Lachlan Valley Water Inc
ABN 38 597 032 631 Sustainable, productive and efficient water use in the Lachlan Valley

Submission to IPART

on Draft Determinations for

WAMC Regulated Charges 2021 - 2025
and
WaterNSW Regulated Charges 2021 - 2025

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SUBMISSION ON DRAFT DETERMINATION

WATERNSW CHARGES, 2021 – 2025 and
WAMC CHARGES 2021 - 2025

1. Introduction

Lachlan Valley Water (LVW) is the peak valley-based organisation representing 550 individual irrigator members in the Lachlan Valley, including irrigators within Jemalong Irrigation Limited (JIL). This submission has been prepared on behalf of all members and represents an overall valley position, however, our members also may make their own independent submissions. Lachlan Valley Water is a member of NSW Irrigators Council (NSWIC) and supports the NSWIC response in general, and provides additional responses on the issues from a Lachlan perspective.

This submission provides feedback on the draft findings and decisions for both the WaterNSW and WAMC prices, and also addresses the specific questions on which IPART has requested stakeholder feedback as these questions are largely the same for both determinations.

2. Response to draft findings and decisions - WaterNSW

Price Cap

Lachlan Valley Water supports the price cap approach as it provides water users with certainty about prices. However, it also provides an income upside benefit for WaterNSW when usage exceeds the 20-year rolling average, and we acknowledge that water availability and therefore usage has been volatile over the last 20 years. LVW does not have a firm view on a revenue cap at this point, but suggests that in the lead up to the next price determination there should be a more detailed consideration of the costs and benefits of a revenue cap approach for the longer term.

Operating Expenditure

LVW welcomes IPART's decision to reduce the operating expenditure allowance requested by WaterNSW by $23.8 million, however, setting the allowance at $194.7 million does support a significant higher operating cost per year than was approved under the current 2017-2021 determination. If WaterNSW costs continue to increase at this rate the impacts on customers will become unmanageable. The Atkins report has identified limited evidence of an efficiency drive in WaterNSW's pricing submission and that there was resistance to catch-up efficiency. We therefore support the Atkins view that a stronger management focus on cost performance can help achieve efficiency gains, and recommend that this should be a target during the 2021-2025 pricing period in order to provide a benefit to customers.

Capital Expenditure - Fish Passage

With regard to setting the capital expenditure at the level shown in Table 4.2, while LVW agrees the decision to defer the fish passage offsets reflects what is likely to occur, at the same time we are concerned that this will simply result in additional cost increases down the track, and we do not believe it is fair or manageable for irrigators to be hit with the outcome of such a decision.

The Wyangala Dam safety upgrade which triggered this fish passage requirement was undertaken in 2010/11 and as the Atkins Report notes it was a result of deficiencies in a pre-1997 structure that were later identified based on improved flood modelling. Therefore the upgrade was 100% Government-funded. At that time the cost-share applied to environmental planning and protection works was 50% Government and 50% user share. The fish passage offsets are a direct requirement of work done on Wyangala Dam due to the dam safety requirements and we believe should have been treated as an integral part of the dam safety compliance project, and be 100% funded by Government, on the basis that the project could not proceed without construction of either a fishway or fish passage offsets.

The delay in building the fish passage offsets was initially triggered by customer concerns at the extremely high costs (which in the Lachlan's case equated to 65% of the cost of the dam safety upgrade), and we understand this was referred to the NSW Fish Passage Task Force to identify more cost-effective options. As the Atkins report notes, the Strategic Fishway Implementation Program was completed in 2020 and concept designs prepared, with 2 pilot sites to proceed.

Given that the requirement for fish passage offsets was a direct outcome of a project that was completed prior to IPART's decision in 2019 to increase the user share of environmental planning and protection costs to 80%, we believe it is appropriate and fair to apply the cost share ratio that was in place at the time the fish passage offsets were triggered. Otherwise it is simply a major cost shift from Government to users.

> ***Recommendation:*** *That the cost share for the fish passage offsets should be the 50:50 ratio that applied when the requirement for the fish passage ase generated by the dam safety upgrade.*

Impactor Pays

There has been high variability in inflows and therefore usage over the last 20 years, and LVW believes it is clear now that licenced water usage is not the main driver of river operational requirements and costs, particularly under dry conditions. We believe there is a much wider range of 'users' now, and that the impact of this should be reassessed in terms of how it affects the funding of structural upgrades that are required to support water security and reliability.

The *Water Management Act 2000* and water sharing plans prioritise the provision of water for the environment, with the *Lachlan Regulated Water Sharing Plan 2016* (clause 16) requiring that 75% of long-term average annual flow is reserved for the environment. The WSP requires provision of basic landholder rights (clause 29), provision of stock and domestic replenishment flows (clause 30) and a visible flow requirement (clause 31) close to the end of the system to meet basic human needs. These are not licenced water requirements so effectively these are non-paying customers who can access water as high priority users.

Under drought conditions it requires considerable work by WaterNSW to meet the requirements for basic running of the river and to meet these and other high priority needs, with the result that the usage by paying customers, particularly general security licence holders, accounts for very little of the total flow in the river. The most clear example of this in the Lachlan is probably 2009/10, where licenced usage was only 9 GL (refer NSW Water Register) and total flow was 86 GL, ie, only 11% of flow was extracted. LVW considers the costs associated with projects that improve security and reliability of supply, and also assist flood mitigation operations, are largely driven by these wider community needs, and that the implementation of the best practice pricing principles of the National Water Initiative would mean such costs should be borne by Government on behalf of the community.

LVW also supports the position outlined by NSW Irrigators Council that dams must now meet a range of outcomes, not simply the provision of water to licence holders. These outcomes have community-wide economic, social and environmental benefits. The impact of the Millenium drought was severe in the Lachlan, but had there been no dam it would have been far worse, as indicated by a Department of Land and Water Conservation report on the Lachlan background:

> *Historical records indicate that prior to the construction of Wyangala and Carcoar Dams there were a number of periods of no-flow for the Lachlan at Cowra, the longest period being 111 days in 1908. The Lachlan River at Booligal experienced 228 days of zero flow between December 1919 and July 1920.*[1]

This emphasises that all those who rely on the river, including the environment, have a better outcome now than they would have without a dam.

LVW believes that the evidence of the last 20 years shows that conditions are changing quite rapidly, even since the 2018/19 cost shares review. LVW supports the findings and recommendations in the NSW Irrigators Council submission, and specifically that the costs associated with climate change are incurred in the absence of high extractive use, as demonstrated by the reality that there is not, and cannot be high extractive use during these climatic extremes of drought.

Recommendation:
That IPART reconsider whether climate change is currently an impactor by:

- *Reviewing trends in water availability, and comparing this with the trends in licenced water use over the same period, to determine the impacts of each driver.*
- *Evaluate the impact of both direct and indirect cost-drivers resulting from climate change*
- *Reassess what the impactor of water management is now*

A specific project that concerns Lachlan Valley Water is the safety upgrade for the Lake Cargelligo embankment included the 2021 – 2025 determination. This increases the costs borne by licence holders when in reality the operation of Lake Cargelligo demonstrates that it operates not only as a re-regulating storage but very much as a local community, recreational and environmental asset, see Lake Cargelligo article. This is relevant to the impactor-pays approach in terms of assessing whether such a project would be required if extractive use was far less, and therefore who should bear the costs of this safety work to be undertaken.

Volatility Allowance

The Lachlan supports IPART's revised volatility allowance for the Lachlan as per Table 6.1, on the basis that the self-insurance approach is a better way to manage the revenue risk.

LVW fully understands that WaterNSW's actual costs comprise a higher proportion of fixed costs, and we consider that other pricing approaches such as moving to an 80% fixed, 20% usage- based pricing may provide a more effective way of managing this risk. We recommend that WaterNSW should engage more actively with customers on the options to manage the revenue volatility. We do acknowledge that this is a difficult issue on which to consult the full range of water users and suggest that WaterNSW could use Customer Advisory Groups for this purpose.

[1] DLWC Lachlan Catchment - State of the Rivers Report - 1997, p11.

Tariff Structure

Evaluating and consulting with customers on moving to a different tariff structure is challenging because there will be different views depending on licence holders' usage patterns. However, during the 2017 determination LVW consulted customers on their support for a move to 80:20 pricing rather than 40:60, and once face-to-face consultation was undertaken there was majority but not full support from our members.

During this determination LVW has again investigated whether a move to 80:20 pricing would be appropriate for the Lachlan but it has been difficult to consult more widely due to the delay in provision of WaterNSW metering reform costs and the significant change in prices following the IPART draft determination. Following the draft determination we obtained confirmation from WaterNSW that under 80:20 pricing the prices would be:

HS Fixed charge	$45.98/ML
GS Fixed charge	$ 6.78/ML
Usage charge	$ 9.05/ML

LVW's calculation, which has been confirmed by WaterNSW, is that the break-even usage level for general security licences under 80:20 pricing is 18%. The Lachlan's average general security usage over the past 10 years (2011/12 to 2020/21 year-to-date) has been 28.8%, however, average GS usage in the 10 preceding years (2001/02 – 2010/11), which including the Millenium drought, was 16.3%.

Lachlan Valley Water acknowledges that the customer consultation for this determination is difficult because views will vary depending on a licence holder's usage pattern, and because usage on the regulated Belubula is lower, and as the prices apply to both the Lachlan and Belubula this adds to the difficulty of getting a consistent position on preferred prices.

Additionally, at this point there is no certainty on what the water availability in the Lachlan will be during the construction phase of the Wyangala Dam augmentation project, and while we understand the aim will be to minimise any impacts, it is unclear what the Government's approach to water charges will be if restrictions are required.

Importantly, for high security licences in the Lachlan 40:60 pricing provides lower charges at every level of usage, so it is expected the view of HS licence holders will depend on whether they also hold GS licences and what the overall impact will be for them.

Despite all these uncertainties, tariff structure has become an important issue in this valley over the last 4 years and LVW is in the process of seeking feedback from our members and intends to provide further information to IPART by 23rd April on the preferred tariff structure.

> ***Recommendation:*** *That IPART consider the Lachlan Valley Water response on tariff structure to be provided by 23 April.*

In addition, LVW believes that the variability in water availability over recent years is likely to lead to more interest in the future in investigating different tariff structures, and potentially in other valleys as well. Our experience is that this consultation with water users requires time to provide the necessary information and to engage properly with members, so we would like to flag to IPART that this is a question to be considered in future price determinations.

3. Response to Draft Findings and decisions – WAMC

Lachlan Valley Water supports the decision by IPART to limit the increases in WAMC charges to 2.5% per year.

LVW also supports the decision to reduce both unregulated river charges and groundwater charges. However, we note the concern raised during the hearing that access to water on unregulated rivers and creeks can be very inconsistent, meaning that the cost per ML accessed may become very high. We recommend that the affordability analysis should factor in the actual access to water in unregulated systems.

While LVW supports the cost-reflective consent transaction charges, and the requirement for WAMC to report against the required output measures, we have had feedback from our members that some have experienced slow processing of groundwater dealings due to the time taken to provide hydrogeological assessments, which then has a flow-on effect on the farm operation. We recommend that the performance standard for dealings should be clearly defined, and that DPIE-Water be required to meet these standards.

LVW also supports the IPART decision to reprofile regional water planning costs. Our view is that the regional water strategies have primarily been driven by Government objectives rather than stakeholders. Additionally, there has been a huge number of stakeholder consultations over the past 12 months, at both state and federal level, on key topics such as pricing, regional water strategies, NSW State Water Strategy, floodplain harvesting amendments, the ACCC water markets inquiry, groundwater usage compliance management, to name a few, which have led to consultation fatigue and reluctance to participate in yet another stakeholder consultation.

4. Questions for feedback

LVW does not have a comment on the price structure for MDBA and BRC charges or on the Yanco Creek levy.

1. *What are your views on WAMC's pricing proposals in relation to special licence categories? Do you support the continuation of these special licence categories? Do you agree with the rationale?*

   Lachlan Valley Water supports the rationale for these licences.

Non-urban metering reform

Lachlan Valley Water has provided initial feedback on these questions, and welcomes the extension to 23 April to provide further input on this key issue.

LVW supports efficient, accurate metering, but considers that the new metering and telemetry requirements have been developed primarily as a response to inadequate performance of existing meter reading and compliance requirements. The management of this has changed significantly over the last 15-20 years, in that the number of on-ground staff involved in compliance management have reduced, and while we accept that government organisations and state-owned businesses need the freedom to restructure how they deliver services, we do not accept that water users should be expected to pay for upgrading as a result of poor performance of existing responsibilities.

2. *Do you consider the indicative scheme proposed costs are affordable and what are the impact of proposed bill increases on licence holders?*

LVW considers the impact of the proposed costs will be potentially be high, particularly for smaller licences.

3. *Will WaterNSW's proposal result in a consolidation of entitlements and fewer licence holders?*

This is a definite possibility, in view of the fact that the compliance costs per ML for smaller licences will potentially be high. Valleys like the Lachlan and Belubula could see a significant change in the number of licence holders.

4. *Will the metering policy result in some water users downsizing their works to avoid the 100mm meter threshold for the new policy?*

We concur that it is likely that some water uses will downsize their pumps to avoid the 100mm threshold, or they may seek to amend their works approval to reflect the actual pump size, ie, they may have an approval for a larger pump but not yet have installed one of that size. It is difficult to estimate accurately how may water users may consider this option without further consultation.

5. *What are the impacts, if any, on customers and WaterNSW if customers with government-owned meters choose the opt-out option?*

Comment to be provided by 23 April.

6. *If there are other providers who can provide the service, would there be an economic case to set a regulated price for the MSC?*

It is unclear how many service providers would be available, so further information is required to provide an answer.

7. *If you have decided or are deciding to opt out of the government owned scheme and own your own meter, please tell us the reasons why.*

Not applicable to the Lachlan.

8. *If we do set a regulated maximum price for metering where there are alternative providers, what should we consider to ensure that we support efficient outcomes in these situations?*

We need to understand what workload the alternative providers currently have, what frequency of testing is required, the location of meters and how long the process will take.

9. *What would be the implication for customers, water users and Water NSW if we don't set a regulated price for the MSC for government-owned meters?*

Not applicable to the Lachlan.

10. *What are your views on WaterNSW's proposed costs and our initial assessment of these costs?*

In LVW's view WaterNSW's costs are high, and this is reflected in the Cardno report which notes that WaterNSW's assumptions have not been validated and there has been no sensitivity test of the impact of these assumptions.

While there are no government owned meters in the Lachlan, and therefore the WaterNSW proposed charge is lower, LVW agrees with IPART's concerns around the cost to customers of upgrading or installing a new meter, and then the ongoing maintenance costs, particularly for smaller licence holders.

11. *Should the scheme management charges for non-urban metering reform apply on a per licence basis (as proposed by WaterNSW)?*

The scheme management charges should be based on the cost driver, which we understand will be per licence.

12. *Should the costs associated with installing telemetry and non-telemetry meters be the same?*

Lachlan Valley Water believes that the cost of installing meters should reflect the actual installation costs, so our view is that the costs would not be the same. In the central and northern valleys, including the Lachlan, licence holders are required to meet their own costs of installing telemetry, which will be significant.

13. If we were to set new metering charges, how should we transition between the existing charges to new charges?

LVW recommends that due process should be followed, there should be open and transparent consultation with licence holders, and it should align with the state rollout. The transition from existing charges to new charges should not take place until the entire state is compliant and licence holders are meeting the required conditions.

14. *Do you consider WaterNSW's proposal will effectively achieve the Government's policy objectives for metering reform?*

Further comment to be provided by 23 April.

15. *What are the potential impacts on the implementation of metering reform is WaterNSW's proposal does not meet the metering policy objectives?*

Potentially high costs for licences to operate, and critically, no increase in the public confidence in metering compliance. Further comment to be provided by 23 April.