.75 \$1505.28

2016 electricity for irrigation 41.32 Cents per KWH

Milk income April 2016 54.47Cpl.

The 2000 figures are from the 1999-2000 financial year. From July that year the milk price dropped to 31Cpl.

The last few years our water costs have sat around 25 – 30,000 a year with irrigation electricity costs around the 75 – 80,000. With the current milk price climate a reduction in milk price occurred in July. This drop varied from 2 to 6 c/l depending on milk processor supplied. As can be seen from this comparison water costs have risen over the 16 year period, where as in our case the milk price is now lower than in April 2000. This scenario is similar for other agricultural irrigators such as hay makers, fruit and vegetable producers. Costs have risen but income per unit of produce sold has barely changed.

My personal observations of irrigation practices in my local area are that some irrigators now only irrigate at weekends when they can utilise the cheapest electricity tariffs to reduce costs. Other Irrigators are increasing the interval between rain events and recommencing irrigating in an attempt to reduce costs.

Submission on water price

The Hunter is currently at full cost recovery. With every price increase more irrigators adjust their water use, whether by irrigating weekends only, delaying irrigating or dropping paddocks from irrigation through summer to try to reduce their usage and their costs.

These actions result in less water used and lower revenue for water NSW.

If WaterNSW are allowed more price increases in this determination period then more irrigators will change and reduce water use to reduce costs and therefore reducing the revenue from water sales to waterNSW (who will want to increase price again to cover loss of income from lower water sales).

This is the scenario which has occurred on the North and South coasts, where it is more cost effective to purchase feed in than irrigate and grow it on farm.

The Hunter is heading the way of the North and South coasts. With the Liddel and Bayswater power stations earmarked for decommissioning by 2026 there will be a further 30,000 Mgl of water not being utilised.

Water prices should be held at their current level and not increased.

Capital expenditure

The same as any business, irrelevant of the produce or product sold or service supplied we have had to become more efficient, utilise, invest in technology, increase production and sell more product to keep up with our increasing cost base. When we commit to a capital expense we do so after determining that the expense will benefit the business, either by reducing costs, creating an efficiency or by enabling sales to be increased.

The "MEERA" accounting formula utilised by WaterNSW to calculate their capital expenditure will dramatically increase their regulated asset valuation by 65% from 13/14 levels to 36 million by 20/21.

With a fixed return rate this increases the cost share to be recovered from licence holders, increasing irrigators costs and increasing waterNSW revenue.

WaterNSW Has not indicated what projects the capex expenditure will be on.

CAPEX submission

This large increase in asset value with a fixed return directly linked to value is exactly what occurred with the Electricity networks.

WaterNSW is a state Government monopoly. Not a publicly listed company with shareholders. Generally when a company has a massive increase in value and revenue returns it is being set up for sale.

Water NSW wales expect licence holders to cover a large share of their returns from increases in the costs of capital expenditure and upgrades instead of recovering the cost from savings made via the upgrade.

What is the cost benefit of water NSW capex expenditure?

Does the capex expense create a saving?

What is the increased expenditure intended to be spent on?

WaterNSW should as part of this ipart determination be in the position to fully list and cost their proposed CAPEX expenditure valley by valley.

If WaterNSW cannot fully itemise valley by valley the projects and the full costing per project then no increase in CAPEX should be considered above the levels of the last determination period.

As a business operator when approaching a financier to raise funds for capital expenditure I am required to outline the project, have the project fully costed and have budgets completed to show how I will meet the financial requirements of the project. This is the minimum I would expect from WaterNSW for the massive spending increases they are proposing.

Regards,

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