



# Coleambally Irrigation Co-operative Limited (CICL) Network Service Plan

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1 July 2012 - 30 June 2017

**In compliance with Water Charge (Infrastructure) Rules 2010**

**Paper for Consultation with Members**

**Coleambally Irrigation Co-operative Limited  
7 Brolga Place/ PO Box 103  
Coleambally 2707**

## Introduction

### Background

This consultation paper/draft plan has been prepared in compliance with the Water Charge (Infrastructure) Rules 2010 (WCIR). Part 5 of these rules levies a requirement on member-owned irrigation infrastructure operators with more than 125 GL of water entitlement on their license/s to publish a five-yearly network service plan (NSP) and to consult with its customers<sup>1</sup> before finalizing the plan. The NSP must provide the following information:

- options and alternatives for major maintenance, improvement, enhancement or expansion works
- levels of service
- estimates of capital and recurrent expenditure for the options and alternatives, for each of the five years, and where appropriate a ranking of priority of implementation
- details of known or anticipated factors that are or may be relevant to the options e.g. risks, compliance, and legal and contractual obligations that might arise from the major works
- anticipated regulated charges during the life of the NSP
- any relevant reports of consulting engineers or other experts identifying maintenance or other requirements in relation to CICAL's infrastructure or options for meeting such requirements

### Purpose

The purpose of this consultation paper is to provide customers with visibility of, and the opportunity to comment on, CICAL's draft Network Service Plan (NSP) for the period 1 July 2012 - 30 June 2017. CICAL is obliged to provide a copy of its NSP to the ACCC and it is for this reason that there are references throughout the NSP to things that may already be well understood by CICAL's members.

### Caveats

It is important to note that there are a range of factors over which CICAL has no control that may impact on its business operations and costs, and therefore on the NSP, including, but not limited to:

- the final form of the Murray Darling Basin Plan, and in particular
  - the extent to which members decide, or are compelled by financial institutions, to sell water entitlements and terminate delivery entitlements

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<sup>1</sup> At this draft NSP was written, all of CICAL's customers were members of the Co-operative and the term member is used in preference to that of customer throughout the draft.

- the availability of further modernization funding from the Commonwealth under programs like the On-farm Irrigation Efficiency Program and the Private Irrigation Infrastructure Operators Program (PIIOP)
- Commonwealth Government water recovery initiatives, such as the very recently announced “targeted water purchase initiative”
- changes to the Murrumbidgee Water Sharing Plan
- changing compliance and legal obligations<sup>2</sup>
- changes to externally imposed charges, particularly those imposed by government<sup>3</sup>
- the impact of continuing global financial volatility on CICL’s investment portfolio
- any alteration to the existing regulations governing termination fees
- the impact of an aging ‘demographic’ amongst its members and their retirement/succession plans
- market forces, such as a high Australian dollar and ‘soft’ commodity prices
- increased external threats to the viability of irrigated agriculture, such as practices by the major food retailers that result in the prices being paid to CICL’s farmers being permanently depressed, which in turn impact on members ability to pay their water charges
- major damage to its supply and drainage systems caused by natural events such as earthquakes and flooding
- failure to strike a proper balance between CICL’s business interests and those of its members
- failure to meet contractual obligations under PIIOP

In the face of these ‘unknowns’, the financial projections and pricing estimates provided in the NSP are indicative only. Consistent with its current practice, CICL will continue to communicate its fees and charges prior to the commencement of each irrigation season and to explain any significant variations to its members in writing at that time.

## Key Dates

The dates indicated in Table 1 are critical to the finalization of CICL’s Network Service Plan.

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<sup>2</sup> Every compliance change brings new information collection and reporting obligations and as a consequence additional cost.

<sup>3</sup> The most likely areas of externally imposed increases will be those that arise from the carbon tax and increases to State Water charges.

Table 1 – NSP Timelines

Event	Date
Draft NSP distributed to members	23 March 2012
Consultation Period	16 March -16 May 2012
<b>Closing date for member submissions</b>	<b>23 May 2012</b>
Provision of final NSP to members and the ACCC	By 1 June 2012
Commence of NSP	1 <sup>st</sup> July 2012

## Consultation Process

In addition to this 'hard' copy of the draft NSP, a PDF copy has been emailed to those customers who have provided their email address to CICL. A PDF copy has also been posted onto CICL's website. A 'hard' copy of the draft NSP will also be retained at CICL's reception desk throughout the consultation process.

CICL's customers may respond to the draft NSP at any time up until 16 May 2012 in the following ways:

- in writing
- by email or SMS
- verbally ( to either Austin Evans or Daniel Whitred)

Face-to-face (woolshed) meetings will be held at Coleambally Community Club, Yamma Sports Centre and at Booroorban to further explain the content of the plan and to respond to customer's questions. These meetings will be advertised via SMS, email and newsletters. A reminder notice of the submission closing date will be sent via SMS and email and will also be published in the local newspaper, The Observer.

## Finalization of the Network Service Plan

CICL will submit a copy of this NSP to the ACCC and members by 1 June 2012. All submissions received on the draft NSP will be acknowledged in the NSP and any changes made to the final plan as consequence of the consultation process will be clearly identified.

## Description of CICAL's Supply & Drainage System

CICAL manages supply and drainage services across an area of approximately 456,821 ha and services 492 farms owned by 354 members. A schematic of the supply and drainage system is included at Appendix 1.

CICAL's primary water distribution assets are:

- Main Canal Off-take (regulator)
- 518 km of supply channels
- 267 in-channel regulators, 432 automated farm outlets and 98 manually operated meters of varying types (e.g. Mace/Mag/Propeller meters)
- 734 km of drainage channels and 1060 farm drainage inlets
- 664 bridges/ culverts on supply and drainage channels

## Levels of Service

CICAL's members have access to the following services:

- automated water ordering
- automated water accounting
- automated water delivery
- accurate and real-time water metering and flow regulation
- electronic water trading
- an after hours/on-call duty officer

### Access to Delivery

A member's access to water delivery is determined by three parameters, namely:

- the amount of Delivery Entitlement (DE) they hold
- the type of DE they hold
- the 'peak flow' rates they have designated

### Delivery Entitlement (DE)

DE entitles a member to a share of CICAL's delivery capacity and CICAL's water access charges are based on DE. If a member wishes to exceed their share of DE, they must either acquire additional DE (either permanently or temporarily) or pay a Fixed Charge Equivalent.

### **DE Type**

The period in which a member may access delivery is determined by the class of share he/she owns. The owners of High Security (HS) DE are supplied water year round provided the point at which such water is delivered to falls within CICAL's HS delivery zone. Delivery of water to the owners of General Security (GS) DE is restricted to a designated 'irrigation season' which typically extends from late August to mid May the following year.

The start and closing dates of the irrigation season will continue to be announced in advance by CICAL's Board, via newsletters, email, SMS and on CICAL's Web-ordering system. Water delivery to the owners of G Class (Stock and Tank fill) DE will continue to occur twice a year in accordance with the Cooperative's Rules (Constitution), with the timing of these 'stock runs' being mutually agreed between those members and CICAL.

### **Minimum Flow Rates**

Flow rates along a channel are primarily limited by

- the volumetric capacity of the channel
- the efficiency of regulating structures on the channel and the capacity of farm outlets i.e. the regulating and metering structures that control flows within CICAL's delivery system and divert water onto farms

The minimum level of supply throughout CICAL's entire system is 10 ML/day/customer outlet but this is subject to there being no State Water restrictions on the supply of water to CICAL. When such restrictions are in place, CICAL applies the pro-rata principle i.e. it takes the % share that a member might have based on their DE vs the total of DE held within CICAL and multiplies it by the restriction at the Main Off-take to give a flow rate for that member. For example, if CICAL was restricted to drawing 3,000 ML/day at the Main Off-take and the total DE in CICAL was 450,000, a member has 1400 DE, their share would be  $1400/450,000$  (0.311%) x 3000 = 9.33ML/day.

Setting aside the matter of restrictions that might arise at the Main Off-take, a member's share of the capacity of the channel system can be expressed in two ways:

- ML/day/ML of DE (this is most accurate way to express minimum flow share in a technical sense) ; or
- ML/day/per average farm (1400ML DE). This is equivalent to the ML/d/of DE above. However, this form of expression is more readily understood because it is expressed in the same units that members use when placing a water order. To convert the first form to the second, simply multiply by 1400.

Table 2 – Capacity Sharing

ML/d per unit of DE	ML/d per standard farm (1400ML DE)
0.007142857	10
0.007857143	11
0.008571429	12
0.009285714	13
0.010000000	14
0.010714286	15
0.011428571	16
0.012142857	17
0.012857143	18

n.b. this flow rate is accurate for a standard farm with 1400 DE. If a particular farm has more or less DE, the flow rate would vary proportionally

Attachment 2 provides an indication of the cost of works that would be needed to bring CICL’s entire delivery system up to the point where an increased level of minimum supply could be specified. The attachment illustrates that as minimum flow rates are increased, the cost of the related works will also increase. The cost of such works would have to be recovered either by an increase in charges; a drawing-down of CICL’s investments; the sale of conveyance water; or by a special levy. Given the uncertainty associated with the Basin Plan, were CICL to proceed with these works it would run the risk of finding itself undertaking major work in areas that might shortly thereafter be rendered unviable. For this reason, CICL does not intend to undertake any major works to increase the capacity of its supply system over the life of this NSP.<sup>4</sup> That said, CICL would welcome member’s thoughts on what the minimum level of supply should be across its network and how best the related work could be funded.

### Peak Flow

Peak flow is the maximum flow rate that a member can order (in ML/day) through an outlet (but excluding Horticulture and smaller outlets). Members nominate their peak flow<sup>5</sup> and an annual fixed fee is charged based on the amount. Peak flow can be increased at a member’s request but a reduction in peak flow, which is a fixed fee<sup>6</sup>, will trigger a termination fee.

<sup>4</sup> CICL reserves the right to undertake such works in the event that circumstances beyond its control rendered parts of its system unsustainable.

<sup>5</sup> Within the limits set by the type of Outlet. For a Large FlumeGate the range is 12 – 30 ML/d. For small FlumeGates and all other applicable outlets (MACE, Magflo, Propeller etc) the range is 6 – 30 ML/d. For many of the small FlumeGates the upper limit is dependant on the flow that can physically get through the outlet. This tends to be around 12-15ML/d.

<sup>6</sup> As defined by the ACCC.

### **Delivery time**

At present, the water delivery time for all shareholders within the Coleambally Irrigation Area is approximately 2 hours, with the exception of those seeking delivery of G Class water.

In sum, the current level of service offered by CICL will be maintained throughout the life of the NSP and where possible, improved upon and CICL has no plans to change its fee structure.

## **DESCRIPTION of CICL's FEE STRUCTURE**

Coleambally Irrigation's members enjoy membership of two cooperatives: Coleambally Irrigation Cooperative Limited (CICL) and Coleambally Irrigation Mutual Cooperative Limited (CIMCL). Both cooperatives have their own rules, their own boards and maintain separate financial accounts. CICL operates and maintains the irrigation supply and drainage system and delivers a range of corporate services on behalf of its members. CIMCL has responsibility for the future replacement of the major assets within/under/over the supply and drainage systems. CICL's charges to members exclude consideration of the cost of major asset replacement, whereas CIMCL's charges are specifically focused on providing for that asset replacement.

### **CICL's Fees and Levies**

CICL supply and drainage access charges over the period 2008-2012 can be found at [www.colyirr.com.au](http://www.colyirr.com.au) and at Table 3. They are comprised of the following components:

- an access fee, based on the amount and type of DE held by a member
- a meter fee, based on the type and size of meter being used by a member
- a peak flow charge, based on the peak flow a member has indicated he/she requires
- a fixed charge equivalent (to the access fee) which is applied when a member's metered usage exceeds their DE
- State Government fixed and variable charges which are levied against WE and metered usage respectively
- an environmental compliance and monitoring fee based on the amount of DE held by a member
- a range of minor administrative charges for non-standard services e.g. the replacement of lost share certificates, issuance of liability statements and the, sub-division of farms
- a contribution to the cost of membership of a number of peak bodies e.g. NSW Irrigators' Council, National Irrigators' Council and the National Irrigation Corporation Water Entitlement Register

In the event a member wishes to sell their WE and not retain the associated DE, he/she will be required to pay a termination fee (which is 10 x the combined total of CICL's annual access fee +



## Coleambally Irrigation Co-operative Limited draft Network Service Plan, 2012-2017

CICL's annual compliance fee + CIMCL's annual member contribution). A member who has no WE or DE, may request to remain connected to CICL's supply system in which case they must continue to pay the annual meter fee, or request to be disconnected in which case they will have to pay a disconnection fee, after which they are no longer required to pay any other charges.

**Table 3 – CICL & Government Charges**

	2011/12	2010/11	2009/10	2008/09
<b>CICL Charges</b>				
<b>Fixed Charges</b>				
A Class High Security / ML Delivery Entitlement	19.02	19.02	19.57	19.00
B Class General Security / ML Delivery Entitlement	11.01	11.01	11.33	11.00
G Class Stock & Tank / ML Delivery Entitlement	20.02	20.02	20.60	20.00
<b>LWMP Levy<sup>7</sup></b>				
A, B and G Class / ML Delivery Entitlement	0.95	0.95	N/A	N/A
<b>Compliance Fee<sup>8</sup></b>				
A, B and G Class / ML Delivery Entitlement	N/A	N/A	1.50	1.50
<b>Outlet Charge</b>				
Stock & Garden Outlet (>70mm diameter)	206	206	206	200.00
Horticultural Outlet (<70mm diameter)	515	515	515	500.00
Large Outlet	824	824	824	800.00
<b>Peak Flow<sup>9</sup> (ML/outlet)</b>				
Peak Flow per ML for each outlet	51.5	51.5	51.50	50.00
<b>Fixed Charge Equivalent<sup>10</sup></b>				
Levied per ML on metered use exceeding Delivery Entitlement on Farm	15.26	15.26	N/A	N/A

<sup>7</sup> Land Water Management Plan Levy – this levy was agreed by CICL's members at the commencement of the LWMP Plan (which was to have run from 1999-2029) with the fees being utilized for a range of activities that related directly to the Plan's objectives. CICL's Plan was concluded in 2010 because the Commonwealth Government chose to discontinue funding in favour of its *Caring for Country* program.

<sup>8</sup> This fee was introduced to cover matters relating to CICL's environmental compliance obligations that had previously been factored into the LWMP levy.

<sup>9</sup> Members nominate their own peak flow within two ranges (6-12 ML/day or 12-30 ML per day)

<sup>10</sup> FCE applies to any usage that exceeds a member's DE or in circumstances where a member has no, or minimal DE, and utilizes temporary water. The payment of FCE in these situations means that all users of CICL's system are charged on an equitable basis.

<b>Government Water Charges</b>				
<b>Access Fee</b>				
High Security / ML Water Entitlement	3.77	3.54	3.50	3.6
General Security / ML Water Entitlement	2.68	2.63	2.55	2.81
<b>Usage Fee</b>				
A, B and G Class / ML Water Entitlement	4.39	3.88	3.80	3.07

CICL’s financial situation is discussed later; suffice to say at this point that CICL’s Board has made conscious decisions in recent years to run the supply and drainage systems at near to, or below, cost in recognition of the fact that during, and coming out of, the drought members were under financial duress. Profits in the period 2008-2011 were therefore derived from either non-core business, such as water trading, returns on invested funds, or by way of termination payments. CICL has applied termination fees throughout this period to offset water charges so as to mitigate the direct financial impact from DE being terminated on remaining members.<sup>11</sup> CICL notes that it is not bound to apply termination payments in this way and that the ACCC permits the fees to be used in other ways.<sup>12</sup>

## **CURRENT FINANCIAL POSITION**

CICL’s financial position as at 30 June 2011 is detailed in the financial statements and notes of its FY10/11 Annual Report. Its net assets as at 30 June 2011 are indicated in Table 4.

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<sup>11</sup> CICL draws down its pool of termination fees by 10% p.a. to offset what would otherwise result in an automatic increase in water access charges because of the termination of the associated DE – for further details refer to page 43 of CICL’s 2010-2011 Annual Report.

<sup>12</sup> While the ACCC is very specific about the basis on which termination fees can be calculated, it is less specific about the utilization of such fees. The general principle that applies is that the fees should be used to minimize third party impacts that would otherwise arise from the termination of DE.

**Table 4 – CICL’s Net Assets, as at 30 June 2011**

<b>Assets</b>	<b>\$</b>
Cash & cash equivalents	18,148,000 <sup>13</sup>
Trade & other receivables	9,025,000 <sup>14</sup>
Other current assets	143,000
Inventories	1,609,000
Other financial assets	14,375,000 <sup>15</sup>
Property, plant & equipment	45,926,000
Deferred tax assets	697,000
Intangible assets	79,552,000 <sup>16</sup>
<b>Total</b>	<b>\$ 169,475,000</b>

An overview of CICL’s revenues, expenses, and cash reserves as 30 June 2011 can be found in its 2010-2011 Annual Report to members. It is important to note that of the \$18,148,000 identified as cash and the \$14,375,000 in long term investments, only \$3,597,000 can be considered as uncommitted at this time.<sup>17</sup>

#### **ANTICIPATED OPERATING RESULTS**

In determining anticipated operating results and subsequent pricing levels, the following key assumptions have been made:

- the Water Charge (Termination Fees) Rules 2009 will remain unchanged
- electricity prices will rise by 13.5% in FY 12/13 with the introduction of a Carbon Tax and on average by 9% per annum over the life of the NSP
- fuel prices will rise by 7c/L p.a. over the life of the NSP
- State Government’s water charges will rise by 2% p.a. over the life of the NSP
- maintenance costs will be consistent with CPI movements
- salary costs will be largely consistent with CPI movements<sup>18</sup>

<sup>13</sup> For further detail on CICL’s cash reserves, refer to page 39 of CICL’s 2010/2011 Annual Report

<sup>14</sup> This amount includes \$8.52M for water charges and \$0.45M for CICL’s WaterSmart Australia project

<sup>15</sup> This amount constituted CICL’s long-term investments as at 30 June 2011

<sup>16</sup> These assets are CICL’s conveyance water and other water entitlements held by CICL in its own right

<sup>17</sup> The committed components of CICL’s funding were \$7.822m of PIIOP funds; \$6.397m in termination payments; \$5.759m for deferred taxes; \$4.934m in the infrastructure dowry; \$3.891m of levies raised for infrastructure replacement prior to privatization; and \$.123m of biodiversity trust management funds left to uncommitted funding represents approximately 50% of CICL’s operating expense in FY 10/11

<sup>18</sup> CICL’s salaries are largely determined within the framework of a Certified Agreement that must be approved by CICL’s Board and by Fair Work Australia.

## **Coleambally Irrigation Co-operative Limited draft Network Service Plan, 2012-2017**

Table 5 illustrates CICL's recent and forecasted operating results over the life of the NSP. Again, it is important to bear in mind that the estimates for the period 2012-2017 are just that – estimates – and that CICL's management and Board will continue to strive to strike the right balance between the interests of the business and those of members, especially during difficult times, when it develops its annual budgets.<sup>19</sup>

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<sup>19</sup> CICL's salary costs in FY 2011/12 and 2012/13 are after adjustments for PIIOP and the same applies in 2013/14 but to a lesser extent. The opportunity for such adjustment ceases thereafter and the decision as to whether the related staff will be retained or otherwise will be taken at that time.

**CICL Recent and Forecasted Operating Results (Core Business)**

<b>Table 5</b>	<b>Forecast</b>		<b>Network Service Plan</b>			
	<b>11/12</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total Water Income	8,310	8,479	8,988	9,677	10,258	10,873
Termination Fees	451	0	0	0	0	0
CIMCL Levy	1,291	1,330	1,330	1,330	1,330	1,330
Less CIMCL Levy	1,291	1,330	1,330	1,330	1,330	1,330
Less External Charges	2,291	2,349	2,488	2,635	2,791	2,956
<b>Total Gross Water Income</b>	<b>6,470</b>	<b>6,130</b>	<b>6,500</b>	<b>7,042</b>	<b>7,467</b>	<b>7,917</b>
<b>Other income</b>						
Rental	82	84	84	86	87	88
Sales	299	108	111	115	118	122
Interest / Dividends / Revaluation	1,315	1,926	1,998	2,056	2,131	2,200
Gov Funding	11	11	0	0	0	0
Water for Rivers / Water Smart	0	0	0	0	0	0
Profit/(Loss) on Asset Disposal	-34	40	40	40	40	40
<b>Total other income</b>	<b>1,673</b>	<b>2,170</b>	<b>2,234</b>	<b>2,297</b>	<b>2,376</b>	<b>2,450</b>
<b>Total Net Income</b>	<b>8,143</b>	<b>8,301</b>	<b>8,734</b>	<b>9,339</b>	<b>9,843</b>	<b>10,367</b>
<b>Expenditure</b>						
Salary & Wages	2,579	2,673	3,057	3,443	3,547	3,653
Plant & Vehicle	181	222	255	288	297	306
Operating Costs	2,373	2,460	2,668	2,915	3,002	3,092
Accounting Depreciation	1,659	1,710	2,010	2,173	2,144	2,155
Administration Costs	316	334	353	372	384	395
Other Expenses	87	89	92	95	98	101
<b>Total Expenditure</b>	<b>7,194</b>	<b>7,488</b>	<b>8,435</b>	<b>9,286</b>	<b>9,471</b>	<b>9,701</b>
<b>Net profit before tax</b>	<b>949</b>	<b>813</b>	<b>299</b>	<b>52</b>	<b>372</b>	<b>666</b>
Taxation Expense	285	244	90	16	112	200
<b>Net Profit/(Loss) after tax</b>	<b>664</b>	<b>569</b>	<b>209</b>	<b>37</b>	<b>260</b>	<b>466</b>

## ASSET REPLACEMENT PROFILE

As previously mentioned, the replacement of supply and drainage assets is funded by CIMCL and while it is not directly relevant to this NSP, the long term asset replacement cost profile, as at February 2012, is indicated in Attachment 4.

## DESCRIPTION OF FUTURE WORKS & COST IMPLICATIONS

The following major works are contemplated throughout the life of this NSP:

- repairs and maintenance (R&M)
- system upgrades (SU)

### Repairs and Maintenance & Cost Implications (R&M)

All of the R&M, contemplated during the life of the NSP, less two items, is considered to be routine in nature and the indicative cost of the major items is: <sup>20</sup>

- supply and drainage channels \$1,005,000 p.a.
- bridges, culverts, crossings and access roads \$634,000 p.a.
- ground water bores \$80,000<sup>21</sup>
- regulators \$200,000 p.a.
- TCC (hardware, software, structures, licenses and service agreements) \$400,000 p.a.

The two exceptions are:

- clay re-lining of approximately 10 km of the Main Canal in FY 12/13 and 13/14 at an estimated cost of \$14,000,000 (which is fully funded under PIIOP)
- the possible requirement to effect repairs on the 'Kay Hull' bridge on the Sturt Highway n.b. this matter is the subject of ongoing negotiations with the NSW Road and Traffic Authority (RTA) but it has been agreed in principle that the cost of remediating the rising approach slabs should be shared between it and CICL. Until the repair methodology and the basis of cost-sharing are agreed, it is difficult to establish the cost implications with any degree of accuracy.

### System Upgrades

The following modernization upgrades are planned, or in prospect, throughout the life of the NSP:

- FY 12/13
  - Installation of 5 x TCC regulators and the linking of existing meters to TCC telemetry along the West Coleambally Channel: this planned work has already been agreed to by CICL's members at a Special General Meeting on 2 June 2010. The total value of

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<sup>20</sup> The related costs in the following years are estimated similar but have been adjusted for CPI.

<sup>21</sup> Bore maintenance is performed around schedule based on pumping hours rather than calendar months and this figure is not indicative of an annual costs but rather the cost of work that is to be done in 2012/2013.

the upgrade is estimated to be \$1,000,000 and the related work is being fully funded under PIIOP.

- FY 12/13 to 14/15
  - Replacement of approximately 100 non flume gate-type meters with flume gates: this planned work has already been agreed to by CICAL's members at a Special General Meeting on 5 March 2012. The cost of the upgrade is approximately \$3,000,000 and this work will be fully funded under PIIOP.<sup>22</sup>
  - Construction of a balancing storage with a capacity of approximately 2700 ML:<sup>23</sup> this planned work has already been agreed to by CICAL's members at Special General Meeting on 5 March 2012. The cost of the upgrade, which includes the associated pumping equipment, is approximately \$4,000,000 and this work will be fully funded under PIIOP.<sup>24</sup>

Further elaboration on these upgrades is provided in Attachment 3.

#### **OTHER FUTURE COST 'DRIVERS'/RISK**

There are a range of additional external influences that may impact on CICAL's business and/or present risk over the life of the NSP and these include, but are not limited to, those mentioned on pages 4 and 5, namely:

- the final form of the Murray Darling Basin Plan, and in particular
- new Commonwealth Government water recovery initiatives, such as the very recently announced "targeted water purchase initiative"
- changes to the Murrumbidgee Water Sharing Plan
- changing compliance and legal obligations<sup>25</sup>
- changes to externally imposed charges, particularly those imposed by government<sup>26</sup>
- the impact of continuing global financial volatility on CICAL's investment portfolio
- any alteration to the existing regulations governing termination fees
- the impact of an aging 'demographic' amongst its members and their retirement/succession plans
- market forces, such as a high Australian dollar and 'soft' commodity prices

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<sup>22</sup> While CICAL has received a funding offer from the Commonwealth, it has yet to receive the funding agreement.

<sup>23</sup> this work is subject to Development Application and Environmental Protection approval processes:

<sup>24</sup> While CICAL has received a funding offer from the Commonwealth, it has yet to receive the funding agreement.

<sup>25</sup> Every compliance change brings new information collection and reporting obligations and as a consequence additional cost.

<sup>26</sup> The most likely areas of externally imposed increases will be those that arise from the carbon tax and increases to State Water charges.

## **Coleambally Irrigation Co-operative Limited draft Network Service Plan, 2012-2017**

- increased external threats to the viability of irrigated agriculture, such as practices by the major food retailers that result in the commodity prices being paid to CICAL's farmers being permanently depressed, which in turn impacts on members' ability to pay their water charges
- major damage to its supply and drainage systems caused by natural events such as earthquakes and flooding
- failure to strike a proper balance between CICAL's business interests and those of its members
- failure to meet contractual obligations under PIIOP

The paragraphs that follow explain how these matters might impact on CICAL:

### **Potential Impact of Basin Plan/New Commonwealth Water Recovery Initiatives**

There is the potential for a significant amount of WE and DE to be lost from CICAL's bulk water license through the sale of water to the Commonwealth and when the associated pool of termination fees is exhausted, there will have to be a 'step' increase in water charges unless CICAL is able to either attract newcomers to establish themselves in our area or it is able to rationalize or reconfigure its supply and drainage system. The termination pool will not be exhausted in the life of this NSP but because of the uncertainty of the Basin Plan, CICAL does not propose to undertake other upgrades beyond those identified on page 14; nor does it plan to rationalize/reconfigure its supply and drainage systems throughout the life of the NSP.<sup>27</sup>

### **Changes to the Murrumbidgee Water Sharing Plan (WSP)**

The WSP is due to be reviewed in 2014 but it is understood that it is now more likely that the WSP may be 'rolled over' until 2019. Within this context, any change to CICAL's conveyance allocation and the water allocation process could impact on CICAL's ability to deliver water and to utilize efficiency savings in ways that benefit its members. CICAL has no knowledge of any plans that might lead to either of these eventualities, but it does wish to signal that were they to occur, the impact on CICAL and members might be significant.

### **Changing compliance and legal obligations**

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<sup>27</sup> CICAL cannot predict with any certainty the final form of the Basin Plan or how members will respond to it, or what market forces might prevail over the life of the NSP. Were however these factors to convince large number of its members to terminate their DE, CICAL might be forced to consider reconfiguration or rationalisation of its supply and drainage system. This would however necessitate a major amendment of the NSP, if not its complete re-write, and neither the re-write nor the actual reconfiguration/rationalization would occur without prior consultation with members.



CICL is already obliged to report to multiple State and Federal authorities<sup>28</sup> and any new obligations will come with added cost to CICL.

### **Changes to externally imposed charges**

State Water is considering its pricing options for the next five years and will be required to submit those to the ACCC. While CICL has involved itself in workshops to assist State Water's related deliberations, it can but estimate what State Water's water charges might be. In the past, CICL could have examined the pricing determinations made by the Independent Pricing and Regulatory Tribunal (IPART) in respect of State Water's pricing submissions; as of 1 July 2012, this function will fall to the ACCC which is understood to have a different review of cost recovery to IPART.

### **Impact of continuing global financial volatility on CICL's investments**

CICL has approximately \$26,756,000 of invested funds as at 29 February 2012 with \$9,491,000 being held in cash or short term deposits. The longer term investments are invested conservatively and are diversified and CICL's exposure to overseas markets is limited. CICL also continues to be advised by a reputable, experienced and independent financial advisory service. That said, none of these arrangements render CICL totally immune from market forces.

### **Alteration to the existing termination fee arrangements**

Up until September 1, 2009, terminations fees were able to be calculated on the basis of 15 x the annual fee. As of 1 July 2009 this was reduced, on the recommendation of the ACCC, to 10 x the annual fee. CICL's draws its pool of termination fees down by 10% p.a. so as to offset what would otherwise have to be a cost increase in members' access charges. Any change to the basis on which CICL is able to calculate its termination fees has the potential to impact on the amount of funds available in the termination pool.

### **Increased threats to the viability of irrigated agriculture, due to external factors, and therefore of member's ability to pay their water charges**

Any matter that impacts on the viability of irrigated agriculture in the CIA, in turn impacts on members' ability to pay their water access charges and ultimately on CICL as a business. As mentioned earlier in this draft plan, CICL's pricing since 2008 has reflected both the Board's and Management's understanding of how difficult the drought and the immediate recovery period have been. While CICL maintains a small buffer against future shocks, it cannot afford to operate its delivery and supply system at near to or below cost indefinitely.

### **Failure to strike a proper balance between CICL's business interests and those of its members**

The principle that all members be treated equitably and the notion of member benefits are more tightly held in co-operatives than in other business structures. However CICL's directors and

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<sup>28</sup> At present, CICL is required to report to the following NSW agencies: Office of Water, Murrumbidgee Catchment Management Authority, Department of Primary Industries, State Water the NSW Environmental Protection Agency, NSW Work Cover. It is also required to report to the following Commonwealth agencies: Australian Competition and Consumer Commission, Bureau of Meteorology, Department of Environment, Water, Population and Communities, National Water Commission and in the near term, the Murray-Darling Basin Authority.

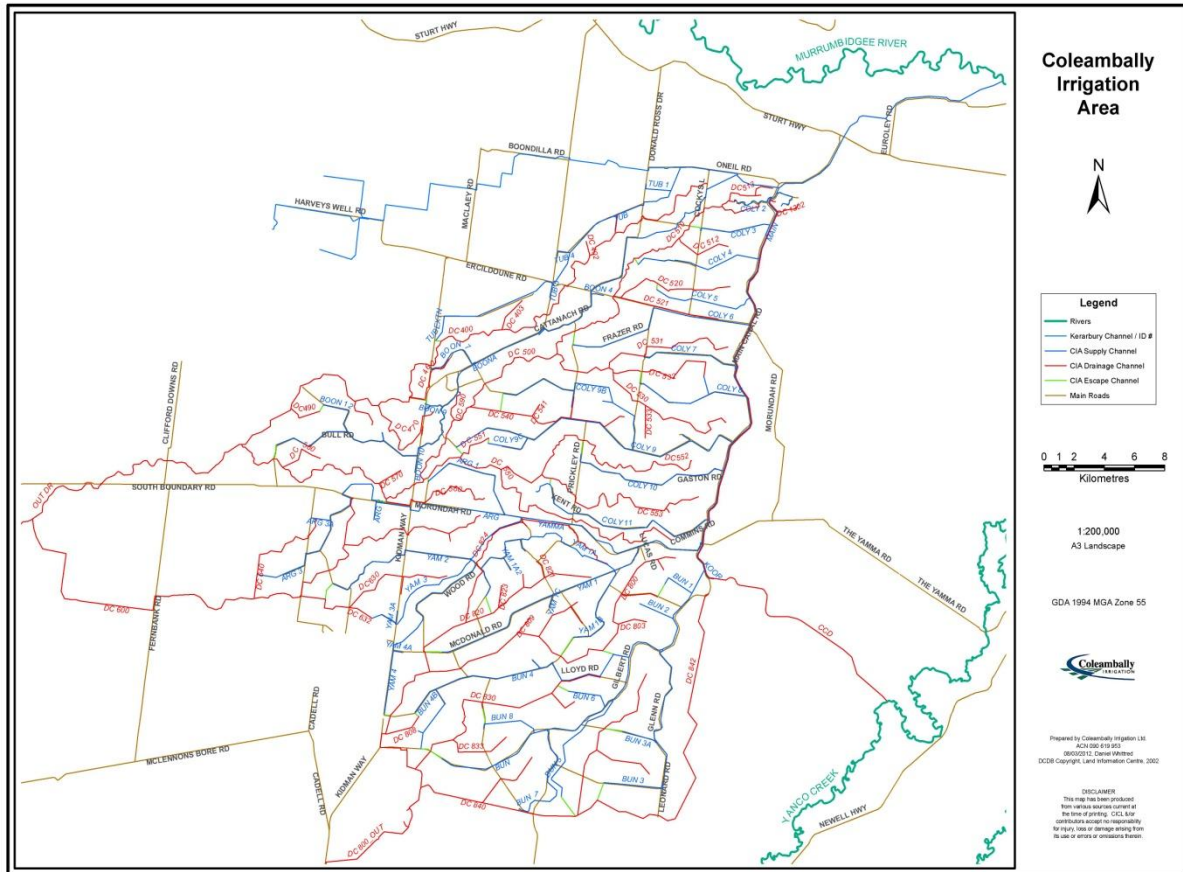
management are legally bound to place CICAL's business interests ahead of the individual interests of CICAL's members. Striking the right balance between equity, member benefit and the long-term interests of a cooperative business requires fine judgment. Nowhere is this more so than in CICAL where the owners of the business are also its customers.

**Failure to meet contractual obligations under PIIOP**

If CICAL accepts the Round 2 PIIOP funding offer made to it by the Commonwealth, it will be contractually bound to the Commonwealth to the extent of \$51,849,727 and all of the related system upgrades, the clay-lining, 66 on-farm projects and the work that CICAL is undertaking for Kerarbury Channel Propriety Limited are dependent on CICAL and its participating PIIOP members meeting their obligations under the PIIOP contracts. Failure to do so would place all of this work and all those involved in CICAL's PIIOP at risk. It is self evident that it would also place this NSP at risk.

Appendix 1

Figure 1: Schematic of CICL's Supply and Drainage System



n.b. this schematic does not include the West Coleambally Channel system which, at its furthest point, extends approximately 150km from CICL's office

**Appendix 2:**

**Analysis of Cost of Increasing Minimum Flow Rate n.b this work is not planned to occur in the life of this NSP and is provided for information only**

**Rationale**

CICL already understands that the capacity of parts of its supply system exceed the limits specified in the design drawings upon which the system was constructed.<sup>29</sup> In addition, the replacement of detridge wheels with flume-gates has led to an increase in peak flow through each outlet. In concert with changes to the types of crops being grown, this has led to a single instance where peak demand was not able to be met on a number of channels because a significant number of members on those channels ordered peak flows for the same period. However as the trend to broad acre cropping increases, this situation could conceivably occur again. Accordingly, CICL has undertaken an analysis of what would be required to increase its minimum level of supply from 10ML/d per standard farm (1400ML DE) and the associated detail is indicated in Table 6.

**Description of Works**

The works for the various minimum flow rates include enlarging culverts, lowering regulators and earthworks to increase the size of channel sections. The exact combination for each section varies through the process outlined in the attached brief to minimize the total cost. For each increase in the minimum flow rate, more sections of channel have to be modified, although not necessarily in a linear way. That is, a small increase in flow rate may result in a modification to a large number of channel sections. Likewise, a small increase in channel sections may result in a large increase in costs.

**Table 6 – Cost of Increasing Minimum Flow Rates**

Minimum Flow Rate	Cost of works	Annual	per DE	per farm	km affected	km works
10	0	0	0.00	0.00		0
11	2,000	168	0.00	0.52	10.7	3.3
12	150,007	12,580	0.03	39.14	30.5	10.7
13	384,747	32,265	0.07	100.38	69.0	27.5
14	749,374	62,843	0.14	195.51	219.4	53.5
15	1,073,388	90,015	0.20	280.05	249.7	76.7
16	1,721,012	144,324	0.32	449.01	301.1	122.9
17	1,933,214	162,120	0.36	504.37	309.7	138.1
18 <sup>30</sup>	2,381,900	199,747	0.44	621.43	333.7	170.1

<sup>29</sup> This has been confirmed by improved metering and computer modeling and is likely a consequence of decisions by those who originally constructed the supply system to deviate from design requirements, largely in the area of width, because of the size of the machinery that was available to them.

<sup>30</sup> Note that the range examined is capped at 18ML/d because the current capacity of the Main Canal is 18.2ML/d. Setting the minimum flow rate beyond this would require capital works of a magnitude that is beyond the capacity of CICL to recover given the level of water available to CICL, the type of farming conducted within CICL and the numbers of members.

**Source of Capital Funds and Impact on Shareholders**

While CICL will continue to work to refine its understanding of whether there are lesser works that can be undertaken at points where its system is constrained, it does not contemplate undertaking a major capacity upgrade in the life of the NSP. Should such work assume greater importance, it would be funded by any of the following means (either wholly, or in combination):

- drawing on CICL's reserves
- the sale of conveyance water
- a special levy
- an increase in water charges

CICL notes that increasing the minimum flow rate throughout CICL's supply system would also need to be considered in the context of CICL's policy for the transfer of permanent DE because the policy is the reference point against which CICL determines whether the permanent trade of DE from one location to another should be permitted i.e. if the transfer results in flow rates elsewhere along the channel falling below the minimum flow rate, it would not be approved; conversely, if it does not, it would.

#### Appendix 4

### **Planned System Upgrade: Installation of Total Channel Control along West Coleambally Channel n.b. this work has already been agreed to by CICL's members**

#### **Rationale**

Once water is released into West Coleambally Channel (WCC), CICL has very limited means of controlling its flow because there are only two regulators along the approximately 150 km length of the channel. This upgrade, which is being fully funded through the sale of conveyance water to the Commonwealth under PIIOP, will provide a further five regulators and allow for the automated collection of data from outlets along the channel. It will also greatly simplify the establishment and operation of the pumping roster within the WCC and greatly increase CICL's and members' (in that area) to respond to unforeseen circumstances/opportunities. The project has already commenced and is due for completion in 2012.

#### **Description of Works**

The works entail the installation of five additional regulators and telemetry at 30 pump sites.

#### **Capital Costs**

The related capital works will cost \$909,000.

#### **Recurrent Costs**

Recurrent costs are estimated to be \$25,000 p.a. but this is expected to be fully offset by reduced conveyance losses and reduced data collection costs.

#### **Source of Recurrent Funds**

Not applicable

#### **Impact on Charges**

CICL does not expect there to be any negative impact on charges to shareholders from this work.

### **Planned System Upgrade: Accelerated replacement of non Flume-gate type Meters n.b. this work has already been agreed to by CICL's members**

#### **Rationale**

CICL has been replacing non-flume type outlets at the rate of about 14 per year and at this rate, it will take seven years to complete this work. In the interim, CICL is required to set aside approximately \$400,000 p.a. for such work. The accelerated replacement of this work will provide a standard metering solution throughout CICL and will provide all members with automated start-ups

and shut-downs. CICL has secured a funding offer under PIIOP which would this work to be fully funded by the Commonwealth and undertaken over 2-3 years.

**Description of Works**

The related work would involve the replacement of approximately 100 outlets (e.g. MACE, Magflo and Propeller meters) with FlumeGates over the period FY12/13-14/15.

**Capital Costs**

CICL has received a funding offer of \$3m from the Commonwealth to undertake this work through PIIOP in return for the transfer of an agreed volume of conveyance water. There are no other capital costs.

**Recurrent Costs**

The maintenance and operating costs of the new meters are expected to be very similar to those being replaced.

**Source of Recurrent Funds**

No additional recurrent funds are required.

**Impact on Charges**

There will be no negative impact on charges to shareholders from this work and the associated decrease to CICL's volume of conveyance water will be minimal.<sup>31</sup>

**Planned System Upgrade: Construction of a Balancing Storage n.b. this work has already been agreed to by CICL's members**

**Rationale**

The primary purpose of this work is to lessen the prospect of mismatches between CICL's bulk 7 day order and members' 2 hour water ordering. However the storage will also increase CICL's capacity to take advantage of supplementary watering events and carryover; reduce members' exposure in the event the debit water ordering is introduced in NSW; and will lessen the prospect of spillages during sudden start ups or shutdowns throughout the system.

**Description of Works**

The planned works involves the construction/installation of:

- a 1500 ML, 3m x deep long-term cell
- a 2700 ML, 1m x short-term cell, including a 250 ML sump
- 3000ML/d flows via flume-gates in series from the Main Canal (upstream of the Tubbo Wells regulator) into the short-term cell

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<sup>31</sup> The amount of water to be returned to the Commonwealth for this work is less than 1% of CICL's conveyance entitlement

## **Coleambally Irrigation Co-operative Limited draft Network Service Plan, 2012-2017**

- a 300ML/d pump station from the sump into the short-term cell and the long-term cell (powered by a 400KVa transformer and electricity supply via a new line from the general vicinity of the Horticulture Bore)
- 300ML/d gravity pipeline from long-term cell into the Main Canal downstream of the Tubbo Wells regulator

### **Capital Costs**

The cost of the works is estimated at \$4,000,000 and will be fully funded under PIIOP.

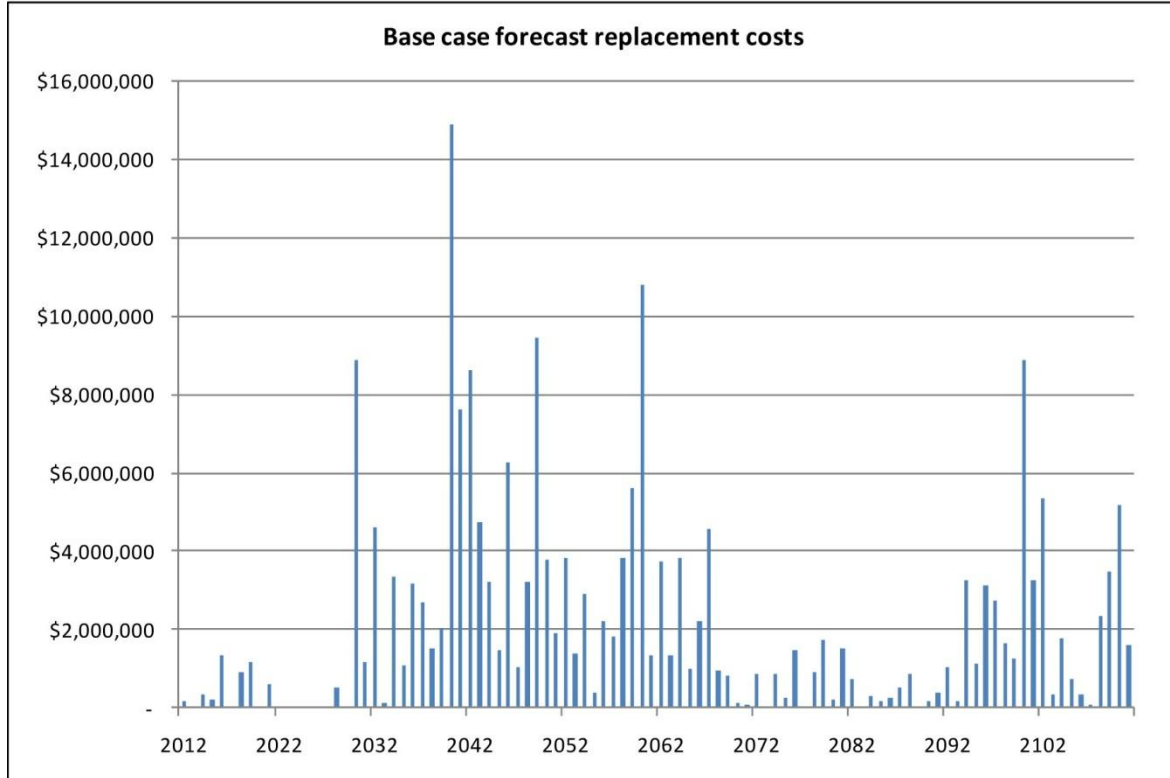
### **Recurrent Costs**

Maintenance and pumping costs are estimated to be approximately \$150,000 p.a. CICL expects that these costs will be offset by operational savings arising from the work but in the event they could not the impact on an average water bill within CICL (1400 DE) would be approximately \$466.67.



Appendix 4

Table 7- CIMCL Asset Replacement Funding Profile



n.b. CIMCL has responsibility for funding the replacement of the assets when required