

LOWER MURRAY WATER
CUSTOMER SERVICES ADVISORY COMMITTEE
RED CLIFFS
MINUTES

Thursday 8th April 2010
Meeting Commenced at 4.05pm
“Training Room”, Lower Murray Water

PRESENT

CSAC Members

Frank Pedulla (Chair), Ian Gowers, John Piccirillo, John Strangio, Greg Hutchison

LMW Officers

Owen Russell (General Manager Customer Services), Kevin Murphy (General Manager Technical Services), Loris Davis (General Manager Business Services) John Bergin (Manager Financial Services), Pam Fitzpatrick (Minute Taker)

1.0 WELCOME

General Manager Customer Services advised that the focus of the meeting was to review the Draft 2010/11 Corporate Plan and examine tariffs for the coming season.

Additional matters included on the agenda were the Winter Watering Schedule, Winter Maintenance, Blue Green Algae, Carry Over Rules, Usage Information for RCID and an update on the Sunraysia Modernisation Project.

2.0 APOLOGIES

Ron Leamon (Managing Director), Michael Cowling (Deputy Chair)

3.0 BUSINESS

3.1 Corporate Plan including tariffs for 2010/11

The Chair of the Red Cliffs CSAC tabled a letter addressed to LMW officers which responded to the Corporate Plan 2011 for Red Cliffs as circulated with the Agenda Papers.

General Manager Business Services advised that LMW was currently undertaking a round of consultation with its urban and rural Customer Committees to examine pricing for 2010/11. The Committee was requested to provide feedback as soon as possible so that the Board could again consider the Corporate Plan at its meeting on 21st April.

It was noted that LMW prepares a Corporate Plan on an annual basis for submission to the Minister for Water and Treasurer. The Plan which was due to be submitted by 30th April incorporated data for five years being the last three years of the current ESC regulatory period and for two years into the next regulatory period.

Manager Financial Services reported that the Plan was prepared in accordance with the requirements of the Water Act 1989 and must include:

- (a) business objectives;
- (b) main business undertakings;
- (c) nature and scope of the activities to be undertaken
- (d) performance targets and other measures in relation to LMW’s business objectives;
- (e) the kind of information to be provided to the Minister by LMW during the course of those financial years; and
- (f) any other matters that may be agreed on by the Minister and LMW from time to time.

LMW was also required to include data and narrative regarding:

- Financial information that meet the requirements of the Department of Treasury and Finance (DTF) Corporate Planning and Performance Reporting;
- Key assumptions such as assumed allocations, water restrictions and customer growth;
- Major initiatives and capital projects;
- Material changes from the previous Corporate Plan and 2008-2013 Water Plan;
- Major operational, social and environmental risks and strategies required to mitigate these risks; and
- Sensitivity analysis of key planning assumptions.

The meeting was advised that 'Rural' prices were set under a revenue cap approach whereby the maximum revenue that could be earned was set at the outset of the regulatory period for the whole 'rural' business. This provided LMW with guaranteed revenue for each year of the regulatory period regardless of volume. Under this scenario, any income derived over the revenue requirement was adjusted in the later years within the regulatory period or in the next regulatory period. That is, where income received exceeded the revenue cap it was returned to the customers as a price reduction but where income was less than the cap, it could be recovered from customers through price increases over the remaining years in the regulatory period.

The total revenue cap for the rural business was \$15.5M per year. LMW however calculated this on a district basis and there was no cross subsidising of districts.

The following points were discussed:

- Savings which were forecast from amalgamations had not been achieved.
- Reduced usage had impacted on the business.
- There should be savings in pumping costs with blocks going out of production.
- 80% of power costs were in fixed charges therefore did not reduce because of lack of use.
- Termination fees have been included in the financial statements.
- If routine maintenance was not undertaken then the reliability of infrastructure would suffer. Whilst some maintenance could possibly be deferred it may not contribute to overall cost saving.
- LMW set prices in consultation with its customers. Tariffs were based on 50% fixed and 50% volumetric. The formula had been developed over the years to provide some control over the bills.
- ESC examined expenditure (operational and capital) as a total. It then looked at return on and off capital, what the capital works program was and then determined the price needed to cover that. This independent process ensured that LMW was operating efficiently .
- Irrigators see inefficiencies in works undertaken by LMW - such as meter replacement program.
- Irrigators have had to reduce costs and manage on a shoe string budget.
- Concern expressed by CSAC at cost for the Fourteenth Street building.
- Building costs partly funded by sale of Irymple property
- Irrigators were to receive a share of the proceeds from the sale of the Irymple property.
- The rural business was required to buy into the Fourteenth Street property. The urban business could not meet all the property costs.
- Both parts of the business had benefitted from the sale of land assets adjoining the Fourteenth Street office property.
- It was emphasised that LMW was one business and that the cost sharing had been communicated to the CSAC's previously.
- The proceeds of the sale of FMIT assets would be spread across the whole business.
- The Board was aware that irrigators were 'doing it hard'.

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- The feedback from CSAC members was that LMW was spending money when irrigators were forfeiting carry over water.

The meeting reviewed water share, delivery share and usage history in the Red Cliffs area together with what had been forecast in the Water Plan. The actual water share forecast for 2010 was 40,235. This had reduced from 45,196 in 2005/06.

It was noted that the proposed pricing had attempted to recover some income in the two main areas of delivery share and delivery fee.

In response to a question as to why customers were being charged 100% when allocation was 33% the meeting was advised that operating and maintenance costs were a fixed charge and were expended regardless of allocation.

The delivery share fee could be varied as long as it was in accordance with the Water Plan.

The meeting reviewed a Bill Comparison Summary based on 100ML Water Share and 100ML usage in the Red Cliffs District. The summary identified a 2% increase from 2009/10 to 2010/11. CSAC members were advised that this was less than inflation which was projected to be 2.5%.

The major project identified in Capital Expenditure was the pump sets and switchboards being replaced which totalled approximately \$6M in the next year.

It was noted that the Corporate Plan did not include works for the Sunraysia Modernisation Project (SMP) and if that Project did not proceed LMW would review the capital works plan together with critical needs and re-draft the capital expenditure plan.

The meeting was advised that if SMP proceeded then LMW could hold back on its planned channel maintenance however waiting for an outcome from the SMP application was a risk as there had been no channel maintenance undertaken for the past 3 years. By way of example the meeting was advised that only \$9,000 had been expended last Winter compared to \$60,000 in a normal year.

<p>ACTION: Manager Technical Services to provide a comparison between Mildura Seventeenth Street and Red Cliffs Pumping Costs.</p>
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The meeting reviewed the Statement of Financial Performance noting that this forecast was based on usage of 30,000ML and a constant delivery share.

It was noted the proceeds from the sale of assets (land at Fourteenth Street) had been apportioned across all rural and urban districts of the business.

The Statement of Financial Performance showed a net result before tax of \$250,000 in 2009/10 and a loss of \$827,000 in 2010/11. It was also noted that this was not a 'cash' loss. Reduced expenditure in 2010/11 was attributed to cost of technical staff not being allocated across the district.

The meeting was advised that the termination fees of \$640,000 for 2009/10 was income that had to be recognised in the year it was received.

The Balance Sheet illustrated a cash deficit for 2010/11 of \$3.04M which related to the capital works program outlined in the Corporate Plan.

The Statement of Cash Flow forecast net cash from operations of \$1.1M in 2009/10 and \$886,000 for the following year. Cash at end for 2010/11 was forecast at (\$3.04M) which was related to capital expenditure.

Loans forecast for 2010/11 were \$3M being the capital works expenditure for the pump sets. It was noted that the Corporate Plan was the vehicle by which loans were able to be sought and that there was a cap on how much LMW was able to borrow.

The meeting returned to the issue of 'Termination Fees' noting that the Red Cliffs CSAC was of a strong opinion that the Termination Fees should not be allocated in one year as it 'masked' the performance of the business and requested that this concern be reflected in the Minutes.

The General Manager Business Services advised that LMW had checked the direction with the Auditor General to establish if the income could be taken over a period of time or if it could be treated as a pre payment and amortised. The advice was however that it had to be recorded in the year it was received.

The Committee asked if the intent was that the income would be used for capital works to alleviate and help keep the system going.

It was noted that the income from Termination Fees would be 'general revenue' and that the amount of the Termination Fees depended on which District is related to.

It was the view of the Committee that the purpose of the Termination fee income was to support the system over a period of time.

The Committee queried the need for a 'Drainage Fee' given that in its opinion drains were no longer operating.

The General Manager Customer Services advised that some drains in the Red Cliffs were running. The Committee was advised that the issue had been discussed by the Board and it had been resolved that it was necessary for the system to be maintained as there were issues for customers in low valley areas and risks for all customers should storm events occur.

The meeting discussed the drainage charge noting that it was based on maintenance costs across the whole district .

Greg Hutchison requested that his name not be associated with the letter from the Red Cliffs CSAC which had responded to the Corporate Plan and which had been tabled at the meeting.

ACTION:

The CSAC agreed that it would revisit the letter taking into account what had been presented by LMW officers at the meeting and provide a revision for submission to the Board. The Committee requested that the Minutes of the meeting be provided to the Board.

ACTION:

The Minutes of this meeting of the Red Cliffs CSAC be provided to the Board.

The Committee was invited to phone or email any further questions they may have in relation to the Corporate Plan.

3.2 Finalised Winter Watering Schedule

The meeting was advised that the Irrigation Districts' Winter Pumping Guide for 2010 had been published. The Committee congratulated LMW on the Schedule and advised that it was acceptable for Red Cliffs irrigators.

3.3 Winter Maintenance

It was noted that it was necessary to empty the entire system to undertake channel patching works. Whilst the channels were empty LMW would inspect to ascertain areas where works could be undertaken if the SMP was to proceed. Removal of the small metered outlets would also continue.

At the shut down water either went to drainage basins, Cardross Lakes or was in some instances sold to developers.

In response to a question regarding customer debt, the meeting noted that water corporations were secured creditors and any outstanding debt was recovered at the sale of a property.

3.4 Blue Green Algae

It was noted tht blue green algae had been a big issue for Sunraysia and particularly from Robinvale to Mildura for the past month. The bloom had however dissipated over the last two days. Monitoring showed no algae downstream of the Mildura Weir and none in the irrigation system at Red Cliffs.

Whilst it was expected that the alert was over for this year it was anticipated that next year could see a similar season. The alert had highlighted the need for LMW to be able to contact customers urgently and arrangements were being made to provide alerts via text messages. Customers would be requested to provide up to date contact information as soon as possible.

3.5 Carry Over Rules

An extract from the Northern Region Sustainable Water Strategy document and a media release from the Minister for Water relating to the new carry over rules were tabled. CSAC members were advised that the spillable water account would be managed via the Water Register and would also be available at 'Waternow' on the LMW web page.

The meeting was advised that allocations were at 100% and discussed the amount of carry over water in the region Nyah to the SA Border and the dollar value. It was noted that 82,000ML including that held by Private Diverters had been carried over whilst GMW customers had carried over 72,000ML with 5,000ML being against low security water and hence not being forfeited.

ACTION:

LMW to provide CSAC with data on trades, ML's and costs of water carried over for the Sunraysia region.
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CSAC Members queried why the additional 22% increase in allocation had been announced. The meeting was advised that under the sharing of the resource rules GMW had to allocate everything available from 1 July to 1 April. It was noted that water from the Darling would be available and had increased the allocation. Under the rules Victoria and NSW would not have to share with SA as the Darling water was deemed to be 'water in transit'.

The meeting discussed that a storage fee would apply to water held in 'spillable accounts' however the charge was unknown as the Discussion Paper had not yet been finalised. The charge would be determined by GMW however that corporation would under the revenue cap, seems to be unable to collect additional revenue.

The General Manager Technical Services provided the following example to the meeting:

If 50ML was carried over and allocations were 100% - only 100ML could be used with the carry over water only being available when GMW declared that there was not going to be a 'spill'.

It was noted that the Department planned to advertise in the next week how the spillable water accounts would work. LMW would provide a newsletter to its customers setting out the information.

ACTION:

LMW to advise customers with a newsletter setting out information relevant to carry over and spillable water accounts.

The meeting queried the term 'dam spill' and it was noted that it was not a physical spill of water from the dam but an internal spill.

A copy of the River Murray Weekly Report for week ending 31 March 2010 was tabled.

3.6 Usage Information for RCID

The meeting discussed whether with increased water allocation irrigators in the Red Cliffs District may consider using additional water. The consensus was that irrigators had lost faith and many had left the industry. There was a view that some irrigators may consider moving to crops such as vegetables, but it was agreed that consistency of supply and security of markets would probably result in only a few growers 'dabbling' in alternative crops.

The CSAC sought to have LMW assist with a submission to Government on behalf of its customers to be able to retain the carry over water in the region. LMW officers agreed to discuss the request with the Managing Director on his return from leave and advised the Committee that they should take the matter up with local politicians.

ACTION:

The matter of making a submission to Government in respect to retraining carry over water be discussed with the Managing Director.

3.7 Sunraysia Modernisation Project Update

The meeting was advised that LMW had following a request from the Department, reviewed certain components of its Sunraysia Modernisation Project business case and provided up dates. It was noted this matter would be considered at the COAG meeting to be held on 19th April.

CSAC Members were reminded that LMW officers would be available to answer any questions on the Corporate Plan and that comments/feedback should be provided by Tuesday 13th April.

The meeting closed at 5.55pm