



Murray Irrigation

Trim Ref: E3317

Australian Competition and Consumer Commission
Level 20, 175 Pitt St
SYDNEY NSW 2000

Via email: waternswreview@accc.gov.au

Wednesday 6 May 2015

RE: Annual Review of Regulated Charges: 2015/16 – Draft Decision

Murray Irrigation welcomes the opportunity to provide comment on the ACCC's draft decision on Water NSW bulk water charges for 2015/16.

Murray Irrigation has reviewed the draft determination only with regards to proposed charges in the NSW Murray Valley. As members of NSW Irrigators' Council, we refer you to their submission with regards to issues in other valleys.

Murray Irrigation believes the draft decision is consistent with the parameters of the 2014-17 determination, however, we again take this opportunity to outline our concerns with aspects of the determination.

Murray Irrigation agrees with the ACCC that forecast demand should include volumes of water allocation traded from the Murray Valley to other states because Water NSW imposes usage charges on these transactions.

Entitlement volume

Murray Irrigation questions why entitlement volumes differ from the forecast in the 2014 determination¹. There is no explanation for this change contained in the draft, nor in the Water NSW application. The ACCC acknowledges that entitlement volumes are set by the NSW Office of Water and are "relatively stable due to constraints on water availability in the Murray Darling Basin".

With this being the case, Murray Irrigation would ask the ACCC to explain what the entitlement volumes outlined in Tables E1 and E2 are based on and how the change has occurred? The change in the NSW Murray is the equivalent to almost 6,000 extra entitlements in an era when no more entitlements are being issued.

Unders and Overs

We note the ACCC has applied the 'Unders and Overs Mechanism' (UOM) as per the determination which leaves a balance in the NSW Murray 'Unders and Overs account' (UOA) going forward. Murray Irrigation previously noted that the application of the UOM will lead to price adjustment in years following low water deliveries which is in direct contrast to customers' likely cash flow. Further, the impact is likely to be exacerbated when there is a sequence of years of low water availability.

¹ ACCC Annual review of Water NSW regulated charges; 2015-16, April 2015, p15 and tables E1 and E2 in Attachment E.

While Murray Irrigation does not support Water NSW's proposal to defer application of the UOM and carry the total balance forward in the UOA; potentially resulting in significant price impacts in the future, we are concerned of the ongoing impact of the UOM for customers' prices if there are a series of dry sequence years.

Murray Irrigation has previously submitted that, due to the recognition by the ACCC, Water NSW has capacity under the regulatory framework to earn on average sufficient revenue to cover costs², the determination must provide continued pressure on Water NSW to be commercially responsive to circumstances. Murray Irrigation questions whether the UOM process applies this pressure.

Timing

Murray Irrigation commends the ACCC for applying the estimated CPI increase and indicating prices at nominal 2015/16 dollar values. We are concerned, however, that the draft decision provides only indicative bulk water charges for 2015/16 based on estimates and forecasts and could change.

As raised in previous submissions, the timing of price determinations impacts on Murray Irrigation's ability to accurately establish our fees and prices to be implemented from 1 July in any given year. In order to implement fees and prices from the commencement of the water year (1 July to 31 June) and meet our obligations under the Water Charge (Infrastructure) Rules (WCIR), Murray Irrigation must have the fees and prices schedule approved by the Board and ready for mail out to our customers by mid-June.

As the ACCC final determination is not published until mid-June, Murray Irrigation must base its fees and prices on a set of assumptions formed by reviewing the draft determination which is itself based on a set of assumptions. Any significant variation in Murray Irrigation's assumptions and the final Water NSW charges will have to be borne by Murray Irrigation, at the very least, until a revised fee structure can be presented to the Board for approval and the required mail-out and notice to customers is given – a process that takes around six weeks and costs over \$5,000 in postage fees alone, not to mention the extra administrative burden.

Even a slight variance between the draft determination and the final determination charges can have a significant impact on Murray Irrigation's business.

Murray Irrigation again requests the ACCC consider obligations imposed on irrigation corporations by the WCIR when setting dates for annual price reviews.

MDBA charges

A significant proportion of water charges for the NSW Murray are the MDBA charges (64 percent), which are passed onto users via Water NSW's bulk water charges. The ACCC maintains that it is unable to make a determination about the efficiency or appropriateness of MDBA charges³. Our concern is that this means a large proportion of our charges are not subject to any independent scrutiny, as all other bulk water charges are under the Water Charge Rules. Therefore water users in the NSW Murray, where the majority of MDBA charges are passed through, have less regulatory oversight and protection on fees and charges than irrigators in other areas.

The ACCC rightly reviews actual operating costs and revenue against forecast costs and revenue when evaluating annual price determinations. The ACCC cannot apply the same level of scrutiny to MDBA charges which are a fixed annual cost regardless of actual operational costs.

² ACCC draft decision on State Water Pricing Application, Attachments, March 2014, p 215

³ ACCC meeting with NSWIC, Sydney, 12 March 2014

The fixed nature of MDBA charges also means that the UOM is applied to allow full cost recovery of any revenue shortfall in the ensuing 12 months. This factor contributes to the fact that in 2015/16 MDBA charges for NSW Murray general security water entitlements are likely to rise over seven percent and high security entitlements just under 10 percent, well above general inflation based on an accepted benchmark such as CPI (nominally 1.7 percent) and not offset by the minimal decrease of under one percent in usage charges.

Murray Irrigation has previously made the point that the ACCC should scrutinise the MDBA charges passed onto users via Water NSW bulk water charges or, at the very least, adopt the efficiency dividend approach adopted by IPART in previous determinations⁴.

Murray Irrigation believes the draft determination is consistent with the 2014-17 pricing determination and accepts the draft as an indication of charges pending finalisation of the CPI. To discuss this submission further, please contact Murray Irrigation's Water Policy Supervisor, Perin Davey via email, Perin.Davey@murrayirrigation.com.au.

Yours sincerely,



Dr Stephen Gumley AO
Chief Executive Officer

⁴ Review of bulk water charges for State Water Corporation 2010-14, IPART, June 2010, p17