

Response to Network Consultation Paper

Update Thursday 17 May 2012



Executive Summary

Murray Irrigation Limited is required by the *Water Charge (Infrastructure) Rules 2010* (the Rules) to develop a Network Consultation Paper (NCP) and Network Service Plan (NSP). The NCP sets out Murray Irrigation's existing infrastructure and expenditure profile and includes alternative investment strategies for Murray Irrigation that impact on service to customers and fees and prices.

Customer views are an important input to policy decisions and implementation arrangements. Murray Irrigation seeks to refine and improve its strategies, priorities and implementation plans through formal and informal communication with its customers.

The NCP was completed in December 2011 and a copy was mailed to each customer inviting feedback prior to Monday 20 February 2012.

Seven information meetings were then held across our area of operations in February 2012. A feedback form was provided on our website from mid-January 2012 and a dedicated email address for feedback was also available.

The NCP, its content and feedback deadline, were discussed with our primary customer representative group, Southern Riverina Irrigators', in January 2012.

Response to network consultation process

The NCP included four options; the recommended option was implementation of the Murray Irrigation Board's 2014 Strategic Plan. This option was called the base case in the NCP and was the recommended option because the outcome of Murray Irrigation's Private Irrigation Infrastructure Operators Program¹ (PIIOP) application was not known when the NCP was finalised.

Initiatives already underway, such as considering customer reform for domestic customers, were assumed to apply to all options under consideration.

Financial modelling was used to inform the options considered in the NCP. Important assumptions made in the NCP and financial modelling included:

- Investment in channel remote control, metering and other technology upgrades, including a new water ordering system, funded by retained funds and annual fees (i.e. no annual fee increases necessary).
- Investment in channel retirement and reconfiguration funded by termination fee funds.

¹ The Commonwealth Government's Private Irrigation Infrastructure Operators Program (PIIOP) funds projects to improve the efficiency and productivity of water use and management, both off and on-farm, by private irrigation infrastructure operators. A portion of the resultant water savings are provided to government in return for its investment. PIIOP will fund over 80 system reconfiguration assessment and/or sub-system retirement projects in the Murray Irrigation area of operations.

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- Murray Irrigation's fees and prices increases are contained to Consumer Price Index (CPI) movements (estimated to be three percent per annum).
- Government charges increase by five percent per annum (i.e. above CPI).
- Water deliveries average 500GL per year.

Alternative options in the NCP included:

- **Option A** = funding is received under PIIOP to expedite the delivery of the Board's 2014 Strategic Plan. Option A is the same as the base case; however investment occurs over a shorter timeframe and also includes investment in channel lining.
- **Option B** = investments are only made in metering to fulfil obligations under the Council of Australian Governments (COAG) endorsed *National Framework for Non-Urban Metering*.
- **Option C** = Murray Irrigation ceases to implement the Board's 2014 Strategic Plan, does not proceed with its Outlet and Meter Strategy, or its reconfiguration and retirement options, or increased investment in remote controlled water management infrastructure. Under this option outlets are not upgraded. Murray Irrigation would be non-compliant with the COAG *National Framework for Non-Urban Metering* if this strategy remained in place to 2020.

The impact of the different options on Murray Irrigation's financial position and effective price per ML delivered for each of the options was presented in the NCP. The financial analysis showed:

- The Strategic Plan (base case) and Option A will result in the non-indexed effective price per ML remaining below \$50/ML and Murray Irrigation remaining viable.
- Option B results in the business becoming unviable by 2023, unless Murray Irrigation increases its fees and prices above CPI.
- Option C results in the company's financial reserves being exhausted by 2019 unless Murray Irrigation increases its fees and prices above CPI.

Submissions received

Murray Irrigation received seven written submissions, two of these submissions were from domestic customers, four were from individual irrigation customers and one was from the Wakool Landholders' Association, who represent the interests of Wakool Irrigation District and Tullakool Irrigation Area customers.

No written responses were received from customers that can broadly be described as 'small irrigation customers' who were specifically discussed in the NCP.

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Response to customer feedback

The response of customers to the NCP confirms broad support for the direction being taken by Murray Irrigation's Board of Directors in its 2014 Strategic Plan, and of Murray Irrigation's proposed PIIOP investment.

The NSP is based on Option A presented in the NCP which is accelerated implementation (via PIIOP funding) of Murray Irrigation's 2014 Strategic Plan, plus some channel lining. The NSP assumes Murray Irrigation enters into a funding agreement with the Australian Government for implementation of PIIOP over a four year period (2012/13 to 2015/16).

Murray Irrigation will also implement reform to its contractual relationship with domestic customers to reduce their fees and prices in return for a modified level of service, with this contractual arrangement to be in place from 1 July 2012. This reform is voluntary and open to customers who do not wish to receive an irrigation service.

Customers can choose to retain the existing higher level of service and continue to pay higher fees. The new arrangement is not intended to reduce the security of these customers' access to water for non-irrigation use.

In response to on-going concerns, in the latter half of 2012, Murray Irrigation will consider options to provide interested small irrigation customers with a different type of service that may provide an opportunity to reduce their total fees. This would require customers electing to receive an altered irrigation service which can be provided at a lower cost by Murray Irrigation. Murray Irrigation will also revisit its fees and prices structure again to further explore options for change to provide lower fees for small irrigation customers.

Murray Irrigation will continue to focus on cost control, including reducing its fixed costs.

Murray Irrigation will also be disciplined in its infrastructure investments to minimise the risk of expensive capital investment in infrastructure at risk of becoming redundant or underutilised.

The NSP will be mailed to all customers no later than 1 June 2012.

The NSP will be provided to the Australian Competition and Consumer Commission (ACCC) who will seek independent advice on the NSP. A copy of the independent advice will be made available to customers.

The NSP includes forecast fees and prices for the next five years from 2012/13 to 2016/17.

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Customers are advised that the fees and prices published in the NSP from 2013/14 to 2016/17 (inclusive) are forecasts, which are subject to change. Actual fees and prices may be different to forecast fees and prices for a range of reasons including changes to investment decisions, changes in Government fees outside Murray Irrigation's control, and/or unforeseen circumstances.

Murray Irrigation will provide an Information Statement to customers at the same time its Fees and Prices Schedule is released each year that explains any reasons for adjustments in the regulated charges compared to the fees and prices in the NSP. This Information Statement will also include reasons for different fees and prices applying (if any) to customers receiving the same service.

The NSP is intended to apply until 30 June 2017. In the event Murray Irrigation updates its NSP before this date, further consultation with customers about proposed changes may be required.

Murray Irrigation plans to issue its 2012/13 Fees and Prices Schedule and first Information Statement by 18 June 2012. The Fees and Prices Schedule and Information Statement will be posted to all customers and will also be available from our website www.murrayirrigation.com.au.

Murray Irrigation will inform customers of the release of the Fees and Prices Schedule and Information Statement through the Chairman's Report.