
# WaterNSW and WAMC Price Proposals Submission to IPART

## 23 December 2024

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# MRFF Positions

# Contacts

Macquarie River Food & Fibre
Executive Officer
Michael Drum
[redacted]

Chairman
David Ramsay
[redacted]

# 1 Introduction

Macquarie River Food & Fibre (MRFF) places great importance in IPART's role to employ impartial rigour, economic rationale, and consideration of customers in responding to WaterNSW & WAMC Pricing Proposals & setting monopoly prices for the coming period.

MRFF supports many of the concerns raised in the IPART public hearing and the alarm over the proposed price increases.

We feel it is important that IPART has a thorough understanding of the issues facing our members so we would like to add the following points to be considered with specific reference to the pricing proposals for the Macquarie Valley.

From the customer's perspective it appears that both the bulk water delivery & management service providers have used the upcoming pricing period as an opportunity for an ambit claim for an enormous price increase and that significant 'double recovery' is likely, particularly for activities where performance to date has been inadequate.

Please see our key issues followed by more detailed discussion under each of the headings below:

**Headline issues:**

- The WAMC pricing proposal displays a total lack of cost control. The regulatory drivers are taken as a non-negotiable that must be delivered regardless of the benefits of any action.

- The WaterNSW bulk rural water business and its pricing model has shifted from a traditional focus on the efficient provision of infrastructure services and a water delivery business for its core customers. The addition of a wider range of services and overlap with water management services has resulted in an entity that is acting beyond its functions.

- The combination of three different entities with three executives and two boards has resulted in an inefficient process and a lack of accountability to both water users, community and it seems from the pricing proposals, Government.

- The combination of WAMC and Bulk Water Services are in urgent need of review if farmers are not to be priced out of business across large parts of the State. WAMC seems to recognise that the proposal is unacceptable and proposes a cap on price increases for small users as it may recognise that many small licences could be handed back. These WALs may not generate significant income but they can be vital for landholders living in regional areas. We wish to stress that larger water users are not immune to viability of operation as water take increases – an increase in water trading and consolidation is possible.

- Amelioration of impacts should not be achieved through a cap on price increases as the inefficient service delivery and large head counts become the new normal. Improvements and prioritisation of efforts are vital to drive low costs.

- The review of affordability is at best university standard and has not focussed on the impact on actual farm profit across a range of entitlement holders. Generalised comments on percentage levels of profitability do not highlight the impact on farm viability and the actual income of family farms. The studies seem to assume that all farms affected are large corporates held by pensions funds. We would encourage the use of a reputable provider with agricultural knowledge or maybe ABARES itself for this type of study.

- Between the Basin Plan, Water Resource Plans, Water Sharing Plans, NSW Water Strategy, Regional Water Strategies, Integrated Water Management Plans, the volume of reviews and special reviews, the level of planning and duplication has drowned out actual implementation of projects that improve water management in the State.

- We have repeated examples of inefficient delivery of services and water users paying for the same project repeatedly, including:
    - Metering and telemetry strategy which was conceived in an environment of crisis, doggedly pursued and is now seemingly stranded.
    - Similarly, compliance effort has been ramped up to a degree that is verging on self-serving. The level of compliance effort by valleys should be clear and optimal. In the Macquarie the need for enforcement has been negligible – effort should match risks. Allocating over 25% of costs on Compliance & Enforcement Costs cannot be sustainable.
    - Flood Plain Harvesting (FPH) has been long coming with a Draft floodplain harvesting policy (2008) with NSW Sustaining the Basin Projects including up to $50 million floodplain reform including licensing. The costs of the system are exorbitant and there is no build-up of costs available for review.

- IPART's 3Cs (Customers, Costs, Credibility) framework is flawed. Customers had no effective say in the services WAMC and WaterNSW choose to provide, their scope or prioritisation. Our concerns have been ignored and no consideration of affordability has been undertaken by WAMC and only a cursory review undertaken by WaterNSW with no input from users.

- The entities that deliver WAMC and rural bulk water services are acting as monopolists. Services are determined by the executive teams of the 3 organisations with no accountability, no ramification for poor delivery and little ownership of outcomes. We feel that the past decade has seen a move from customer service culture which perversely results in inefficient outcomes for water and natural resource management more generally as programs increasingly rely on regulatory responses.

- The costs of water management have increased in real terms since 2006. In the 2006 IPART determination the effective price for bulk water delivery for the Macquarie Valley was $11.48/ML.[1] In 2029-30 the same figure will be $116.48/ML. This is significantly higher than inflation over that period which would result in an increase in the order of $22-25 depending on forecast inflation. There is little evidence of productivity improvement in the sector.

[1] The effective price was calculated using the revenue derived from entitlement charges and usage charges based on the long term average (LTA) consumption, divided by the LTA consumption. The average effective price is calculated as a simple average of the effective price in each year of the determination.

- The volume of Pricing Proposal documentation and the approach taken to its development is unclear and not comprehensive. We have been provided piecemeal information and have been drip fed significant proposals with little valley-by-valley information.

- We wish to comment that many of the outcomes of consultation should be heavily caveated. The processes often involved presentations that outlined a preferred solution by the proponent of reforms and actions. The consultation was often at such as level to be almost meaningless when allocating expenditure to priorities.

- We wish to highlight that the move to a revenue cap and regional pricing as proposed by WaterNSW have not been outlined in sufficient detail to enable our members to come to a position. We would encourage WaterNSW to present options that address identified problems when discussing these options in the future. Benefits to users and the downsides of any proposal must be explicit.

- MRFF are of the firm view that WaterNSW as an organisation requires significant reform. Water users across the state should not be paying for an organisation that is passing extra costs due to inefficiencies. The reforms undertaken 10 years ago promised significant savings for water management and delivery and they have not materialised.

- WAMC should significantly prioritise its efforts in planning. The layers of planning are extreme and the role of the MDBA, the Department, entities such as NRAR and the Natural Resources Commission should be focussed and directed to significant issues as they arise to solve problems.

- MRFF remain dubious that WaterNSW has a focus on **accountability for delivering a service.** Water orders are often delayed having a significant impact on crop health. Timeliness of delivery during peak irrigation season is currently impacted by the efficiency target of 3% losses and the staff holiday period, causing significant economic impacts to downstream customers. Increases in costs & service fees should lift standards but the proposal has no specifics on how asset condition or core service levels would change.

# 2 Concerns around WAMC efficiency

## 2.1 Introduction

WAMC cost increases have been explained in general terms and at least has been provided in in some level of detail.

WAMC states that increased expenditure is mainly due to higher workload around water planning and changes to funding arrangements for water management activities, as well as increased compliance and enforcement activity.

The increase in cost is significant and without sufficient evidence to support this statement it is hard to believe the cost increase is solely driven by water planning requirements.

We believe that an overly prescriptive interpretation of regulatory requirements is increasing costs for all. WAMC said the purpose of its engagement was to 'inform' and 'consult' because many of its functions are 'non-negotiables' that are governed by legislation.

A risk-based approach to these activities needs to be undertaken in consultation across Government as the current response is to shift all risk to water users via ever increasing charges.

## 2.2 Planning Requirements

WAMC have outlined changes to its operating environment as the reason for costs increasing. It suggests that a higher level of expenditure is about responding to customer requests for a higher level of service on the reporting side of the planning equation.

MRFF believes the minimum expectation from a customer for any plan implementation in any field would require transparency via some independent evaluation & reporting.

We would like to move to an independent review of planning and benchmarking with other states. Our knowledge of planning in Victoria highlights a more strategic approach to planning at greater intervals.

The danger with the rolling process of water sharing plans in NSW is that a team of water planners has created a work program that ensures that they are fully employed every year. After the creation of water sharing plans and their first review a decade later it is unusual that the cost of panning seems to increase.

We would also like to highlight that the approach to the management of climate change in planning remains unclear and seems to be a catch-all for an increasing effort in planning. Climate change will express itself over time and the water planning system should monitor and respond within the adaptive planning framework. The desire to forecast climate change as opposed to establishing a scenario-based response is a recipe for high levels of expenditure into the future.

Position 1 The degree and cost of planning are out of control and require a fundamental review of the processes surrounding reviewing and remaking plans.

### 2.2.1 Regional Water Strategies

NSW continue to prepare 13 regional water strategies in partnership with water service providers, local councils, communities, Aboriginal people and other stakeholders across NSW to plan and manage the water needs in each NSW region over the next 20-40 years. These have been under development for years and were first included in 2016. W06-05 included the then DPI Water's activities to complete six new regional water strategies.

We have examined the Macquarie RWS and we have found that many of the actions fall outside the scope of monopoly water management services.

We also note that WAMC proposal will increase the Government share of W06-05 'Regional planning and management strategies' from 40% to 50%, as some of this activity relates to understanding and managing the impacts of climate change, and we consider the broader community rather than customers are the 'impactors' of this work.

This characterisation relates to all of this work as irrigators have Water Sharing Plans and Water Resource Plans for management of their activities and that regional water strategies have been complex, unwieldy and of little practical relevance to water management at the user level.

Position 2 Regional Water Strategies should have a user charge of zero.

## 2.3 Metering and telemetry

Customers must have metering and telemetry in place to provide real time and accurate data to Government.

Pre the non-urban metering reform & NRAR compliance everyone had a meter.

Meters with telemetry in the Macquarie have ranged between $15,000 to $60,000 per installation, with an average estimated cost of $25,000 per installation. It is estimated that between 250 and 300 new meters have been installed by farmers in the past 3 years in order to comply with new compliance requirements. (As an aside it is noted that in some cases the previous non-compliant Mace meters were left in place as an experiment and are reading exactly the same as the newly installed 'compliant' meters. We are happy to provide further data and evidence of this trial if it will assist). In some cases farmers have spent in excess of $200,000 to install 'compliant' meters which has taken substantial time and is delivering no additional value s $ to the farming operation. We are aware of operations that have installed their own meter surveillance technology to track water and check if pumps are working that delivers readings every 15 minutes. The government telemetry reports once a day & none of this real-time information is shared with the irrigator. On top of this exorbitant, seemingly unnecessary upgrade in metering technology that delivers no value to the farmer, a significant proportion (over 50% for the farmers we surveyed) of the new 'compliant' meters installed have problems & have been subject to Section 91i faulty meter reporting for much of the last 3 years since installation. Faulty meter readings caused by random false readings are apparently common with the 'compliant' Aquamonix meters farmers have been required to instal. There is a significant administrative cost burden on both WaterNSW & the irrigator from the Section 91i process.

It is also noted with respect to metering, that the Duly Qualified Person (DQP) requirement has added a substantial cost layer. A DQP is required to assess & resolve metering problems & certify meters. Prior to the metering reforms this role was undertaken by 1 person in the Macquarie & now it is understood there are more than 10 staff fulfilling this role, which corresponds with the huge number of Section 91i issues arising from the new 'compliant' meters.

After upgrades at great cost to irrigators we have telemetry and the labour cost seem to increased for labour for compliance. WaterNSW staff member do no take meter reads with the local staff requesting the irrigator reads his meters & enters usage through IWAS as the telemetry ins unreliable.

The proposed improvements should largely eliminate the need (and associated costs of) ' boots-on-the-ground' metering. These initiatives logically reduce the activity cost and service level by government, yet there is no proposal to recognise or pass on efficiency gains to customers through a reduction in costs. In fact, there is a proposed increased cost to the customer for compliance, which for valleys such

as the Macquarie where the need for enforcement has been negligible, cannot be seen as prudent or efficient.

**Case Study -Metering costs**
The cost of metering has been significant. We are unsure of the total number of meters that have been paid for by our members.

Anecdotally, water users have had to install 2 meters on each storage and in many cases multiple meters to measure water take from the River. Storage meters have been estimated to cost $23,000 each. The addition of telemetry has varied though installation has reported cost around $15,000 per meter.

The Government telemetry rebate was available for customers who installed telemetry for all installs prior to 30 June2024. The rebate was $975.

We are unsure of the number of installations though we estimate that for 300 meters across our members this represents a conservative estimate of $7.5 million in costs. Many of the systems are faulty and require manual reading and reporting.

Position 3 The metering program has seen a significant investment in meters and associated systems directly by irrigators. There has been poor implementation, measurement issues with the stipulated meters and no improvements in efficiency resulting from the investment. Water users should not pay for poorly designed and implemented reforms.

Position 4 MRFF request that IPART ask WAMC for performance statistics and costs on metering programs and remove any costs of manual reading – i.e. running two parallel systems for metering. It should also report the amount of rebate provide per valley.

## 2.4 Flood Plain Harvesting

Floodplain harvesting involves retaining water that enters a floodplain on a landowner's property. The Water Management Act 2000 creates a framework for issuing Water Access Licences (WALs) for floodplain harvesting.

The draft NSW Flood Plain Harvesting (FPH) Policy was released in 2008. Significant Commonwealth Government funding was provided in 2012 – with $50 million provided to NSW for its implementation.[2]

Over the years various prices have been set in anticipation of the introduction of a licencing regime. For example.

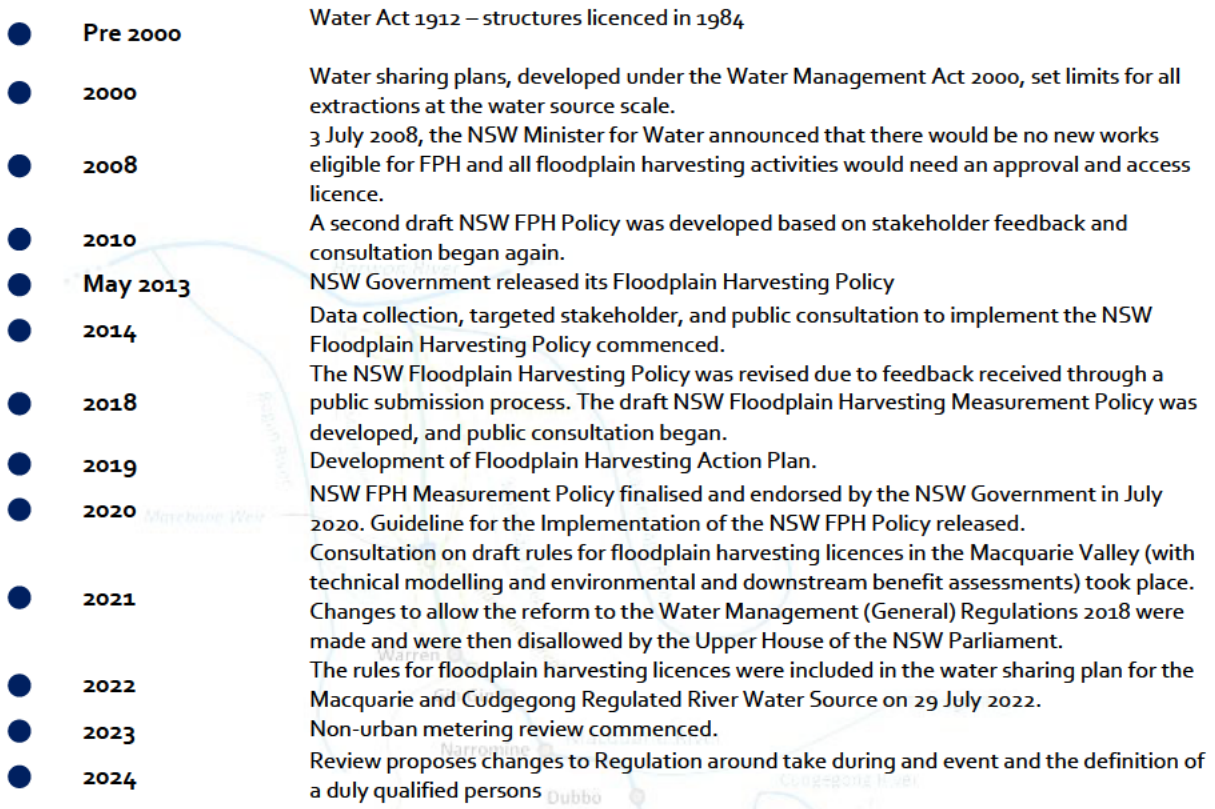
- ….DNR is in the process of developing a policy for floodplain harvesting which will define, for example, the circumstances which water can be extracted from the floodplain and the structures that can be used to divert water from the floodplain. DNR intends to progressively issue licences for floodplain harvesting, with a target completion date of July2009[3].

[2] Sydney Morning Herald 10 June 2012 - Feds pledge $469m to improve NSW piping.
[3] IPART (2006) Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation Water 1 October 2006 to 30 June 2010.

- In IPARTs 2021 review of WaterNSW[4] the NSW Government indicated it plans to have a Floodplain Harvesting Access Licences in place from 1 July 2021 in the Northern Murray Darling Basin.

Over the intervening twelve years we are unclear on how much has been spent on designing the FPH watertake system.

Figure 1 Floodplain harvesting reform timeline




The floodplain harvesting regulation has been ongoing since 2019 and yet very few irrigators have been able to become compliant, despite their best efforts.

Our valley is struggling with an unworkable regulatory framework. We would encourage IPART to explore the detail as part of a review of these costs including whether these charges reflect forecast costs that are efficient and genuinely additional to those covered by revenue that FPH would generate from other water management prices.

The DQP Portal and Telemetry systems have high fixed costs and water users are expected to have the infrastructure must be in place to make their storages compliant and harvest water.

We note that the FPH review recommended *staging compliance expectations to focus on larger water users in inland NSW first (includes change to coastal compliance date) and simplifying requirements for smaller volume and low-risk works.*

[4] IPART (2021) Review of Water NSW's rural bulk water prices Page pg 146.

The implementation of the FPH regulations is inefficient and behind schedule[5]. We have been provided the follow-up prices in November 2024 and we reject these prices as we have no comprehension of the cost build-up.

This presentation had no information on the cost basis and user share for each valley. We struggle to engage with the information provided, to assess whether the expenditure is prudent and efficient.

We found it interesting that in July 2024 report on Water Working Groups WaterNSW outlined –

*Outcome 3 - WaterNSW will be open and transparent (about customer charges and WNSW expenditure)*

- *Where does customer money go - information provided annually*
- *Transparency of customer charges on bills*
- *Maintain performance against customer sentiment trust in WaterNSW (in the Voice of Customer Surveys)*
- *'What is driving costs in your valley' to be reported at CAGs using plain English.*
- *Annual reporting on expenditure is accessible – customer newsletter link to the annual report.*

We believe that this should be the normal and part of the pricing proposal. In fact past proposals achieved the above.

Position 5 The FPH measurement proposed prices are not clear and were provided to representative groups after the pricing proposal was submitted.

Position 6 We have no confidence in the FPH proposed prices and ask that IPART request WAMC to provide an estimate of the costs of the program since it was first included in water prices, including and funds provided by the Commonwealth Government with the purpose of assessing the inefficiency of the Program.

## 2.5 Compliance & Enforcement Costs

We note that with the creation of NRAR, we are now experiencing an additional layer of costs, whilst we would expect a reduction in the costs that are charged for compliance and enforcement.

NRAR have developed a business case presenting a comprehensive overview of the costs, efficiency, credibility and customer engagement strategies. The key element missing from the business case is an analysis of alternative options and associated costs and benefits.

As outlined by NRAR it was established as an independent regulatory authority, to ensure it can make decisions free from political or water user influence. We would like to highlight though that the key beneficiaries of compliance activities are other water users.

The costs of compliance seem to be between 25 to 30% of total notional revenue requirement (NRR). We have attempted to calculate the cost for the Macquarie Valley surface sources. It is difficult to calculate the share of NRR for our valley water sources. We do note that the entire user revenue generated for the Macquarie regulated system is in the order of $27 million a year in 2029-30. The WAMC component of this would represent around $3.5 million so the NRR for compliance may be around $1.0 million per year or $4 per ML of water take.

It is important to note that in the Macquarie, regulation and compliance of customers has been excellent with no prosecutions for breaches reported on the NRAR website for the period 1 Jan 2019 – end 24.[6]

[5] https://water.dpie.nsw.gov.au/__data/assets/pdf_file/0009/619299/num-review-fact-sheet2-aug24.pdf
[6] https://www.nrar.nsw.gov.au/progress-and-outcomes/qrt-reports/compliance-dashboard

The Macquarie is proud of its cooperative and proactive culture and customers have gone beyond their licence requirements with respect to water ordering and take by being flexible in their operations.

It is therefore expected that valley-based efficiencies and lower compliance and enforcement costs need to be recognised and passed on to customers.

With respect to the increased standards for compliance and enforcement that are expected by the general public, IPART refers to the need to "meet enhanced standards of compliance and enforcement". Based on the application of the Impactor Pays pricing principal, along with consideration of appropriate sharing of costs between customers, and the broader public, IPART must outline an appropriate the standard service level customers should be able to expect.

We would argue that there is an incentive for over compliance from a regulatory body such as NRAR. As the costs are recovered from users and the government, the existing Governance arrangements are likely to provide a strong inventive to set a standard well above what is optimal.

Position 7 We cannot understand how an optimal compliance program can represent 25% of costs of water management. This is a symptom of the lack of proactive management of water resources across the State.

Position 8 IPART need to describe a benchmark prices for this element of service as the entity is has not cost consciousness and remains driven by a sense of crisis when none exists.

## 2.6 WAMC's Minimum Annual Charge (MAC)

WAMC have stated that there are 62% of licence holders – or 24,000 water users that pay the MAC. The current level of the MAC is well below cost-reflective levels, WAMC estimate to be about $935 per annum. WAMC have proposed a 2.5% cap on this increase.

WAMC has proposed to provide a subsidy to these smaller customers which we calculate in the order of $15.26 million per year. We assume that this is considered a CSO.

The comments made in the WAMC proposal on page 214 outlining the case for faster transition for larger customers and a slower transition to full cost recovery for smaller customers are illogical.

Position 9 MRFF do not support a lower MAC for and believe that as far as possible entitlement holders should be treated consistently within licence categories.

## 2.7 Tax allowance

We note that the tax allowance is increasing by $1.25 million per year over year 2024/25.

WAMC is not a state government-owned enterprises and there is no evidence that there are competitive neutrality issues associated with WAMC.

Further, we cannot readily find a description of why the tax allowance is increasing in the proposal.

Position 10 WAMC should not be subject to a tax allowance.

## 2.8 Engagement at a valley level

We would like to note that the consultation within the Macquarie Valley was based on different annual price caps for its entitlement and access charges, up to 10% per year. In actuality, the potential future price options ranged from annual price rises between 2.5% and up to 10% a year for 5 years.

It is also noted that specific customer consultation was not undertaken on proposed metering, floodplain harvesting and consent transaction charges, but said, engagement on these would be done in October 2024. We have recently been provided this information which is very high level with no costs estimated underpinning the prices.

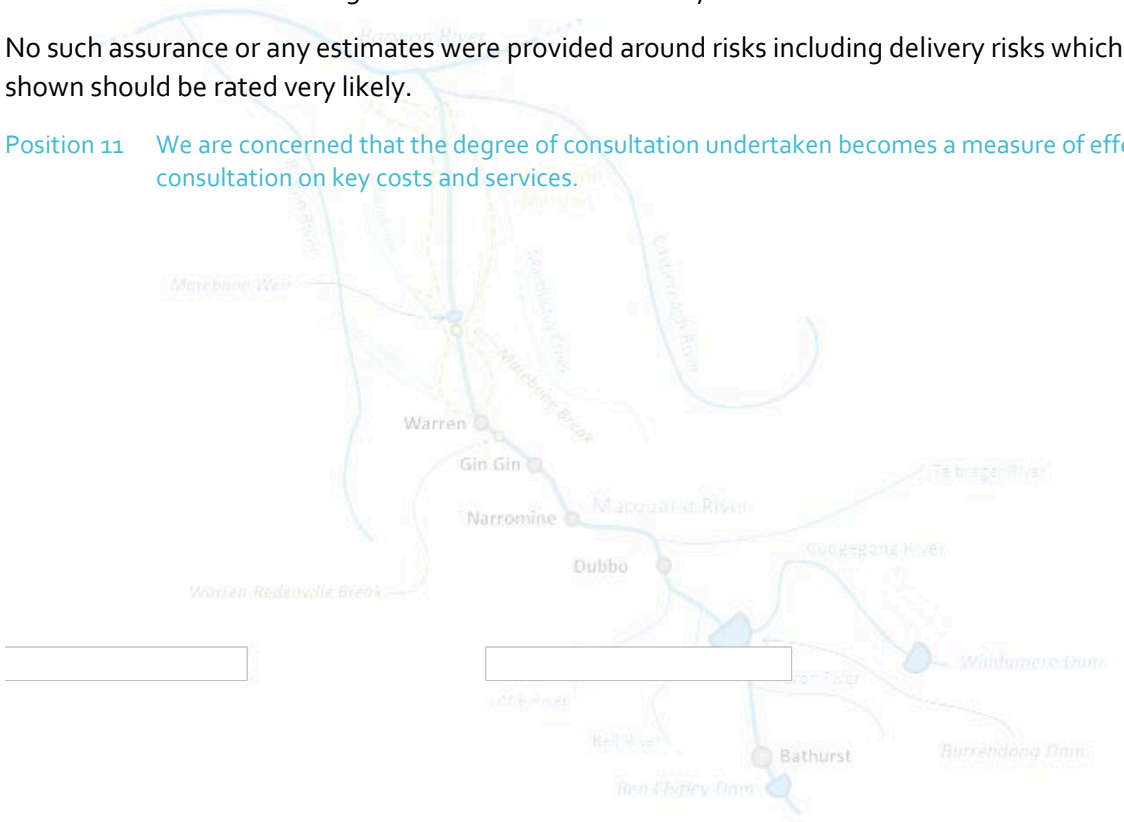
We note from a WaterNSW presentation:

> *Due to timing constraints, a few WAMC items were unable to be discussed as part of our broader consultation process.*
>
> - *Metering*
> - *Flood Plain Harvesting*
> - *Consent Transactions*[7]

We are amazed that these significant costs were not ready and available for the consultation.

No such assurance or any estimates were provided around risks including delivery risks which history has shown should be rated very likely.

Position 11 We are concerned that the degree of consultation undertaken becomes a measure of effectiveness of consultation on key costs and services.




[7] WaterNSW Slide Presentation October 2024.

# 3 Concerns on Rural Bulk Water Prices

## 3.1 Concern around Alternative Proposals

For the Rural Valleys, there are three alternative scenarios provided in the proposal in addition to complying Cost Reflective Base Case to assist IPART.

WaterNSW state that balancing these potentially competing objectives will require IPART to assess:

- What are the lowest sustainable costs and what is financially sustainable for WaterNSW
- What customers can afford (recognising the complexity in distinguishing homogenous customer segments amongst our customers, or within valleys)
- What is appropriate for the NSW Government (as both our Shareholder and a customer).

This is an extremely confusing approach for customers. WaterNSW is running the business and has to deliver water. It should be clear, given the economic conditions and concern around affordability what is the most efficient program to enable to deliver services.

WaterNSW should be very clear on its priorities. It should also outline those costs that can be deferred or avoided all together. MRFF firmly believe that many of the proposed costs would not stand detailed scrutiny, and we encourage IPART to not only view relevant business case and cost benefit analysis but critically assess each.

There is significant concern from customers that business planning processes for WaterNSW and WAMC are at times superficial, and a prioritisation process has not ben sufficiently robust.

Position 12 We are concerned that WaterNSW has not proposed a proactive strategy to operate its business with a focus on providing efficient services. If operating in a constrained revenue environment it should be clear what expenses will be reduced or re-prioritised rather than outsourcing this task to IPART.

## 3.2 Drivers of costs

WaterNSW have outlined a range of legislative, policy and regulatory changes placing upward pressure on costs. This includes:

- legislative changes (for example, Commonwealth Security of Critical Infrastructure Act requirements, cyber security requirements, modern slavery, ESG reporting and NSW Dams Safety Act and Regulation compliance obligations)
- policy changes (for example non-urban metering policy, floodplain harvesting policy (coming soon), climate change plans and reporting)
- regulatory changes (for example, data sharing agreements with DCCEEW and NRAR and increasing obligations arising from water sharing plans)
- Operating Licence changes are also expected to result in higher capital and operating expenditures, particularly in the Rural Valleys.

Seeing this list highlights that there is no holistic plan for the rural water sector across NSW.

Almost every response to an issue is more regulation and activity. This is compounded by the multiple layers of Government involved and various parties such as the Natural Resources Commission and even operating licence reviews adding costs with little thought of the benefit, or more importantly other ways of addressing an issue.

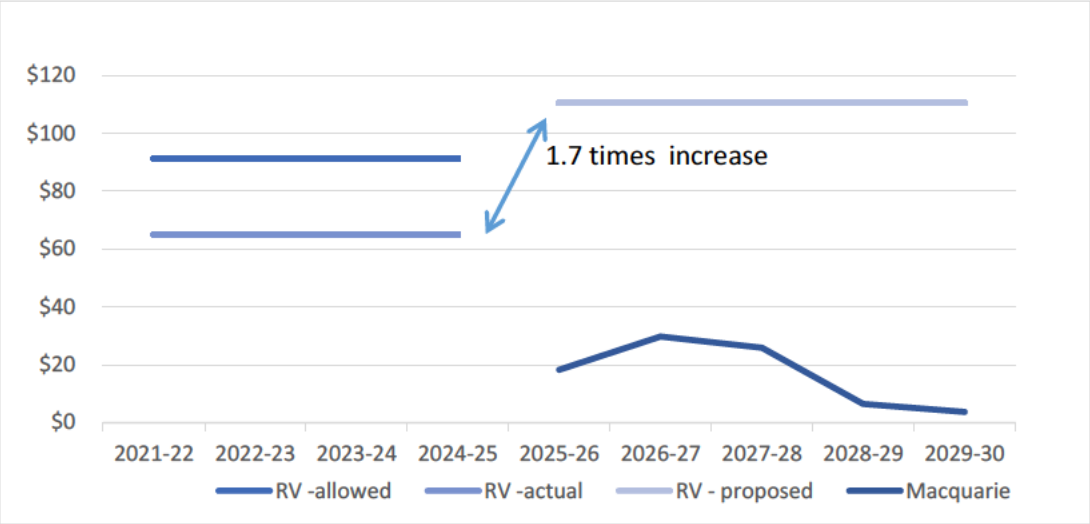
## 3.3 Capital Expenditure

The proposed capital expenditure for the Macquarie Valley is $84 million or $16.8 million per year. This represents 15% of total capital across the regulated valleys.

WaterNSW have outlined its approach to capital expenditure in Attachment 6. It describes its Prioritisation Process, and its Capital Program Development.

Attachment 18 outlines capital expenditure of $76.5 million for the Macquarie Valley (pg. 28). We are unsure why this is less than the $84 million in the proposal. It is not clear to customers what the capex program is for.

Figure 2 Rural Valleys capital expenditure by valley ($2024-25)




We note there is $15.8 million proposed for fish way exploration. We would assume that a cost 1.8 million for the design of a fishway should be much lower over time as they are carried out. We would suggest that WaterNSW conduct this work in house or contract public works to carry out the work across the state in an efficient manner.

We also note that WaterNSW have outlined a cold-water pollution delivery program.

The proposed expenditure for the Macquarie is $31.2 million. We note the following:

*FY26-30: Detailed design and approvals for preferred CWP mitigation option at Blowering, Copeton and Keepit dams* ***and rectification of CWP mitigation at Burrendong Dam to address the reliability and serviceability failures of the previously installed curtain prototype****. Attachment 18 pg. 33.*

Users should not be paying for rectifying past failures.

It is concerning that the already failing 120-year-old GinGin Weir structure is not listed in proposed capital expenditure program. Customers have been informed recently by WaterNSW that an engineer's report has indicated a lifespan of a further 25 years, justifying its exclusion from the capex program, however this contradicts the reality of the leaking structure, the substantial recent WaterNSW planning & consultation expenditure on upgrading the structure & the Regional Water Strategy identification of the structure as a priority requiring attention.

We note that currently 80% of the cost of environmental investments is paid by customers and 20% by Government. We believe that significant scale of the environmental program and the high degree of

uncertainty of benefits has resulted in a low level of support for water users paying for these investments by participants in the engagement process – which included members of the community. This can be seen in Figure 2.

We assume customers here also mean the members of the community that attended the workshops.

Figure 3 Customer feedback on environmental investments Q1[8]


### 3.3.1 Efficiency and Delivery

We are unsure why there are different efficiency factors to reflect program-level efficiency opportunities - small rural valleys (2.5%), large rural valleys (3%) while it is 4.0% for Greater Sydney.

Actual and forecast capital expenditure over the current determinations is expected to be $186 million, or 19% below IPART's allowances inflated to $2024-25 terms for the period from 2020-21 to 2024-25.

As can be seen in Figure 2 the proposed capital increase for the Rural Valleys is represents an increase in capital expenditure that **is 1.7 times** that delivered over the last period.

## 3.4 Forecast entitlement and usage numbers

We note that the forecast entitlement figures are usage for the Rural Valleys is 3,729,520 ML. The updated 20-year rolling average for the Macquarie is -18.0 percent which places more upwards pressure on the prices. We cannot find the annual assumptions for water take in the proposal, though they are available in the WAMC review. In Table 48: Regulated river water take forecasts for the 2025 determination period (ML per year) the 2023–24 forecast is 203,152 ML which is the same as the annual forecast for 2024-25 onwards so we are not sure of the actual decrease in usage.

This seems to be a different number to the 188,478 reported by NSW in July CAG meetings.

If it is a reduction of 18% we believe that the volatility in these numbers is likely to result in a over recovery of the user share as the water take charge climbs from $25.21 to $79.11 in 2029-30. This is a real increase of 214%.

## 3.5 Operational Expenditure

WaterNSW's estimated total opex forecast for the upcoming 2025-30 determination period is $1,245 million, representing a 25.6% increase in real terms compared to the expected opex for 2020-25. In its summary of costs WaterNSW outline the following as drivers of costs:

- Organisation change
- Regulatory change, and

[8] WaterNSW Proposal Attachment 18 pg 34.

- Inflationary pressures.

It is also uncertain how many FTE and the quantum of salary expenditure is driving costs in the rural valleys, though there is a comment that an additional $10 million is for additional headcount, the details of which are set out in Attachment 8. It is not clear what percentage of this costs relates to rural valleys.

The Cost Reflective Base Case build up to meet customer statutory obligations is haphazard and not consolidated in one place. There is some justification for the operating licence changes, however, there are listings of outcomes not a consideration of alternative expenditure options.

We do not agree with forecasting an impact of 1.0% per annum 'real' change for the price of labour over 5 years. As outlined the August 2023 Enterprise Agreement the length of the agreement, which terminates after the first year of the 2025 Determination period (2025-26).

There is a case to be made that salary and wage cost changes for the remaining four years of the 2025 term should be zero increase as it seems very unlikely that there will be any productivity gains underpinning an average 1.0% in real terms over the four years.

In a similar vein there is no justification for the forecast increase in insurance rates by 8.6% p.a. (FY2025 to FY2030).

Position 13 WaterNSW has not provided sufficient detail and rationale for an uplift in labour costs or other operational expenditure across its rural valleys.

Position 14 We do not support a 1% increase in wage costs as a suitable basis for cost forecasts.

### 3.5.1 Operating Licence

WaterNSW outline that the new Operating Licence has new obligations licence that have an effect on costs, including:

- Increased scope of the water quality management system (WQMS)
- Water quality monitoring enhancements program
- Early warning system to provide advanced notification of significant changes to water flow quantity or and quality
- Requirements to establish a data management framework
- Expansion of both research and education requirements
- Establish a new Cooperation Protocol with Fisheries.

These costs are outlined below.

WaterNSW has estimated that the potential cost implications to be approximately $19.8 million in direct costs over the determination period. This is an example where engagement was to 'inform' and 'consult' because many of its functions are 'non-negotiables' that are governed by legislation. These details should have been discussed with users before **$99 million of cost are added to the cost base** over 5 years. We are unclear of the user share of these costs and their allocation to each valley.

We also nte that as part of its consultation WaterNSW reported that its Operating Licence has been finalised, adding approximately *$15.6 million* in opex per annum for the Rural Valleys.

Table 1 Overview of New operating licence conditions

| Operating Licence obligation – Water NSW Response | Cost | Proposed Alternative |
|---|---|---|
| Water Quality Management System (WQMS) | Rural Valleys (RV) = $300k over first 2 years. Development in non-declared catchment Assumption 30 councils for 'in scope' water 1 FTE in addition to existing resources | Consult with 30 councils for a direct charge. |
| Water quality monitoring enhancement program | RV - OPEX $1.64m up to $2.68m once fully implemented | Review beneficiaries as impactors not water users risk-related monitoring of raw water |
| Early warning system | RV = $945k p.a. $100k licensing 6 FTE $950k | Review beneficiaries as impactors not water users risk-related monitoring of raw water |
| Expanded education program | RV = $1.3m (1 year to establish, 2024-25) | Remove unless demonstrate a benefit from this work. There is not problem identified here. |
| Expanded research program | RV = $160k (1 year to establish 2024-25) RV $600k p.a. for non-declared catchment (years 2-5) | Defer until identify and consult on research need. |

Source: WaterNSW (2024) Attachment 8 pg. 23.

Position 15 The expenditure relating to changes in operating license should be assessed for its efficiency. The $19 million cannot be justified and what benefit there is Local Water Utilities are the beneficiaries. Our members are not impactors.

### 3.5.2 Land Tax

WaterNSW outlines that its owns substantial land holdings that have not been historically assessed by the Valuer General, primarily consisting of Rural Valleys land.

However, Revenue NSW has advised its intention to request the Valuer General to value these properties as part of WaterNSW's land tax assessment process. We are astounded that there is no discussion of the merits of this change and it seems that WaterNSW is not acting in the best interests of its customers when considering this issue but responding to Government need for revenue.

Position 16 IPART should reject the land tax forecast until it understands the rational of the changes and whether the land in question is necessary to provide services for rural valleys

## 3.6 Tariff structures for proposed prices and Cost Share Alternative Scenario 1 & 2

As the Hunter and Macquarie valleys contain dams (Glenbawn and Burrendong) which were constructed to provide a specific flood mitigation function, WaterNSW also proposes to allocate an additional:

- 11% of the Total Cost of the Hunter to the Government
- 24% of the Total Cost of the Macquarie to the Government.

The derivation of the additional Government allocation respectively is shown below and is derived by the pro rata of additional airspace capacity at Glenbawn (Hunter) and Burrendong Dam (Macquarie).[9]

We find it very difficult to understand which costs are assigned to the Government in the Macquarie Valley as outlined.

## 3.7 Form of Regulation – Revenue Cap

The current 2-part tariff ratio of fixed to variable costs provides WaterNSW with income base regardless of use, but is not reflective of the variable nature of water use for the customer.

It is our view that water costs for the customer, should be largely variable and related to use, rather than being fixed and more overhead based in nature. Particularly as customers have been required to shift (at substantial expense) to telemetry linked meters, enabling very accurate reporting of actual use.

WaterNSW has flagged the notion of such reforms, but it has not carried out the appropriate analysis or consultation with water users and we are unsure what the associated decrease in proposed costs are. We encourage IPART to seek additional information on how a revenue cap would result in a reduction in cost to water users.

Position 17 We do not support a move to a revenue cap at this stage. MRFF would like to see a detailed and concrete description of the cost reduction associated with such a move

## 3.8 Regional Pricing

We are concerned with a number of the statements around the regional pricing proposal.

First the statement that it is '*consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance*"[10]. This can happen regardless of the IPART allowance now - and the last determination period's actual expenditure is evidence of this.

Also *It provides several benefits compared to valley-based pricing, including minimising price shocks within and between valleys in the future as expenditures are allocated across a wider customer base and providing WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focussing on the priorities of each valley.*

This statement is essentially saying that cost reflectivity will decrease. WaterNSW also state that it is providing opportunities for improved efficiency as the regionally-based framework aligns to WaterNSW's regional structure for its maintenance and operational activities.

*On balance, regional pricing is considered to be similar to valley-based pricing in terms of cost reflectivity.*

9 WaterNSW (2024) Attachment 05 Tariff structures for proposed prices. pg 9.
10 WaterNSW (2024) Attachment 05 Tariff structures for proposed prices, pg 12.

A regional charging structure will result in some valleys paying more and other valleys paying less than under a valley-based regime. WaterNSW suggests that regional pricing should only be considered for this review if combined with a 15% per year (plus inflation) price cap, ensuring no valley would be worse off over 2025-30 than had valley-based pricing continued. No analysis has been provided for the post-transition period based on the long-term capex plan.

At this time, we are of a view that WaterNSW have made a number of statement such as '*Valley Based pricing leads to multiple pricing discrepancies by valley'*, without any justification. For example:

> *Once all customers in valleys get to full cost recovery for their region, then **ALL** customers will benefit as costs are shared over a larger customer base.*

We do not understand the logic of this statement as the number of total customers is the same. We are also concerned that WaterNSW is stating that it does not have economies of scale in its proposal. A move to regional pricing should see a decrease in proposed national revenue requirement.

We would also like to know what would happen to the existing community service obligation (CSO) for North Coast in the future under a regional pricing model.

In summary, we see that a regional structure could result in politicisation and of infrastructure decisions which then has cost ramifications in other valleys and it will difficult for our members to understand and review that is happening across the entire north of the state.

Position 18 We do not support a move to a regional pricing as part of this review unless significant work and justification of the issues outlined as described. A significant change should be underpinned by appropriate analysis and outlining cost and benefits.

## 3.9 Non-regulated revenue

We note from the IPART Rural Water Cost Shares – Final Report, February 2019 ( p13) that IPART refers to Non-regulated revenue as a potential means of reducing costs for regulated customers.

From the WaterNSW website - The Renewable Energy and Storage Program is a plan to create cost-effective, large scale pumped hydro energy storage solutions.[11] These solutions have the potential to reduce energy emissions, bring jobs and training opportunities to region NSW and put downward pressure on costs for both WaterNSW and energy customers.

We ask IPART to consider how electro optimise 'non-regulated revenue' opportunities would be factored into lowering prices and whether this program is included in the costs based given the high degree of uncertainty of this work.

Position 19 We encourage WaterNSW to outline the scope of future costs reduction as part of hydroelectricity options on bulk water dam assets.

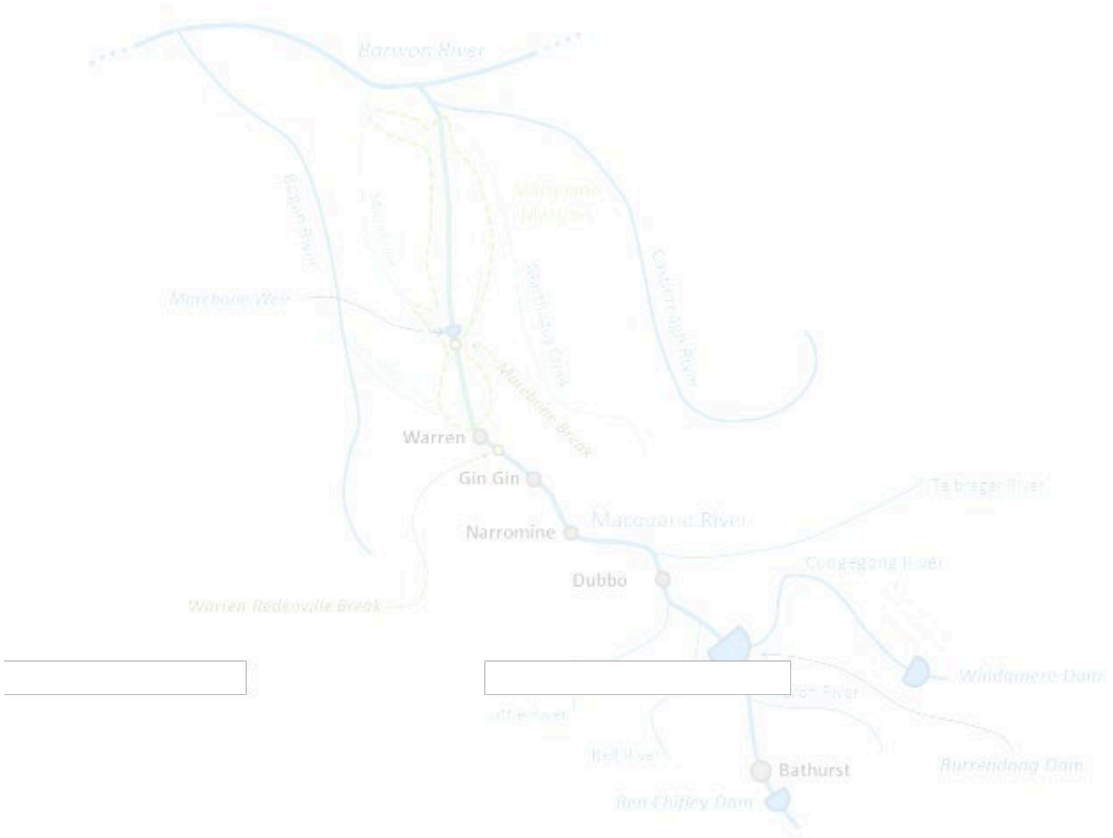
[11] https://www.waternsw.com.au/__data/assets/pdf_file/0018/256140/WaterNSW-Renewable-Energy-Program-November-2024-update.pdf

## 3.10 Billing inefficiency

We would like to raise the issue of inefficient billing systems. After many years of improvement programs and digitisation a water user / business cannot request and receive a statement with a total amount owing. The use of an over-arching customer number so that a consolidated statement and invoice is generated should be a matter of urgency.

Currently, we are aware of one of our members who receives 14 separate invoices which have to be paid separately – which is ridiculously inefficient.

Position 20 We encourage WaterNSW and WAMC to focus on basic reform that should be low costs such as billing reform.



# 4 Affordability

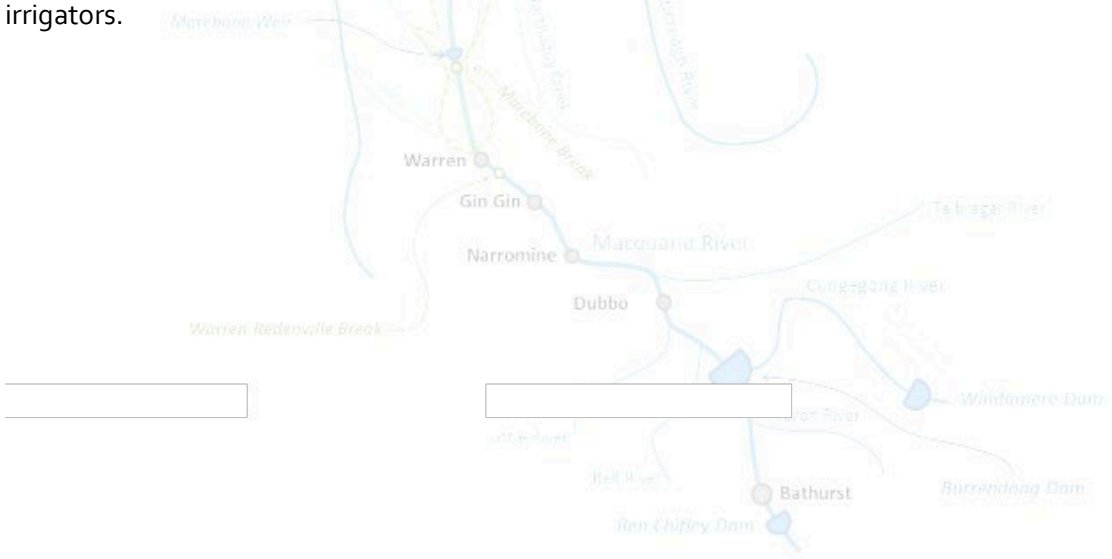
For High Security and General Security Macquarie customers the annual increase from 2024-25, assuming 100% and 60% water usage for high security and general security users respectively is significant.

It is quite revealing that the economic report titled *NSW farming sector gross margin analysis WaterNSW 2024 price submission – supporting analysis* **does not report actual gross margins and farm profits** but relies on percentage reduction. The data should exist to enable the assessment of the reduction in farm profit. This is the number that will highlight not just the impact on the bottom line but the impact on viability. Standard definitions of family farm viability exist and should be used to assess impacts on the margin.

Additionally, these costs **are on top of inflation**. The productivity improvements in the farming sector will not offset these costs. They will be passed onto consumers where possible, lifting inflation, or for export industries will reduce international competitiveness.

WaterNSW has not presented detailed bill impacts at a valley level. These increases are significant and should be considered within a whole farm budget environment. Various budgets are available, and the industry can work with IPART is requested.

It is apparent that the work commissioned was carried out later in the process and had no input from irrigators.



# 5 Comment on Regulatory Drivers

## 5.1 Regulation as a driver of costs

Regulatory burdens are costs imposed by regulatory requirements, including unnecessary regulation (or 'red tape'). Costs may be borne by businesses, government, and the community, and include:

- administrative compliance costs associated with demonstrating compliance with a regulation (such as paperwork and record-keeping costs)
- substantive compliance costs related to required capital and production expenditure (such as equipment and training expenses)
- financial costs which are payments made directly to the government (such as fees, levies and fines); and
- indirect costs relating to the impact that regulation has on market structures, and consumption patterns (such as restrictions on innovation and barriers to entry through licensing) and the cost of delays.

There has been a step change in both public interest and Government response to water management – associated extra costs need to be treated separately from the usual regulatory requirements and must not be confused with a supposed 'increase in level of service to customers'.

## 5.2 The Importance of Culture

### 5.2.1 The Importance of Focusing on Core Business and Efficiency

Water managers and infrastructure operators play a critical role in ensuring the delivery of water for water users across the state.

Across the decade we have seen a shift in the focus on core function and asset management. We realise that the water utilities must comply with strict environmental and safety regulations, though this should be done efficiently and also be approached with a degree of commerciality.

We would emphasise that WaterNSW in particular should focus on operational efficiency and cost management. We have seen little concrete evidence that past investments have resulted in savings. This is particular the case for staffing counts.

We are aware that a previous head of State Water used to ask for the names of staff to be retrenched when presented business cases that identified labour savings as a result of investment. We would ask IPART to request how the benefits of past savings initiatives have been captured as part of its review, or have staff been simply redirected.

A clear focus on core business functions prevents mission drift, ensuring that efforts are directed toward improving water supply systems rather than diluting resources into non-essential areas.

At this stage it is worth benchmarking WAMC and WaterNSW with similar business in Victoria and Queensland as a high-level review of the sustainability of prices. We would encourage IPART to take a component approach to this type of review to highlight and comment on the lack of rationale and justification behind key drivers of costs.

Position 21 We recommend that IPART take a component benchmarking approach across Victorian and Queensland water management to highlight key cost drivers and inefficiencies across the rural water sector.

# 6 References

2025-30WAMC Submission Follow Up Engagement12th Nov 2024.

Sydney Morning Herald (2012) Feds pledge 469m to improve NSW piping – 10 June 2012 https://www.smh.com.au/national/feds-pledge-469m-to-improve-nsw-piping-20120610-203y0.html

Department of Climate Change, Energy, the Environment and Water (2024) A clear path to water meter compliance in NSW. Fact Sheet.

WaterNSW (2024) Water Working Groups.