

Response to the New South Wales Independent Pricing and Regulatory Tribunal review of prices for the Water Administration Ministerial Corporation and WaterNSW

9 December 2024



**CENTRAL NSW
JOINT ORGANISATION**

- Bathurst
- Blayney
- Cabonne
- Cowra
- Forbes
- Lachlan
- Lithgow
- Oberon
- Orange
- Parkes
- Weddin

9 December 2024

Independent Pricing and Regulatory Tribunal
PO Box K35,
Haymarket Post Shop, NSW, 1240s

Via email: ipart@ipart.nsw.gov.au

To whom it may concern,

Re: New South Wales Independent Pricing and Regulatory Tribunal review of prices for the Water Administration Ministerial Corporation and WaterNSW

Central NSW Joint Organisation speaks with a unified voice for its collective priorities. This region has a proud history of working collaboratively, representing over 180,000 people covering an area of more than 53,000sq kms comprising the local government areas of its membership - Bathurst, Blayney, Cabonne, Cowra, Forbes, Lachlan, Lithgow, Oberon, Orange, Parkes, Weddin. Central Tablelands Water County Council is an associate member.

Tasked with intergovernmental cooperation, leadership and prioritisation, CNSWJO has consulted with its stakeholders to identify key strategic regional priorities. The CNSWJO Strategic Plan can be found here - www.centraljo.nsw.gov.au.

CNSWJO member councils all operate local water utilities (LWUs), so the security, availability and affordability of town water supplies for the communities in Central NSW is core business for the councils in this region and a priority for the CNSWJO Board.

Thank you for the opportunity to provide feedback to the IPART issues paper on the review of prices for the Water Administration Ministerial Corporation (WAMC) and WaterNSW.

It is understood that IPART sets the maximum prices that the WAMC and WaterNSW can charge their customers for water services and that this consultation is to review WAMC's and WaterNSW's pricing proposals to determine whether they promote value for money, are in the interests of customers, and deliver the outcomes customers need and want.

Where CNSWJO member councils may provide separate responses, the following response is based on CNSWJO Board endorsed policy.

Noting that this review will thoroughly examine the cost impacts of the pricing proposals, this submission focuses specifically on the impact of the proposed WaterNSW pricing increases on a sample of our member councils and the implications for their rate payers.

While the proposal is to double WAMC's income from across the state to support its strategic, compliance and enforcement functions, the impact of this is less significant than the proposed WaterNSW price increases on our member councils.

We appreciate that in line with IPART's 3C framework, WaterNSW are required to propose cost reflective prices to meet their regulatory and legislative obligations and reflect customer preferences while demonstrating prudence and efficiency in its operations and customer affordability.

Our concerns are for the capacity of our communities to foot the bill for the ever-increasing raft of regulatory and state agency functions that councils are having to pass on to their rate payers.¹ This is particularly the case when considering the costs for inland councils with relatively small rate bases to provide their communities with town water supplies.

Proposed price increases by WaterNSW cannot be examined in isolation from the funding issues currently challenging regional Local Water Utilities (LWUs). These are the subject of the recent inquiry by the NSW Productivity and Equality Commission (PEC) into Alternate Funding Models for LWUs in Regional NSW.

Over the past regulatory period, like WaterNSW, councils have been impacted by some of the worst flooding on record that has damaged council owned water infrastructure needed to manage LWU services for communities. Further, communities in central NSW continue to be challenged by the need to fund capital projects to address critical town water security and ever-increasing regulatory standards for drinking water.

All the factors outside the direct control of WaterNSW that it attributes proposed price increase to are also impacting councils and ultimately their communities - higher inflation and interest rates and increases in land tax, insurance and input costs across supply chains and the construction sector – are placing upward pressure on costs.

The PEC inquiry report provides detailed analysis of the implications of these for regional councils – particular those in the west of the state that are further challenged in their service delivery by geographical distance, source water quality and quantity, dispersed and sometime variable population, most of which is beyond the control of any LWU. This is the main driver for seeking alternative funding models to complement capital subsidies.

Providing a safe and reliable water supply in the current environment will require additional investment that comes at a significant cost to councils without any additional cost from regulated funded regulation from the proposed pricing increases by WAMC and WaterNSW.

It is appreciated that WaterNSW's regulatory compliance obligations directly influence its operational costs and asset management strategies and that a significant portion of WaterNSW's 2025-30 capital expenditure is regulatory driven, including five of its top 10 projects.

However, to expect councils to pay for the regulatory and service functions of WAMC and WaterNSW will add further costs to the operation of town water supplies. These costs will potentially need to be recovered by way of additional charges to town water supply customers who should not have to pay extra for their essential services because of these increases. This is not an issue of willingness to pay but more capacity to pay. It will only serve to compound the existing problem that the PEC is seeking to address with many smaller LWUs already looking to the state government for support by way of Community Service Obligations.

¹ https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF

Impact of WaterNSW proposed price increases

It is noted that under the WaterNSW pricing proposal for 2025-2030, that an average Sydney Water residential customer's bill will increase by less than \$1 a week for the costs of WaterNSW's bulk water services.² That is, 80 cents per week, or \$42 on average per annum) increase to a typical Sydney Water residential customer's bill in the final year of the determination FY2029-30. The costs for many of our region's LWU customers will far exceed this with some hit harder than others depending on how the costs are apportioned.

Lachlan Shire Council

For the Lachlan Shire Council in the west of our region, the cost implications from the proposed WaterNSW and WAMC price increases are estimated to be as follows:

- According to water utilities performance data Lachlan Shire Council has the 5th highest operating, maintenance and administration cost per property in NSW.
- In 2024/2025 the WaterNSW bill is estimated to be \$227k.
- With the projected increases up to FY 2029/2030, the WaterNSW bill is estimated to increase to \$871k plus inflation.
- This will see an extra annual cost of \$446k to the water fund (432%). This is an average of \$187 additional per household. Close to three times the cost anticipated for the average Sydney Water residential customer.
- Extra annual cost of \$197k to parks and gardens (327%) – there is no mechanism to recoup these costs, apart from reduced level of service (not irrigating), or reducing budgets in other areas (less road maintenance).

In communities with low socio-economic characteristics, capacity to pay increased charges removes the option of debt as an alternative funding source. Lachlan Shire Council is currently considering how it can fund an estimated contribution of \$18-\$20 million toward the cost of replacing the Condobolin Water Treatment and Sewer Treatment Plants. If the contribution is funded through debt, this will increase the average water bill by approximately \$400 per year and the average sewer bill by approximately \$260 per year.³ This is before applying the WaterNSW pricing increase.

Fish River Water Supply Scheme

Two of our member councils, Lithgow and Oberon rely on the WaterNSW operated Fish River Water Supply Scheme (FRWSS) for water for domestic and industrial use. The quality, security and affordability of town water for the communities of Lithgow and Oberon is therefore of utmost importance to the CNSWJO Board in the context of this review.

Councils on the FRWSS pay a considerable amount under their licence agreements with WaterNSW. At the last pricing determination a 80:20 split was endorsed with prices increasing by 30-40%. This is on average three times more costly than LWUs managed by councils in the region.

Oberon Shire Council

For Oberon Shire Council across the three scenarios of pricing points proposed, the costs are effectively the same and are as follows:

² https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF
Pages 7 and 181

³ Productivity and Equality Commission Review of funding models for local water utilities page 37

- In 2024/25 the WaterNSW bill is estimated to be:

Access -	\$521,361.96
Usage -	<u>\$228,217.68 *</u>
TOTAL -	\$749,579.64

* estimated based on first 5 months usage.

- Based on the same usage as above the 2029/30 WaterNSW bill would be:

Access -	\$861,843.24
Usage -	<u>\$456,435.36</u>
TOTAL -	\$1,318,278.60

A 76% increase from 2024/25FY

- This would see an extra \$568,698.96 cost to the water fund in the two years above compared – an average \$406.50 per account (1,399 accounts)
- Over the 5 years of increases, a cumulative additional amount of \$1,716,686.33 would be paid over and above the 2024/25 price, if it held steady.

Note: Council gets charged access based on 1,064,004 per annum. Council's Actuals for the past three years are 58.92%, 65.14% and 71.5% respectively.

It is noted in the WaterNSW pricing proposal 2025-2030 that the phased implementation of the Oberon to Duckmaloi Stage 2 Pipe Renewals is proposed to be completed in two equal phases across the next two determination periods. 'This will ensure that the highest priority sites can be completed to realise some of the service improvements whilst balancing cost impacts for the small customer base in Fish River.'⁴ See commentary regarding this below.

Lithgow City Council

Analysis by Lithgow City Council of the WaterNSW Pricing Proposal 2025-2030 has found that:

Lithgow City Council's cost reflective base case (CRBC) will be inclusive of an annualised 9% increase across the determination period (Table 70 – Fish River - Indicative bills (\$2024-25) – CRBC). Below this table the annualised increase for Lithgow City Council increases to 10% (Table 71 – Fish River - Indicative bills (\$2025-26) – CRBC). Both figures are without inflation or CPI included to costs and bill estimates. Should a CPI of 3% be added annually to the proposed prices on a compounding basis, actual prices may increase for Lithgow City Council by 83%.⁵

This would be an incredibly high increase to council's pricing in an already low socio-economic community. The Lithgow community of 21,000 sit at the lower end of the SEIFA scoring from Profile.id following analysis of the previous census data. Whilst Lithgow and surrounds has been a LGA that has been associated with power generation and mining which would typically be linked to higher income and better outcomes for communities, the slow decline of these industries and lack of effective government transition policy has placed the community in a poor state of economic outcome.⁶

⁴ https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF
Page 149

⁵ Lithgow City Council Response to WaterNSW Pricing Proposal 2025-2030

⁶ ibid

In its submission to the IPART Water NSW Operating Licence Review (October 2023), the CNSWJO noted that Lithgow currently pays over \$2M per year for water to use a system that has so many issues and council has to increase its prices for water to its customers to match that.

It is noted that WaterNSW proposes six customer outcomes: most notable being to maintain downward pressure on costs to support customer affordability and to provide secure and reliable water delivery.

Capital Works Program and Service Delivery by WaterNSW

Where WaterNSW has proposed a 43% increase in their operating expenditure, driven by “a change in operating model, compliance with existing and new obligations, and inflation”, the justification for such substantial increases in pricing is very vague.

WaterNSW proposes capital expenditure for the 2025-30 Determination period across the five years for Rural Valleys of \$553 million. Of this, the only capital projects are as follows:

- Fishways Program (\$108.8 million),
- Cold Water Pollution Program (\$46.8 million),
- Oberon to Duckmaloi Pipeline Renewals (\$29.2 million) and
- digital technology (\$54.4 million).⁷

The remainder is for:

- Renewals and replacement annual average expenditure to increase by \$26M.
- Environmental Planning and Protection annual average expenditure to increase by \$21M
- Corporate systems annual expenditure to increase by \$4.4M.
- Maintenance, water delivery and other operations and asset management planning to increase by \$1.3M annually
- Dam safety compliance annual average expenditure to decrease by \$1.3M
- Dam safety compliance on pre-1997 capital projects to decrease from \$2M to \$0.
- Drought projects annual expenditure, to decrease by \$29.5M

For the Fish River Scheme, investment by Lithgow and Oberon Councils and their communities to date has been high. Despite ever increasing costs there appears to have been limited capital replacements and renewals by WaterNSW. The water source continues to be insecure and unavailable either due to drought conditions or alternatively due to the inability of the infrastructure to deliver the full allocation to councils in any period. Infrastructure is ageing and in dire need of renewal and replacement.

In its submission to IPART for the WaterNSW Operating Licence review 2022-2024, the CNSWJO provided feedback on key areas where WaterNSW need to improve their service levels to provide the same or similar levels of performance and transparency as councils must afford their communities or customers around the provision of services including drinking water.

These included:

- Transparency around secure yield and allocations to inform water planning- a “must have” for LWUs regulated by DCCEEW under its new Regulatory and Assurance Framework.
- development of a 5-year water conservation plan consistent with the NSW Water Strategy, the Greater Sydney Water Strategy and the NSW Water Efficiency Framework.

⁷ https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF

- commitment to an Asset Management Improvement program that includes active leak detection to ensure ongoing monitoring and repair of its infrastructure to reduce water loss.
- Greater rigor around climate risk readiness and the implications of climate change on the management of WaterNSW dams including:
 - A complete rethink on the value of water for human consumption and the social and economic impacts of flooding in the forward planning for WaterNSW assets.
 - Better mechanisms for greater transparency and accountability around this.

A copy of this submission can be found here

https://www.centraljo.nsw.gov.au/content/uploads/231013_-WaterNSW-operating-licence-review-2022-2024_Final-Submission.pdf

In its response to the WaterNSW Pricing Proposal 2025-2030, Lithgow City Council, states that while replacement of the pipeline between Oberon Dam and the Duckmaloi Treatment Plant due to its age and continual failings is one of the top ten priorities, other pipes that are in the scheme such as the ones delivering potable water from the plant to townships need replacing.

Lithgow suggests that other solutions could be available rather than replacing the pipeline between Oberon Dam and the Duckmaloi Treatment Plant such as pipeline relining which may provide a short to medium term solution to repair and at substantially less cost and down time to the system.

Further Lithgow has identified areas of concern with major overspends in certain operational areas including:

- Asset Management Planning
- Corrective Maintenance
- Internal
- Water Quality Monitoring
- Flood Operations
- Water Delivery and Other Operations

There are also reports of major underspends in areas of operation and capital such as:

- Renewal and Replacement
- Routine Maintenance
- Dam Safety

These items are the core business of WaterNSW and through the engagement of the pricing proposal, customers were assured greater transparency and information on operations and capital expenditure as it pertains to them and their system.

Lithgow City Council reports that on reviewing these continually at the Customer Advisory Group (CAG), this has not been provided and no further information has been made available to understand these expenses. Council requests that IPART investigate this issue of overspends and underspends from the previous determination on key areas identified for the latest pricing proposal.⁸

Notably, what the CNSWJO and its members seek from WaterNSW through its capital works and other expenditure is reliable asset management.

The CNSWJO position is that this should not come at increased costs. If anything, costs should go down based on a benchmarking exercise with other water utilities in NSW and the notion that quality secure water is a right, not a commodity.

⁸ Lithgow City Council Response to WaterNSW Pricing Proposal 2025-2030

The 3Cs and Customer Engagement

Where some CNSWJO members have been effusive in their praise for WaterNSW management of, for example, Wyangala Dam in times of flood, others maintain that WaterNSW has a lot of work to do to improve its performance and service levels. See advice above regarding management of the FRWSS.

WaterNSW has previously undertaken direct consultation through the Customer Advisory Groups. Membership of these CAG's has sometimes been problematic in terms of communicating LWU issues, particularly for drought and water security. This is an issue that came up during the negotiation of the WaterNSW Operating Licence, which is due to commence in July 2025. With such substantial increases in bulk water costs, LWUs will be looking for a much greater level of performance and efficiency gains.

In its response to the WaterNSW Pricing Proposal 2025-2030, Lithgow City Council, an active member of the WaterNSW CAG maintains that in its management of the FRWSS WaterNSW have not consulted with council regarding pipeline failures or the maintenance undertaken.

Lithgow suggests that if councils and the customers of the FRWSS were properly engaged on the asset management and maintenance of the scheme, then there may be a potential to identify better areas for expenditure and improvements for both WaterNSW and customers.

Through the WaterNSW consultation on its proposed price increases the most frequently identified topic of concern for customers and community members was water affordability. Having affordable access to water over the 2025 Determination period was the number one priority. Some participants across different discussions noted that the combined pressure of increased cost-of-living, increased cost-of production, and future water pricing increases would likely make their business untenable in the next determination period.⁹

Further, advice was that customers should not be paying for services which they see as the remit of government – they suggest that the current cost sharing arrangements are not appropriate for dam safety, fishways and other environmental initiatives.¹⁰

It was recognised by both customers and WaterNSW that the true cost, the cost reflective base case, was likely not an affordable revenue amount for both customers and WaterNSW without intervention.¹¹

It is noted that under the WaterNSW pricing proposal for 2025-2030, that:

- *a revenue cap is proposed for most valleys with a side constraint to manage volume risk and limit pricing volatility while also allowing us to offer flexible pricing arrangements.*
- *it is proposed to keep fixed charges at the current proportion for most valleys.*
- *WaterNSW propose a 'no questions asked' hardship program in place to assist customers in need.*

We recommend that IPART, having strong regard for our member council's feedback and submissions on this proposal, engage jointly with WaterNSW and the NSW Government to collaboratively work towards finding the right balance when forming its independent view of rural bulk water charges.

⁹ https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF

Pages 75-79

¹⁰ *ibid*

¹¹ *ibid*

Impact on the agricultural sector

From consultation with those in the agricultural sector in our region, anecdotal advice is that the increase proposed by WaterNSW will hit irrigators the hardest.

While overall agricultural profits in NSW have been high in recent years, suggesting some capacity to pay for proposed bulk water increases at an aggregate level, historically profits have been volatile and substantially lower than gross margins.¹²

The CNSWJO has a close working relationship with the Lachlan Valley Water Association which represents irrigators in the valley. The Central West NSW region is a substantial agricultural production basin for Australia. More than 80% of Australia's population can be reached from Parkes within the Central West region.¹³ Infrastructure Australia identified the Central West as one of the fastest growing areas in Australia estimating its GRP will be the 7th largest contributor to the National economy in 2031.

Through the WaterNSW consultation on its proposed price increases there was broad acceptance that a 15% cap in price increases each year for five years (excluding CPI) may be the only feasible outcome, with customers noting a likely high negative impact to both small producers and customers with permanent plantings.¹⁴

The potential impacts to water use and trade were also discussed as a possible outcome of higher fixed charges, which could have unintended consequences for a valley. Anecdotal feedback from producers in the Lachlan valley is that these costs could drive people out of the industry.

Given the interconnectedness between the prosperity of our agricultural sector and local businesses and communities, any negative impacts on our local farming community will have negative flow on effects on our towns.

Conclusion

In reviewing the increased charges by WAMC and WaterNSW, the CNSWJO urges IPART to recognise the economic benefits of regional town water as a critical and essential component of the NSW economy. Regional towns provide essential support for agribusiness, mining, tourism, and sustain other essential services such as health, social care and education. Having access to affordable water is critical for the economic vitality of urban and rural towns particularly so they can continue to thrive in the face of population growth and climate change.

Where the Productivity and Equality Commission (PEC) has considered the need to reduce the cost burden on regional communities for the supply of safe, reliable and affordable water by LWUs, the proposed price increases by WAMC and WaterNSW based on the user pays principle is yet another cost shifting exercise to those very same LWUs without regard to the ability of regional communities to pay.

As detailed in our previous submission to IPART regarding the Dam Safety Levy, it is not just the potential cost of the proposed WaterNSW price increases on regional councils but that it is adding to a

¹² https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF
Page 198

¹³ NSW Department of Planning and Environment, Central West and Orana Regional Plan 2036, p74

¹⁴ https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/2024-Pricing-Proposal-WaterNSW.PDF
Page 78

growing trend for cost shifting from the State Government of charges to councils already struggling with financial viability. https://www.centraljo.nsw.gov.au/content/uploads/240016_IPART-Dam-Safety-Levy-Submission-2.pdf

Where IPARTs view is that the regulated should fund their regulation, and given the extent to which local government is regulated, increased charges including for WAMC and WaterNSW operations will add up well beyond the rate cap. This is particularly the case for local government local water utilities where there is an ever-increasing regulatory regime.

To support customers in this environment it is important that like WaterNSW, councils have financial capacity to manage these costs and that this is considered in determining prices. Increased regulation comes at a cost to councils, (and their communities) and regulated funded regulation will compound an existing financial sustainability problem.

The CNSWJO reiterates that what its members want to see from WaterNSW is reliable asset management. Its plea to IPART is to include an efficiency gain reduction in costs for this work rather than increased costs.

The CNSWJOs position is that if anything, costs should go down based on the notion that quality secure water is a right, not a commodity.

We recommend that IPART, having strong regard for our member council's feedback and submissions on this proposal, engage jointly with WaterNSW and the NSW Government to collaboratively work towards finding the right balance when forming its independent view of rural bulk water charges.

Thank you for the opportunity to provide feedback to this inquiry. If you require further information or clarification on comments in this submission, please do not hesitate to contact [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

Central NSW Joint Organisation (CNSWJO)