

Gwydir Valley Irrigators Association Inc.

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Gwydir Valley Irrigators Associations
submission to

*Review of Prices for Water
Administration Ministerial
Corporation – Response to
the IPART Draft
Determination and Report*

Independent Pricing and Regulatory
Tribunal

November 2010

Executive Summary

The Gwydir Valley Irrigators Association (GVIA) welcomes the opportunity to comment on IPART's Draft Determination and Report on Prices for the Water Administration Ministerial Corporation.

It is extremely disappointed, but not surprised that once again IPART has rewarded NOW with price increases far in excess of CPI, but admittedly far below those sought by NOW.

GVIA's principal concerns revolve around the justification for, and the efficiency of the expanded hydrometric network, the inclusion of some of the Scenario 2 costs, the premature nature of the proposed metering charges, the massive increases in transaction costs, the inadequate nature of the minimum charge, the flawed consumption forecasting methodology and the imposition of a Return on Capital component.

GVIA has proposed the following recommendations:

GVIA strongly recommends that NOW's prices be frozen in real terms at 2009/10 levels until it demonstrates to IPART a sufficient standard of financial management and reporting.

GVIA recommends that the minimum charge be set at \$200, and that it be increased at each Determination until it reflects the basic costs of servicing a water entitlement.

That IPART either continue to use the Integrated Quantity & Quality Model (IQQM) or adopt the modified 20-year rolling average usage forecast as described on page 113 of its Draft NOW report.

That prior to incorporating the additional costs of the expanded gauging station network into user charges; IPART re-examine the degree of additional benefit the expanded network will provide to users.

That IPART totally reject NOW's claim for all Scenario 2 costs.

That IPART completely remove any return on asset component in the NOW price structure.

That IPART should review its support for Coastal – Inland groundwater pricing split, and return to valley-based pricing.

That IPART should not make any Determination on Meter Charges for government owned meters until the Federal Government project is approved; and further details are provided.

IPART seek further detail on the allocation assignment approval process adopted by NOW, and then use this information to reassess the allocation assignment fee for groundwater and unregulated entitlement.

GVIA strongly urges NOW to re-assess the efficiency of NOW's transaction costs prior to making its final determination.

Introduction

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 250 irrigators in the Gwydir Valley of NSW, centred on the town of Moree.

The organisation is voluntary, funded by a cents/megalitre levy on regulated unregulated and groundwater irrigation entitlement. In 2009/10 the levy was paid on in excess of 90% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Regional Landcare Co-ordinator. .

GVIA is a member of the NSW Irrigators Council, and as well as providing this submission, the Association endorses the submission made by NSW Irrigators Council.

The GVIA welcomes the opportunity to provide comment on the Draft Determination of Prices for Water Ministerial Corporation”, through the NSW Independent Pricing and Regulatory Tribunal (IPART) process.

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General Comments

GVIA is pleased that IPART has recognised the ambit claims that were made by NOW in its submission, but is stunned that IPART continues to reward NOW with price increases that far exceed the effect of inflation.

The Draft Determination will see (according to IPART's calculations) increases in the average Gwydir Regulated River water user in the order of 45% over the three year Determination period. That is an average annual real increase of 15%.

The increases over the Determination period are even more significant for unregulated (73%) and groundwater users (69%).

What truly astounds GVIA is that these increases are provided in a report that is actually damning of NOW's financial management and reporting.

NSW irrigators are sick and tired of being seen as virtual "cash cows", available to be "milked" to prop up continued inefficiencies. It is disheartening to see effectively the same criticisms levelled by IPART at NOW Determination after Determination, yet have IPART constantly reward NOW with significant increases.

Recommendation

GVIA strongly recommends that NOW's prices be frozen in real terms at 2009/10 levels until it demonstrates to IPART a sufficient standard of financial management and reporting.

Length of Determination:

GVIA supports IPART's draft decision that the Determination period should be three years, from July 1, 2011 to June 30, 2014. This keeps the period in synch with the State Water Determination.

However, GVIA would like to stress that it does not believe that NOW should be rewarded with any CPI increase for the 2010/11 year, and nor should there be any consideration in the 2011-14 Determination that would allow NOW to recoup revenue it may of missed out on, due to its failure to ensure IPART had the information it required to provide a Determination in time for the start of the 2010/11 year.

It is completely unacceptable to GVIA that IPART constantly rewards NOW with increases, while deploring it performance.

Increase to the Minimum Bill:

In its original submission to this Determination process GVIA recommended that the minimum bill be increased from \$60 per annum to \$200 per annum, with a 12 month period available for entitlement holders to consolidate multiple licences.

GVIA took this position because it recognises (as does IPART and NOW) that a minimum bill of just \$60 goes no way towards covering the basic costs incurred by NOW in servicing a licence.

GVIA notes that IPART has recommended an immediate increase in the minimum bill to \$95, a level that represents approximately a 60% increase. And while this is significant in percentage term, in actual terms it's a very modest \$35.

While GVIA would normally argue that it is the percentage increase that is the significant factor, the simple fact is that the minimum bill has been protected at \$60 for a large number of years, and therefore an increase to a level that more accurately reflects the base cost of servicing a licence is justified.

GVIA notes that according to IPART's analysis 51% of all licence holders will only be paying the minimum charge.

While GVIA is unsure of the exact number of entitlement licences administered by NOW, it has estimated it to be in the order of 25,000. If this is approximately right, it means that if 51% are paying only the minimum bill, the total contribution towards NOW's 2011/12 user share of efficient costs of \$33 million is just \$1.2 million.

GVIA believes the proposed \$95 remains inequitable.

Recommendation

GVIA recommends that the minimum charge be set at \$200, and that it be increased at each Determination until it reflects the basic costs of servicing a water entitlement.

Consumption Forecasting

Throughout both the State Water and NOW IPART Determination processes GVIA has strongly argued that there is no scientific justification for moving away from the consumption forecasts generated by Integrated Quantity and Quality Model (IQQM).

GVIA has put the case that there has been no evidence presented by either NOW, State Water or IPART, that there has been any statistically significant change in water availability in the Gwydir Valley.

Despite this, IPART has chosen to continue with its State Water Determination, and propose the adoption of the 20-year moving average of actual extractions. In the Gwydir,

this sees the consumption forecast fall from approximately 309,000 megalitres to 247,000 megalitres or 19.9%, which correlates directly with increased usage charges.

GVIA wishes to point out one of the nonsensical justifications used by IPART in its support for its preferred consumption forecast model as described in Box 8.1 (p114).

It provides State Water with an incentive to minimise water theft (where actual extractions are used) as any additional water sales that are captured are chargeable.

This statement suggests that IPART does understand the system that it is supporting.

All water delivered by State Water has always been chargeable, therefore regardless of what consumption forecasting tool is used, State Water has had an incentive to minimise theft.

However, in terms of ensuring maximum usage charges, it is in State Water's (and NOW's) interest to minimise the consumption forecast, and therefore it could be argued that under the model proposed by IPART that there is an incentive for both State Water and NOW to under report usage. GVIA is in no way suggesting that this occurs, but is merely highlighting the fact that IPART does not appear to understand the model that it is supporting.

In previous submissions GVIA has warned that the adoption of the 20-year moving extraction average had the very real capacity not only to lead to artificially high usage charges, but also lead to very significant over-recovery as the chances of exceeding the average consumption forecast has been significantly increased.

We now have the very real possibility that in 2010/11 consumption will significantly exceed the new forecast level, as we see a return to more normal seasonal conditions.

Already, just four months into the water year, and prior to the Gwydir's normal run-off generating months some 93,000 megalitres of supplementary water has already been delivered and 239,000 megalitres of general security entitlement has been made available in Copeton Dam. This totals 332,000 megalitres, far in excess of our new consumption forecast level of just 243,000 megalitres.

GVIA warned IPART repeatedly that seasonal conditions can, and do, change rapidly, and that the conditions experienced in the recent past, are no predictor of what is to be experienced in the near future. The 2010/11 experience bears this out.

Recognising IPART's determination to move away from the use of the IQQM, GVIA and other organisations proposed a modified version of the 20-year moving average extraction, which would allow the impact of the change to be introduced gradually, and GVIA is disappointed that this compromise position has been rejected by IPART, and GVIA strongly recommends that IPART reconsider this position.

Recommendation

That IPART either continue to use the Integrated Quantity & Quality Model (IQQM) or adopt the modified 20-year rolling average usage forecast as described on page 113 of its Draft NOW report.

NOW's Operating Costs

GVIA simply does not have the resources, or the access, to truly test the efficiency of NOW's operating costs, and notes that Price Waterhouse Coopers (PCW), with all its resources still struggled to undertake a full assessment of NOW's efficiency.

However, in light of the above GVIA has little choice but to generally support the recommendations of PCW which have been incorporated by IPART.

GVIA thinks that it is essential that NOW provides IPART with a clear list of operational outcomes that it expects to achieve over this Determination Period, and that it regularly reports its performance against those target in a transparent manner.

GVIA will no longer tolerate NOW constantly coming to Determination seeking resources for tasks that it had identified as being priority work for the previous Determination Period. Therefore GVIA supports IPART decision to have NOW report annually against its promised service deliverables.

Hydrometric Gauging

GVIA continues to hold a very specific concern around the expansion of the hydrometric gauging network, and the considerable increase in user charges that will result.

GVIA understands that one of justification for increasing the network is to assist in the better management of unregulated streams. However, GVIA has been informed that with the roll-out of the unregulated river macro-plans it is highly likely that the commence-to-pump rule for the vast majority of entitlement holders will be the presence of a visible flow – which hardly requires a sophisticated automated gauging station to measure.

As previously stated, GVIA is supportive of the adoption of technology where it provides efficiency savings, however, these additional gauging stations will actually have higher running and servicing costs than the current network, and provide little or no benefit to the users, who will be bearing a significant portion of their costs.

Recommendation

That prior to incorporating the additional costs of the expanded gauging station network into user charges; IPART re-examine the degree of additional benefit the expanded network will provide to users.

NSW Contribution to Murray-Darling Basin Authority Costs

GVIA is very supportive of IPART's decision not to accept NOW's argument for a massive, and unjustified shift, in user share of Murray-Darling Basin Authority costs which would have resulted in an increase in user share from \$1.7 million to approximately \$6 million.

Scenario 2 Operating Costs

While noting that IPART has rejected the vast majority of NOW's claim for Scenario 2 Operating Costs, GVIA is very disappointed that IPART has accepted \$1.8 million, largely on the grounds that the Commonwealth has advised that it will not be meeting these costs.

GVIA calls on IPART to completely reject these costs, as they are contrary to the assurance that the Murray-Darling Basin Water Reform process would be at no net cost to NSW. GVIA has always argued that means no net cost to NSW as a whole, and not just no net cost to the NSW Government.

GVIA looks to IPART to draw a firm line through any claim that would see these additional costs past through to users. Unless IPART take this stand, the NSW government will simply accept IPART's recommendation and these costs will be met by users.

However, if IPART draws a line through these costs in their entirety then the NSW Government will be motivated to ensure the Commonwealth meets its original commitment.

Recommendation

That IPART totally reject NOW's claim for all Scenario 2 costs.

Rate of Return On Assets

GVIA completely rejects IPART's decision to allow NOW to seek a rate of return on its assets.

As previously argued NOW is not a government corporation, but a government department, and therefore should no more seek a return on assets, than the NSW Health Department.

This is a deeply held philosophical position, and one that does not require further explanation.

Recommendation

That IPART completely remove any return on asset component in the NOW price structure.

Volatility Charge

GVIA support's IPART's decision not to apply a volatility charge to NOW's charge structure.

Geographic Split of Pricing

GVIA supports IPART's decision to continue the practice of valley-based pricing for regulated and unregulated systems, but is disappointed that IPART has chosen to accept NOW's recommendation to move to a Coastal – Inland split for groundwater.

GVIA remains unconvinced that there are not significant costs differences between valleys for groundwater management, and believe that NOW did not present any compelling evidence to change from the current structure of region based pricing, yet IPART has chosen to move even further away from the ideal of valley-based pricing.

Recommendation

That IPART should review its support for Coastal – Inland groundwater pricing split, and return to valley-based pricing.

Supplementary Groundwater

Having raised the serious inequity of NSW Supplementary Groundwater users being charged fixed charges on their initial Supplementary entitlement, rather than their annually adjusted Available Water Determination allocation, GVIA is pleased that IPART has rectified this anomaly in its draft Determination.

While GVIA thinks IPART's intentions are clear, it does suggest that IPART reviews the wording used in Clause 2.2 which is as follows:

2.2 The maximum annual charge that may be levied for the Monopoly Services provided under a Supplementary Groundwater Licence is the higher of:

- (a) the annual charge set out in Table 9 for the relevant year; and***
- (b) where the Water Licence holder has a Meter: the sum of the following:***

(1) an entitlement charge calculated as follows:

EC E

where:

(A) EC is an entitlement charge expressed in dollars per megalitre of Entitlement or in dollars per unit share in Table 10 for the relevant river valley and relevant year; and

(B) E is a licence holder's Entitlement or unit share for water resource for that year as set under the relevant Available Water Determination; and

As GVIA understands E is in fact the allocation that has been made available through the Available Water Determination process, and not strictly speaking the entitlement or unit shares.

Charges for Basic Landholder (Stock and Domestic) Rights

GVIA is disappointed that IPART has chosen not to consider the imposition of charge for Basic Landholder Rights for this Determination period. NOW has invested considerable resources in the development of a still-to-be-finalised Reasonable Use Guidelines Policy for BRL, and yet these users make no contribution to the costs associated with developing these guidelines, managing access or ensuring compliance.

GVIA notes that IPART has indicated it will consider the matter in the next Determination Period, and GVIA believes that commitment must be honoured.

Special Category Licenses (Floodplain Harvesting)

While GVIA see equity in users being subject to a NOW usage charge (once floodplain harvested water is licenced and metered), it makes the point that it would totally reject any charge being levied by State Water on floodplain harvested water usage.

However, GVIA also considers that when a Floodplain Harvested water usage charge is implemented, it must be revenue neutral. That is, NOW is already recouping its cost of developing the Floodplain Harvesting licencing framework through existing charges, so it is not as if the management of floodplain harvesting is an additional body of work.

GVIA remains totally opposed to any charge being levied on entitlement holders in exchange for the issuing of Floodplain Harvesting licenses.

Metering Charge

While GVIA is not in-principal opposed to a separated metering charge, it is astounded by IPART's claim that the response it received to the NOW proposal varied considerably from the response it received from the State Water proposal.

In its submission to both processes GVIA made it clear that it thought the development of a separate metering charge (primarily driven by the proposed federally funded metering project) was premature, and the efficiency of the suggested costs had not been adequately scrutinised.

This remains GVIA's position, particularly as there has been no indication from the Federal Government as to whether the project will pass due diligence and therefore be funded; there has been no in-depth consultation with entitlement holders allowing them to assess the merit of the project, and there has been no acceptance by entitlement holders of the project.

Recommendation

That IPART should not make any Determination on Meter Charges for government owned meters until the Federal Government project is approved, and further details are provided.

User Owned Meter Reading Charge

With regards to the separated charge for user owned meters GVIA is not opposed to applying the transparent charge provided that it is revenue neutral to NOW.

Further, GVIA makes the point, that while the current Determination does socialise the cost of meter reading across all entitlement holders (whether they have a meter or not), it is inequitable that those entitlement holders who have done the right thing in installing meters, should be penalised with a charge when compared to those entitlement holders who have not installed meters.

Consent Transaction Costs

While GVIA is supportive of licence transaction costs not being subsidised by general water charges, GVIA is astounded by the massive increases in proposed transaction costs and urgently calls on IPART to review this part of its draft Determination.

GVIA particularly points to the transaction cost for an unregulated or groundwater allocation assignment of \$281.36 compared with the current fee of \$50 plus .50 cent/meg up to a maximum of \$150.

GVIA has worked closely with NOW to develop an efficient groundwater allocation assignment process that has dramatically reduced the amount of assessment required (as can be demonstrated by a major improvement in approval times). Most trades are automatically approved because they fall within the no assessment boundaries established by NOW.

Recommendation

NOW seek further detail on the allocation assignment approval process adopted by NOW, and then use this information to reassess the allocation assignment fee for groundwater and unregulated entitlement.

On GVIA'S calculation, based on the example utilised in Table 11.3 of IPART's Draft Report the cost of a works and use approval will leap from the current of \$3150 to in excess of \$7200. A massive 229% increase. This sort of increase is just not credible.

At a rate of \$150 per hour, a \$7200 charge would fund 50 hours of assessment. GVIA is far from convinced that NOW is utilising efficient practices in its assessments.

Recommendation

GVIA strongly urges NOW to re-assess the efficiency of NOW's transaction costs prior to making its final determination.

Submission Ends