

Submission: WAMC and WaterNSW pricing proposals

Introduction

I have significant concerns about the WaterNSW and Water Administration Ministerial Corporation pricing (WAMC) proposals outlined in the IPART Issues Paper. The rural bulk water pricing is in desperate need of review, if irrigators are not to be priced out of business by this latest determination.

The impactor pays model is unjust, as it forces irrigators to pay for public goods that are enjoyed by the community. Water in NSW is managed for multiple purposes, including the health of the environment and wellbeing of communities, but it is licence holders who are expected to pay the majority of this cost.

Secondly, the WAMC budget has exploded due in many parts to failed government reforms. Despite efforts of irrigators to comply with new rules, failed rollouts are ultimately being paid for by irrigators through increased charges.

The fundamental problem here is not how pricing is structured, but the fact that WaterNSW's revenue requirements are ballooning faster than the capacity of its customers to keep paying more, while IPART's impactor-pays principle shifts an ever-greater proportion of those ballooning costs onto rural water users, primarily farmers. This is not a sustainable business model by any measure.

Key Issues

Unsustainable Price Increases Will Drive Small to Medium Farmers Out of Business

The IPART Issues Paper outlines proposed price increases for the Murrumbidgee valley which are unsustainable.

The Murrumbidgee valley is an arid area that only developed due to irrigation. Prior to irrigation there were huge grazing stations, 1850s to early 1900s, as the area could only support broad acre grazing. Without access to affordable irrigation water that is supplied on a regular annual basis nothing can be grown or sustained.

Without irrigated agriculture the entire Murrumbidgee Valley will be pushed into recession and depression. Communities will suffer the most as the population declines. Other industries simply don't have the input costs that irrigation has so there will be a negative knock-on effect to local secondary supply businesses.

The outcome of these increases in costs, along with changes in government policy will irreversibly damage the prosperity of the regions in the Murray Darling Basin.

Cost increases are unaffordable for irrigators

There is an assumption from officials that farmers will absorb costs, but this is not feasible with price rises of this magnitude. For the most part irrigators are price takers not price makers, this means they are offered a contract with a value, and they can take it or leave it.

The justification in the most recent WAMC/WaterNSW submission to IPART that average profits for irrigators has been strong in recent years does not capture regional and crop-specific impacts. Some commodities like dairy and rice are at serious risk of being driven out of business as they are less able to absorb price rises of this magnitude.

These cost increases will be particularly felt during dry periods, as noted by WaterNSW, ‘profits were 38% of revenue in 2021/22; however, were negative just two years earlier’. Price increases cannot be made by looking at years with good water allocations and profitability but must properly consider the impacts during dry years as well. These price increases will leave many farmers extremely vulnerable in periods with low water allocations.

Water pricing determinations and cost shares need to be reformed

The NSW bulk rural water pricing system is fundamentally broken and in urgent need of review. Water planning and management has expanded beyond what is required for water storage and delivery systems to include climate change adaptation, fish passageways, environmental flow management, recreation and other public good services. These additional costs should be borne by the users, or beneficiaries, of those additional services, not just rural water customers.

Under the current impactor-pays principle, rural water users now cover 80-100% of operating and capital costs for most activities, including 20 out of 35 WAMC activities. This means that irrigators are largely funding programs that provide significant public benefit. I believe that the cost of programs that provide public benefit should be funded more greatly by taxpayers.

This ‘impactor pays’ model contradicts the National Water Initiative, which states that ‘Best Practice Water Pricing’ should give effect to the ‘user pays’ model. NSW is currently the only state that sets water prices according to the impactor pays model. This needs to be addressed, or we risk further undermining the irrigation industry in NSW.

Responses from Customer Advisory Groups (CAG) are instructive. 70% of participants said they wanted to share the regulation of water between users and the environment and 69% supported increased funding for water management. CAG participants were, for the most part, members of the general public (not licence holders) and therefore unlikely to incur these costs. If the public wishes to see better water management, it should contribute its share. As it stands, irrigators are largely asked to pay for reforms that benefit everybody.

Ineffective and inefficient implementation are key cost drivers

WaterNSW's revenue requirements are increasing far faster than farmers' capacity to pay. Numerous reforms that have been undertaken since 2017 have suffered from cost inefficiencies and blowouts. Below are just a few examples.

- Metering

Recent metering reforms have dragged on and these costs are again being passed onto customers. IPART's 2021 determination stated that government delays in undertaking metering reform 'should not be paid for by users through its water management prices'. I agree with this notion. Irrigators in the southern basin have publicly owned water meters that were forced upon them, so they were compliant but have been caught up in this debacle.

- Duly Qualified Persons (DQP)

The cost of delivering the metering reforms has ballooned due to staff shortages. This was acknowledged by WAMC in its submission, which stated:

'Unforeseen errors in the data submitted to WaterNSW by duly qualified persons (DQPs) have caused a significant amount of unforeseen work at all stages of the process. These errors mean that sites could not be made compliant as required, the usage data had to be collected manually and several unanticipated contacts with DQPs were required.'

License holders should not be expected to subsidise the failings of government in delivering its reforms. Data errors and staff shortages are not the fault of irrigators, yet they will be expected to cover them as part of these proposed increases.

- Hardware issues

The non-urban metering rollout has been delayed by hardware issues. This was noted as a major driver of costs for NRAR, as 'enforcing replacement of failed meters and local intelligence devices (LIDs)' will 'translate into an additional 375 investigation and enforcement cases per year' which 'represents a 30% increase in NRAR's current case load'. WAMC notes that 'equipment challenges during the period also contributed to increased costs, via faulty LIDs. I see it as unfair for irrigators to again pay for the costs of these delays.

- Overlapping reforms are leading to cost increases

The number of overlapping policies is causing unnecessary cost burdens. This was noted by WAMC in acknowledging that they need 'on the ground support to help water users navigate the complexity of water regulations, to assist voluntarily compliance.' This is reflected in the 2023 Community Insights Voice survey, with 59% of NSW respondents saying that water regulations are too complicated and 47% expressing difficulty complying with all water laws (a higher percentage than other states). The number of overlapping programs and reforms is becoming burdensome on government staff and licence holders alike.

Service delivery has declined

A combination of diminished services, less rural presence, and expensive transaction costs are leading to inefficiencies in service delivery. Customers report services being centralised, operating hours reducing, and fewer staff stationed within local communities. All this has led to more expensive and less effective customer service, all while costs continue to increase. This has made what should be straightforward administrative transactions costly and time consuming.

CONCLUSION

I am anxious about the proposed price increases put forward by WAMC and WaterNSW. I believe that licence holders are being asked to pay a large share of reforms that benefit the wider public and the cost shares need to be re-evaluated in light of most recent changes in expectations around water supply.

These price increases cannot be absorbed and NSW risks undermining its irrigation industry, due to an unfair cost share arrangement and program blowouts. As it stands, licence holders are being asked to pay the cost of environmental water programs that benefit the public and are subsidizing government failures in recent reforms. This is an unfair burden to place on irrigators.

IPART must re-assess its impactor pays model and ensure that government-led water reforms are delivered in an efficient manner.