



ABN 38 597 032 631

Lachlan Valley Water Inc

Sustainable, productive and efficient water use in the Lachlan Valley

Submission to IPART on Water Regulatory Review

1 June 2021

155 LACHLAN STREET, PO BOX 819, FORBES, NSW 2871

██████████ ██████████
████████████████████

SUBMISSION

WATER REGULATORY REVIEW

1. Introduction

Lachlan Valley Water (LVW) is the peak valley-based organisation representing 550 irrigator members in the Lachlan Valley, including regulated river, unregulated river and groundwater users.

LVW acknowledges that WaterNSW has a very diverse range of rural customers, and therefore will operate differently from Sydney Water and many other utilities in how they engage with these customers. Additionally, water charges can be a significant cost component for rural customers and consequently they have a strong level of interest in engaging with WaterNSW on the pricing proposals.

Following the online session on promoting a customer focus held on 10 May 2021 LVW would like to provide some feedback on the issues discussed.

2. Long term focus

Appropriate length of determination periods:

How should each review period be sequenced to promote outcomes in the best long-term interests of consumers?

Should the determination period be based on a set of principles? Or should a default determination period be set that would only be deviated from in exceptional circumstances?

The length of the determination period needs to balance the planning timeframe for the business with the moving policy structure it has to deal with, and the workload involved for both the business and customers in handling a pricing review. For WaterNSW and its customers there have been major policy changes in the current 4-year review period and we have also seen very significant increases in WaterNSW's operating costs and capital costs over that period. LVW's view is that a 4 or 5 year determination period is appropriate to manage these changing conditions.

In order to put customer outcomes at the centre of the review process LVW's view is that there needs to be far earlier and more open engagement on pricing. WaterNSW did acknowledge during the online session that they approached customers late in the current pricing process and that they want to improve this. There is already an avenue for WaterNSW customer engagement on pricing, particularly regulated river pricing, through the Customer Advisory Groups (CAGs), and LVW's view is that earlier and more open engagement and provision of information to CAGs on proposed capital programs, discretionary projects to improve efficiency of operation, and pricing options would be an effective way to manage this. This could be undertaken in the 12 months leading up to WaterNSW's submission of a pricing proposal.

3. Understanding price-quality trade-offs

How should performance standards be set, for businesses with, and without, an Operating Licence?

How best to align pricing decisions and performance standard setting to enable businesses to make trade-offs between the two. For businesses with an Operating Licence, should IPART's Operating Licence and Price review processes be run concurrently?

From a customer point of view a pricing review is time-consuming and analysis of the information is complex, therefore it would be very demanding to run the WaterNSW Operating Licence and Price review concurrently, and LVW considers that it would be a more workable process to run them separately.

4. Customer choice pricing

What are the appropriate pricing principles for customer choice pricing?

How can IPART assist water businesses in utilising customer choice pricing?

Customer choice pricing is expected to be challenging in rural bulk water delivery where river management is complex and Water Sharing plans impose end of system targets, flow requirements and other operational conditions. There are also a wide range of rural customers who have different categories of licences and therefore different delivery priorities, widely varying licence volumes and different usage volumes.

However, as a first step in customer choice pricing LVW believes it would be beneficial to be able to consider fixed:usage pricing ratios. Over the last 20 years rural water availability has been highly variable, particularly in valleys like the Lachlan where inflows were severely impacted by the Millennium drought, however, WaterNSW rural bulk water delivery costs are largely fixed. This has resulted in significant volatility costs being borne by licence holders in valleys such as the Lachlan, and therefore a readiness to consider different fixed:usage pricing options. At the same time, consultation with customers on issues such as this is difficult given the different licence categories and usage profiles. It takes time to do this adequately and it is necessary for WaterNSW to provide pricing information and engage actively with customers and customer representatives to manage this.

As noted under section 2, active engagement with Customer Advisory Groups would be a productive way to undertake this, and it would be constructive for IPART to support that level of engagement.

5. Regulators Advisory Panel.

Should IPART introduce a Regulators Advisory Panel?

From a customer point of view, if the goal of a Regulators Advisory Panel is to deliver outcomes for customers by improving communication between policy makers, regulators and water businesses, then we consider that there needs to be active engagement between the Panel and customers, and that Panel members have a strong awareness and understanding of customer requirements.