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Lachlan Valley Water Inc

Sustainable, productive and efficient water use in the Lachlan Valley

Submission to IPART

Information Paper for WaterNSW Prices for WaterNSW Bulk Water Services

June 2025

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2 Introduction

Lachlan Valley Water (LVW) welcomes the release of the IPART information Paper and the opportunity to respond to the decisions within.

In our previous submission we outlined the challenges and implications of increasing irrigated water costs in New South Wales, focusing on the agricultural sector's critical need for accessible water to maintain productivity, food security, and rural community wellbeing. We also discussed issues with the "Impactor Pays" model, regulatory inefficiencies, and overlapping compliance requirements.

In our submission we will comment on the IPART Information Paper (the Paper) and also outline our view of the scope and some key principles of the way forward for the management of bulk water and water management in the rural valleys. We broadly support the positions and directions outlined by IPART. However, we wish to impress upon the need for transparency and ongoing consultation during the next phase of the review of WaterNSW.

2.1 *The Information Paper*

We agree with many of the assessments and views outlined in the IPART Information Paper. The Paper outlines succinctly many of the misgivings that our members expressed to us.

We concur that long-term planning, financial management and value for money are key issues for any business. We wish to emphasise and expand on the key observations made in the Paper:

1. *Customer consultation by WaterNSW lacked information* – Not only did this mean that stakeholders could not fully understand and comment on the impacts of WaterNSW's proposal the lack of specific valley consultation on expenditure over time has resulted in a reduced level of information and trust in WaterNSW and its management of infrastructure projects compared to the past. The seemingly significant expenditure on consultation for the proposal should not be a replacement for ongoing business as usual consultation with customers. We note the dual roles (infrastructure and water management under the Water Administration Ministerial Corporation, i.e. WAMC) is making consultation even more opaque and confusing.
2. *Much of WaterNSW's proposed expenditure was not consulted on, with WaterNSW deeming it uncontrollable and therefore 'out of scope'*. We would like to focus this point. Costs should not be uncontrollable and out of scope. The role of a bulk water provider as a corporation is to optimise spending over time.
3. *WaterNSW's proposal did not address conflicts over customer affordability and service delivery that it appears WaterNSW cannot resolve* – it remains perplexing that WaterNSW had such little focus on the issues of affordability given this is an explicit consideration under the economic regulatory framework under which it operates. It should know, and be focused, on its customers. It clearly abrogated this requirement.
4. *Some stakeholders cited past instances of poor service quality e.g. failed program implementation and organisational issues* – LVW can provide specific details of poor planning and implementation in any future review so that fundamental issues can be explored.

We have provided a summary response on IPART request for feedback. Further discussion on key issues is provided in following sections.

IPART Questions / Review Issues	Response
1. Do you agree with the draft decision to set a 3-year determination period?	Yes. This time should be used to review the delivery of rural bulk water.
2. In your view, what should WaterNSW focus on over the next 3 years?	Broadly, efficiency of its operations and the optimal level of investment in various areas to minimise costs (Section 3)
3. Should WaterNSW's proposed safety-related costs (including dam, crane and electrical safety) be included in WaterNSW Rural Valleys prices from 1 July 2025?	Agreed if demonstrated as efficient (Section 3).
4. To set prices for WaterNSW Rural Valleys from 1 July 2025 to 30 June 2028 based on the current prices, adding increases for inflation and some specific increases to reflect safety-related priorities where the Tribunal is satisfied the increases are in the public interest (pg 49).	Agreed – LVW views is that approach articulated in the Information Paper to develop the draft prices provided in the determination should be applied. Any further change would not meet as the impacts of any changes have not been consulted on.
5. To increase prices for WaterNSW Rural Valleys customers by 1.9% plus inflation from 1 July 2025, and then by inflation on 1 July 2026 and 1 July 2027.	Agreed.
6. To adopt the forecast water sales volumes outlined in Table 6.5 for WaterNSW Rural Valleys (pg 50).	Agreed for efficient safety costs (Section 3.2).
7. Should IPART further adjust WaterNSW's current Rural Valley prices to account for changes in water sales volumes from the 2021 price review (i.e., 3,964,658 ML/year) to this draft decision (i.e., 3,806,128 ML/year)?	The prices outlined should be taken forward. The approach to the development of prices presented in the draft determination should be used when setting final prices.
8. Should the Yanco Creek levy remain constant in nominal terms at \$0.90 per ML or be changed (for example, indexed to CPI)?	Not applicable.
9. Are there any other matters we should consider in making our decision to carry forward decisions from the WaterNSW Rural Valleys 2021 price review?	The quality of the WaterNSW proposal is the key determinant of this position and it cannot be improved in the short run.
10. Do you agree that IPART's draft pricing decisions are likely to provide adequate revenue to support WaterNSW's financeability for up to 3 years?	This depends on the WaterNSW response to the IPART Determination. It is noted that the tension between affordable prices for customers and strong financial performance for WaterNSW requires careful consideration by Government with input from WaterNSW and its customers.
Other Specific Issues outlined in the Information Paper	Fishways and cold-water pollution costs - should not be included until a significant body of work on costs and benefits is carried out for each proposal (see Section 2). Aboriginal licences - NSW Water Strategy and Aboriginal Water Strategy, which include providing greater ownership of, and access to, water for cultural and economic purposes should address the issue of costs (Section 2). Managing volatility – should be addressed explicitly going forward.
Broader Issues - going forward	We strongly support the economic regulation of monopoly government services. It is our view that there has been a significant failing by WaterNSW in its long-term planning and approach to the provision of services (see Section 4). We provide conditional support the proposed <i>Review of the long-term sustainability of rural bulk water services</i> . We note that this should involve more than a review of the cost share framework.

3 Detailed Feedback on Specific Issues

3.1 The Determination Period

IPART intend that the draft prices would be in place until June 2028 unless subsequent work by WaterNSW and IPART and discussion with Government enables new price determinations earlier. It would also be open to WaterNSW to seek new price determinations at any time during the determination period. We support this approach, though we are unsure how the 'trigger' to submit a proposal in a shorter time would be established.

Response 1 *LVW supports the draft length of the determination period.*

3.2 Price Increases & Safety Upgrades

In the IPART draft determination, price increases are limited to CPI, plus specific increases for key safety upgrades including crane and electrical safety, the new Dams Safety Levy.

Response 2 *LVW welcome the limit on price increases and agree in principle with the carve out of safety upgrades. We would welcome transparency that the costs are assessed as efficient.*

3.3 Cost Shares

Whether current cost shares between customers and government are appropriate should be considered as part of the review of the long-term sustainability of rural bulk water services. This is a key element of the review, in particular the underlying treatment of water for the urban utilities and the wider community. We comment more in Section 4.

3.4 Expenditure Reviews

IPART identified that the rigorous testing of the validity of WaterNSW's proposed expenditure was a priority. As customers who are used to being engaged in water infrastructure planning at a valley level this is crucial and a distinction from other water reviews.

We understand that independent experts AtkinsRéalis (Atkins) have reviewed WaterNSW's proposed operating and capital expenditure, and it raised concerns about the inadequacy in the justifications set out in WaterNSW's proposal and identified substantial areas for efficiencies or cost reduction.

Typically, this work is released to stakeholders so that customers in particular can have a degree of confidence in the efficiency of works. The release of this information should be a part of the basis for the future consideration on the business.

We would also like to note that the concept of prudence as an important notion when considering proposed expenditure. It is our view that WaterNSW do not adequately ask if works are necessary. An example is its response to the IPART operating licence where a stages series of investigation should be undertaken to design a program. The program and its costs seemed to be reactionary and underdeveloped (see more in Sec 3.4).

Response 3 *LVW call for the release of the relevant expenditure reviews as a starting point for consideration of a fundamental rethink of the way that WaterNSW develops its capital plan.*

3.5 Volumes

We are of the view that the prices outlined in the IPART draft determination should be taken forward to the final determination subject to the update in CPI. Our members are unsure of the impact on prices of any changes that are not incorporated or outlined in the Information paper.

We would like to make the point that volumes going forward over a three-year determination are likely to be affected by water in storages, and in the Lachlan Valley current storage levels are around 80%.¹

Response 4 *LVW support the taking forward of draft prices as outlined in the draft determination.*

3.6 Operating Licence Review

IPART notes that with a 3-year pricing determination the next WaterNSW operating licence review and pricing review would be scheduled to be conducted in 2027-28. IPART states that it will engage with WaterNSW and other stakeholders to look at options so that there is sufficient time and resources for both reviews to be completed.

It is our view that the operating licence review could be taken in the lead up to the pricing proposal. This depends on the outcome of any *Review of the long-term sustainability of rural bulk water services*. This review could have significant implications for the operating licence.

We would note the operating licence process should not only examine cost and benefits but also the price and funding implication of any provisions. It should also be clear that changes to an operating licence are not a direction to spend money and any response should be optimised by the business responsible.

We have outlined examples of overlapping regulations that impose significant financial and operational burdens such as a concierge service for Duly Qualified Persons (to support a very expensive metering roll out) due to the failures of the system, again, adding in additional costs. These burdens should be part of any review.

Response 5 *The operating licence review should focus on cost impacts, cost allocation and prices to ensure that obligations are prudent and efficient. In addition, WaterNSW should not use operating licence requirements to drive expenditures unless it consider the benefits and costs for customers.*

¹ Lake Wyangala 79% and Carcoar Dam 92% as at 02 June 2025.

3.7 *Aboriginal licences*

As outlined by IPART Aboriginal Cultural licences were exempt from charges in the 2021 WaterNSW Rural Valleys determination, and were instead funded by a small cross-subsidy from other water licence holders.

The NSW Water Strategy and Aboriginal Water Strategy, which include providing greater ownership of, and access to, water for cultural and economic purposes should address the issue of costs.

As ownership increases we would argue that IPART should articulate a best practice approach to these charges. If a subsidy is proposed to continue it is our view that Government should provide an explicit CSO for these charges. This should address the differences between Cultural licences and the ownership of Water Access Licences (WALs) for economic purposes which can generate significant revenue via irrigation activities or trading.

4 Lachlan Valley Issues

This section focuses on the Lachlan Valley and broader structural concerns, including the 80:20 fixed-to-variable pricing ratio, the treatment of the Regulatory Asset Base (RAB), the impactor pays model, and the need for transparent expenditure reviews within each valley.

4.1 *Regulatory Asset Base (RAB): Review Increases for the Next Three Years*

It is a characteristic of the economic regulation in the water sector in NSW that when setting an initial RAB based on past expenditure there is generally an acceptance of this expenditure. That is, capital expenditure is not thoroughly reviewed by consultants as proposed expenditure and the RAB increases by the amount spent in the previous period.

IPART expect WaterNSW to continue to deliver its water services and regulatory requirements during this 3-year determination. We support the view that this decision does not change WaterNSW's Board and management team's respective obligations to prioritise and allocate funds across the organisation to ensure service and regulatory requirements are met.

We are concerned that WaterNSW will proceed with its proposed capital expenditure (and operating expenditure for that matter) and seek to include this in the RAB in 3 years.

LVW note that WaterNSW and WAMC spent more than allowed in the previous period. WaterNSW was 110%-130% above IPART's allowance for the same period. To give a Lachlan specific example, IPART determined a budget of \$11.5M in 2021 for the Lake Cargelligo Embankment project (yet to be completed) with WaterNSW advising in early 2024 that they anticipate an overall cost of \$45M-\$60M will be needed to complete the project.

We cannot have a repeat of this approach from WaterNSW. For capital missing a short period of the return on and off capital does not control prices over the long run.

It is clear that WaterNSW needs to review its proposed capital program to demonstrate clear evidence of direct benefits to its customers and the wider community. LVW do not propose a moratorium on RAB increases, however, WaterNSW should be on notice that expenditure that is not prudent and efficient would not be included in the RAB in a future determination as a matter of course.

LVW are of the view that transparent benefit cost analysis should play a key role in the comprehensive assessment of proposals.

Response 6 The RAB should not be automatically updated with capital expenditure over the next three years

4.2 *Planning for prudent and efficient programs*

We believe that there is a fundamental discontent between customers, WaterNSW and the Government regards the water sector and infrastructure planning. This is an unintended outcome of the SOC model and impactor pays approach, where costs can be loaded onto customers by Government Departments

(via regulations) and there is a lack of transparency on the cumulative impacts of obligations (see more in Section 4).

The current model places an undue emphasis on IPART to focus on efficiency. The existing incentives for WaterNSW and other parts of Government that can impose regulatory costs (e.g. dam safety, EPA and DPIRD Fisheries) is to pay scant attention to the holistic impacts of costs on customers.

The failing is one of WaterNSW and to some extent Government to have a clear focus on efficiency and the greater good. The behaviour and actions of WaterNSW are primarily driven by its owners and they should take an active role in focusing on a prudent and efficient programs.

In NSW, the “Impactor Pays” model charges water users based on their perceived impact on water resources. The impactor pays model is unjust, as it forces irrigators to pay for public goods that are enjoyed by the wider 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 and WAMC 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

Response 7 The planning culture and focus of WaterNSW as a business should be examined

4.1 Price Structures

In our response to the Issues Paper a move to 80% fixed and 20% variable charges model was being considered by LVW water users. We noted that the proposed increases in all models make continuation of irrigated agriculture untenable.

The focuses on the price structures in the Lachlan and other Valleys should be further considered over the next three years. The transfer of volatility costs entirely onto customers is emblematic of the SOC model not working. A business that would be open to competition is extremely unlikely to have a price structure that is 100% certain.

This risk sharing with customers should be a discussion to have across valleys. The approach taken by WaterNSW is to repeatedly aim for almost zero volatility.

5 Future Review of the long-term sustainability of rural bulk water services

5.1 Corporatisation & Reforms

We note that IPART has indicated that it wishes to continue working with WaterNSW and the NSW Government to progress setting the efficient level of revenue required by WaterNSW.

We support a close examination of longer-term issues to improve rural bulk water cost shares and better recognised community service obligations. We believe it is important that the Government are aware of that the sector should provide direct and structured advice on the alternative scenarios put forward rural and regional bulk water pricing so the NSW Government can consider the approach to price setting.

While there should be flexibility in IPART's price regulation to reflect the circumstances of WaterNSW this should be grounded in principles and provide a reform process .

Whether it is customers or the NSW Government funding operations WaterNSW's should aim to meet its regulatory obligations and operating model in a sustainable manner.

It is apparent from the lack of a clear long term capital and operating plan (LTCOP) that would have raised these issues and enable a response that involves the consideration of innovative solutions for complex issues. The issues is not only one of affordability, but the identified challenges that affect affordability in rural valleys have been allowed to build over time without critical analysis.

WaterNSW has been through a number of reforms over the past 10-15 years. Its combination with the then Sydney Catchment Authority was meant to bring efficiency and savings. These have not eventuated. The structure of the sector and WaterNSW requires clear eyed review. WaterNSW has assumed the role of water manager in many cases when WAMC functions were conferred via agreement. This again does not seem to have provided any customer focus and there are many examples of customer experiences where this service has been poor.

A Company State Owned Corporation has the following principal objective of a company.

1. to operate at least as efficiently as any comparable businesses and to maximise the net worth of the State's investment in the corporation
2. to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates; and
3. where its activities affect the environment, to conduct its operations in compliance with the principles of ecologically sustainable development, and
4. to exhibit a sense of responsibility towards regional development and decentralisation in the way in which it operates.

We would argue that WaterNSW is not balancing these objectives. The loss of operational knowledge, and less engagement and regional presence. There is no doubt that LVW has experienced a reduction in operational knowledge by Department and WaterNSW, as well as reduced engagement and regional presence.

The problems facing the sector are clear. We will discuss cost shares below – however, they are not the only issue.

5.2 Costs shares

NSW's water is managed for multiple purposes, including the health of the environment and wellbeing of communities. Increasingly, there is also an expectation water will be managed to improve the social, economic, cultural and spiritual wellbeing of First Nations.

However, rural water customers (primarily farmers) carry a substantial burden of these water management costs under the so-called 'impactor pays' principle. The storage system has been built across the state for regional development and the water system is highly managed.

We note that under the 2021 determined that rural water customers pay 80-100 per cent of WaterNSW operating and capital costs and there was an increase in the user share of some activities such as water quality and monitoring and flood operations. LVW strongly disagrees with the current WaterNSW cost-share ratios, as costs are heavily recovered from rural water customers, primarily farmers, for public interest items.

As noted above, WaterNSW has advised that new activities and obligations added to its operating licence by IPART in its 2024 licence review adds \$15.6 million a year to its costs. A number of these costs are driven by changes in expectations around water management by the public. These changes include obligations to monitor environmental flows, installation of fish passageways, increasing knowledge of climate change and better environmental, social and governance (ESG) reporting, among others all add to costs.

These costs cannot be endlessly lumped onto customers without significant ramifications on business viability. In addition, the increase in land tax is simply a grab for revenue.

These obligations pose a significant cost burden on WaterNSW, which is then passed onto licence holders. IPART and others entities should not add obligations that are significant drivers of cost without strong evidence of need. Requirements that are public good licence obligations should be met through another funding source. The provision or need for significant government funding should provide an incentive for an appropriate level of assessment of costs and benefits by Government, which in our view has diminished over the past decade.

Response 8 Costs shares should be reviewed – however the pricing model should be examined holistically.

5.3 Developing a Process – A Role for Codesign

We would like to note that the customers of WaterNSW are a critical part of the future discussion.

IPART rightly points out the WaterNSW provided details late, did not try to reduce costs and the assessment of affordability was an afterthought. We are concerned that future reforms processes will repeat the same pattern of behaviour.

We would encourage IPART to co-design its reform process and formally involve customers. Co-design is not an event but a participatory process. Co-design starts with aspirations and shared goals and solutions. It should include:

1. understanding and clearly defining the issue.
2. Developing potential solutions and analysing these ideas.
3. Involve a process of staged decision making.

“Co-design” should mean that community members are treated as equal collaborators in the reform process.

The SOC model has proved to be poor at this process as the culture of commerciality has eaten away at the policy and public good nature of service provision in the past.

The focus on of dividend for government and corporation-like staffing structures has arguably reduced transparency even though IPART has tried to maintain transparency. Poor outcomes and implementation has not been recognised and costs are simply transferred onto the customer.

We are glad the IPART has taken the opportunity to act as a catalyst for innovative, long-term solutions to water pricing and management and are willing to work as a sector with the Government and IPART.

Response 9 We agree that WaterNSW and IPART develop a more equitable, evidence-based, and transparent approach over the next three years to ensure sustainable and fair pricing for rural water users.

Response 10 We note that IPART should recommend to formally include the NSW Government and rural valley customers to co-design of a reform process.

5.4 Implementation options

There are a range of implementation options for a significant review. Broadly these are:

1. WaterNSW led responding to a ToR or directions from IPART and /or the NSW Government
2. IPART led including development of ToR and managing project delivery
3. A reform process that established and managed by the NSW Government, and
4. An independent process managed by a dedicated reform panel or the NSW Productivity Commissioner.

The pros and cons of these options should be worked through with customers as part of codesign. Our preliminary view is that any process should be staged and include an element of independence and a structured process for consultation.

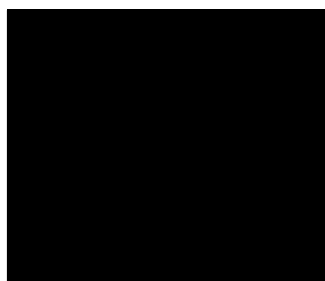
6 Conclusion

Lachlan Valley Water supports the proposed bulk water prices and approach outlined in the IPART review.

We believe the recommended pricing balances a degree of cost recovery, a focus on sustainable infrastructure management and safety, and affordability for water users.

The next three years are critical for the future of the long-term viability of water delivery services in the Lachlan Valley and NSW.

We encourage IPART to proceed with working with the NSW Government and the sector to ensure the long-term sustainability of bulk water delivery for all stakeholders.



Glenn Daley
Executive Officer



7 Appendix One

Lachlan Valley Water is an industry organisation representing surface water and groundwater licence holders in the Lachlan and Belubula valleys.

Membership of LVW is voluntary and our 450 members represent all categories of licences except for those held by environmental water managers. We are the collective advocacy and lobbying body representing Lachlan Valley irrigators. As the industry leaders in water advocacy, we are committed to supporting sustainable water management and ensuring fair access for all who rely on this vital resource. From water licensing to policy development, Lachlan Valley Water is a critical port of call for expert guidance and representation.

Irrigated agriculture may be last in line to access water, but it is first in delivering essential food and fibre that supports Australian households and industries.

We are dedicated to securing the future of water resources for the people who rely on them most. As an independent industry group, funded by water licence holders in the Lachlan catchment, Lachlan Valley Water are your voice at every level – working with government, community, and other stakeholders to ensure fair access to water for productive use.

While this submission is made on behalf of our members, individual members may also make their own submissions.

The Lachlan River is the lifeblood of one of New South Wales' most productive and diverse landscapes, spanning 90,000 square kilometres. Flowing from the Great Dividing Range to the Great Cumbung Swamp on the Riverine Plains, it nurtures the people, ecosystems, and industries that depend on its waters.

Agriculture and irrigation thrive in the Lachlan Valley, with the river supplying water to sustain crops, livestock, and livelihoods. Its highly variable flows present challenges for water management, but through sustainable practices, this precious resource is used effectively to support the economic and social wellbeing of the region.

Collaboration with the Lachlan Environmental Water Advisory Group (EWAG) ensures that water is also allocated to maintain vital ecosystems. From black box woodlands and river red gum forests to the habitats that support native wildlife, the balance between productive use and environmental sustainability remains central to the river's management.