

# **SUBMISSION**

## **IPART REVIEW OF WATERNSW'S NON-URBAN METERING REFORM CHARGES FROM 1 OCTOBER 2021 TO 30 JUNE 2025 DRAFT REPORT**

July 2021



## NSW Irrigators' Council

The NSW Irrigators' Council (NSWIC) is the peak body representing irrigation farmers and the irrigation farming industry in NSW. NSWIC has member organisations in every inland valley of NSW, and several coastal valleys. Through our members, NSWIC represents over 12,000 water access licence holders in NSW who access regulated, unregulated and groundwater systems.

NSWIC members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton and horticultural industries. NSWIC engages in advocacy and policy development on behalf of the irrigation farming sector. As an apolitical entity, the Council provides advice to all stakeholders and decision makers.

NSWIC welcomes this opportunity to provide a submission to the *IPART Review of Water NSW's Non-Urban Metering Reform Charges (Oct 2021 – June 2025) – Supplementary Draft Report*.

NSWIC sees this as a valuable opportunity to provide expertise from our membership to inform the response. Each member reserves the right to independent policy on issues that directly relate to their areas of operation, expertise or any other issues that they deem relevant.

## NSW Irrigation Farming

Irrigation provides more than 90% of Australia's fruit, nuts and grapes; more than 76% of vegetables; 100% of rice and more than 50% of dairy and sugar (2018-19).

Irrigation farmers in Australia are recognised as world leaders in water efficiency. For example, according to the Australian Government Department of Agriculture, Water and the Environment:

*“Australian cotton growers are now recognised as the most water-use efficient in the world and three times more efficient than the global average”<sup>1</sup>*

*“The Australian rice industry leads the world in water use efficiency. From paddock to plate, Australian grown rice uses 50% less water than the global average.”<sup>2</sup>*

Our water management legislation prioritises all other users before agriculture (critical human needs, stock and domestic, and the environment), meaning our industry only has water access when all other needs are satisfied. Our industry supports and respects this order of prioritisation. Many common crops we produce are annual/seasonal crops that can be grown in wet years, and not grown in dry periods, in tune with Australia's variable climate.

Irrigation farming in Australia is also subject to strict regulations to ensure sustainable and responsible water use. This includes all extractions being capped at a sustainable level, a hierarchy of water access priorities, and strict measurement requirements.

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<sup>1</sup> <https://www.agriculture.gov.au/ag-farm-food/crops/cotton>

<sup>2</sup> <https://www.agriculture.gov.au/ag-farm-food/crops/rice>



## NSW Irrigators' Council's Guiding Principles

Integrity	Leadership	Evidence	Collaboration
Environmental health and sustainable resource access is integral to a successful irrigation industry.	Irrigation farmers in NSW and Australia are world leaders in water-efficient production with high ethical and environmental standards.	Evidence-based policy is essential. Research must be on-going, and include review mechanisms, to ensure the best-available data can inform best-practice policy through adaptive processes.	Irrigation farmers are stewards of tremendous knowledge in water management, and extensive consultation is needed to utilise this knowledge.
Water property rights (including accessibility, reliability and their fundamental characteristics) must be protected regardless of ownership.	Developing leadership will strengthen the sector and ensure competitiveness globally.	Innovation is fostered through research and development.	Government and industry must work together to ensure communication is informative, timely, and accessible.
Certainty and stability is fundamental for all water users.	Industry has zero tolerance for water theft.	Decision-making must ensure no negative unmitigated third-party impacts, including understanding cumulative and socio-economic impacts.	Irrigation farmers respect the prioritisation of water in the allocation framework.
All water (agricultural, environmental, cultural and industrial) must be measured, and used efficiently and effectively.			Collaboration with indigenous nations improves water management.



## Overview

NSWIC has serious concerns regarding the proposals in the Supplementary Draft Report, to recover the costs of implementing the NSW Government's Non-Urban Water Metering Policy.

NSWIC is of the position that the NSW Government must fully cover these costs, because:

- Water users do not have confidence that there is sufficient information to conclude that costs are efficient, nor clarity on how costs have been determined with accuracy and robustness.
- Water users have long been of the understanding that the Government would be responsible for most of these cost components, whilst irrigators (with privately owned meters) are responsible for the purchase, installation and maintenance of meters. This is at odds with the proposed 100% user share.
- The Government is the 'impactor', given meters (and in many cases telemetry) were already installed and operationalised, but the NSW Government changed policy to change standards largely to rebuild public confidence in Government water management following Government failures in enforcing compliance (despite industry funding the Government to enforce compliance).
- The NSW Government's delivery of the metering reform is not on track. Many Tranche 1 users have been unable to comply due to market, technical and administrative barriers. Tranche 2 also risks a high likelihood of non-compliance, given the Government has not yet addressed these barriers beyond the water users' control. NSWIC has significant concerns regarding 'delay costs', and emphasises that water users cannot be left to pay for Government failure to deliver its policy.
- There are concerns about assumptions of voluntary uptake of telemetry given Government rebates. These rebates must be considered in the context of the larger and ongoing costs of adopting telemetry, and the water users to whom these assumptions apply (those not already required to have telemetry).
- Water users were only first made aware they would be required to pay for the implementation of the policy long after the policy settings had been finalised. This meant the consultation with water users on policy settings did not include key facts on the cost recovery arrangements.

For these reasons, NSWIC does not see it to be appropriate nor feasible for these costs to be recovered from water users.

NSWIC emphasises that the industry has accepted the NSW Non-Urban Water Metering Policy and recognises the importance of the reform being adequately funded. However, it does not see it as appropriate for this funding to be by industry.

In addition to this submission, NSWIC reiterates the issues raised in our previous submission.<sup>3</sup>

## Background

This supplementary draft report follows the draft reports IPART published in March 2021 on the WaterNSW and WAMC reviews. At that time, IPART did not make draft decisions on WaterNSW's additional costs for implementing the metering reform, largely due to having insufficient information to include these costs in regulated prices.

As a result, IPART decided to delay the commencement of the 2021 determination period for Water NSW and WAMC to 1 October 2021, to allow for further analysis of the metering charges before making final decisions.

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<sup>3</sup> <https://www.nswic.org.au/wordpress/wp-content/uploads/2021/01/2021-01-25-NSWIC-IPART-Updated-WaterNSW-Pricing-Proposal-Metering.pdf>



Draft decisions include:

- To introduce five new charges for WaterNSW to recover the efficient costs of implementing the NSW Government’s non-urban metering reforms:
  - “A ‘scheme management charge’ would apply as an annual fee per licence (\$/licence). This fee would apply to all licensed customers.
  - A ‘telemetry charge’ would apply as an annual fee per metering installation for customers that use telemetry (\$/meter). This fee would apply to customers with privately owned and Government-owned meters.
  - A ‘non-telemetry charge’ would apply as an annual fee per metering installation for customers that do not use telemetry capacity (\$/meter). This fee would apply to customers with privately owned and Government-owned meters.
  - Two additional charges would apply to customers with Government-owned meters - ‘meter service charge – operating costs’ and ‘meter service charge – capital costs’. These charges would be applied as an annual fee per metering installation (\$/meter).”

Other key findings include that IPART:

- Decided that the efficient costs of implementing the non-urban metering reforms are 12.3% less than the base case in WaterNSW’s revised proposal and decrease further as the proportion of users that opt in to telemetry increases;
- Set the user share of the efficient costs at 100% after taking account of the NSW Government funding for the capital costs of upgrading Government-owned meters;
- Set to zero the capital costs of upgrading Government-owned meters based on the NSW Government’s decision to provide additional funding to cover WaterNSW’s capital costs;
- Considered how to transition from existing metering charges to the new charges to provide incentives for compliance as the reforms are rolled out between now and December 2023.

## Submission

### Efficient Costs

NSWIC is pleased that IPART found that the efficient level of expenditure to implement the metering reforms is 12.3% or \$6.7 million less than Water NSW’s revised proposal. However, NSWIC remains concerned that without further adjustments to WaterNSW’s proposed costs, water users may be left paying for inefficient costs. For example, the Cardno Final Report says:

*“... there are a number of key areas where there is no better information available at this point in time to either conclude that WaterNSW’s assumptions are robust or to make an accurate and reliable adjustment to the specific cost component.”*

Given this statement in the Cardno Report, NSWIC cannot agree with the draft decision that “WaterNSW has provided sufficient information for us to make draft decisions on efficient costs”.

It is the view of NSWIC that unless efficient costs can be demonstrated, then it is not appropriate for those costs to be recovered from water users. If there remains any uncertainty or information availability problems, Government should have to at least cover the gap to the extent of that uncertainty.

NSWIC agrees with IPART’s point that the “metering processes are still relatively immature and further savings can be made to move to the efficient frontier”. Validation of assumptions over the course of implementation should be monitored for potential savings, and



opportunities for optimisation. Efficiency adjustments over time will be very important, such as to capture new technologies and technology advances which will enable savings.

NSWIC remains concerned about the affordability of the proposed charges. Whilst we acknowledge and welcome the Government funding which has recently become available, this is relatively small against the scale of water users' costs to upgrade to meet the new requirements.

### 100% Customer Share

NSWIC does not agree with the draft decision for a 100% customer share, for a number of reasons raised to IPART in earlier submissions.

IPART makes the case that “*customers who use meters are driving the need for upgrades to make them compliant with the new framework and should be required to contribute 100% of the efficient costs*”.

NSWIC is of the position that the NSW Government drove the need for upgrades due to its failure to deliver compliance services that water users were required to pay for in previous determination periods.

The Government responded to the loss of public confidence due to its own failures by setting a higher standard of metering regulation (above the national standard, and any other standard globally) with which water users must now comply.

To repeat, the issue was not with the standard of meters irrigators already had, but the Government's failure on its compliance activities. Water users argued against aspects of the Government's reform, including the market's limited capacity to supply, and cost to water users large and small.

Furthermore, water users expected that they while they would be facing the capital expenses of purchasing the new meters, the other costs would be Government-funded. This was reflected in Hansard at the time, where the (former) Minister for Regional Water said:

*“Responsibility for metering costs, including purchase, installation and maintenance of meters, sits with irrigators, while stream gauging and meter reading are costs to Government.”<sup>4</sup>*

Contrary to this, the IPART draft decision is “*To recover the costs of compliance activities, water take assessments, meter reading and meter data services through a telemetry charge to be applied annually to customers who use telemetry, [and] a non-telemetry charge to be applied annually to customers who do not use telemetry.*”

Further, water users assumed that any costs that were intended to be passed onto users would have been raised by WaterNSW at that time. The lack of any discussion on this matter in WaterNSW consultations reinforced water users' understanding that cost recovery of this kind was not intended. This is reflected in the Cardno Final Report:

*“We considered that this lack on consultation meant that customers were not informed of the potential pricing impacts to account for in business planning and WaterNSW was subsequently not informed of how customers may respond to the policy (as customers have options in some areas).”*

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<sup>4</sup> <https://www.parliament.nsw.gov.au/Hansard/Pages/HansardResult.aspx#/docid/HANSARD-1820781676-74714>



Further, the lack of this information on pricing impacts at the time of the public consultation on the design and development of the policy setting themselves was a critical omission.

Additionally, NSWIC recommends that IPART develops a table to compare the roles and services of WaterNSW under previous metering arrangements, to under the new metering program. Many of the roles of WaterNSW existed under previous arrangements, and the roles that have changed should see decreased costs for WaterNSW (e.g. obtaining data via telemetry). For water users, the observation has been decreased levels of service, but increased costs, which is incongruent. NSWIC maintains the view that there should only be additional cost increases for users where there is a net increase in services.

### Telemetry charges

IPART *“found that the efficient costs to be recovered from the scheme management charge and telemetry charge decrease as more customers use telemetry. However, at this stage, it is unclear how many customers will use telemetry under the new program.”*

WaterNSW indicated that if 25% telemetry opt-in is achieved, WaterNSW’s operating and capital costs would reduce by 6% and 14% respectively, compared to its preferred base case (0% voluntary opt-in). If a 50% opt-in is achieved, WaterNSW’s operating and capital costs would reduce by 13% and 30% respectively. Of note, efficient costs are highest when 0% of customers voluntarily opt into telemetry (\$47.9 million) and lowest when 100% of customers voluntarily opt into telemetry (\$39.3 million).

As a result, IPART made the draft decision that the level of these charges will vary as the proportion of users that voluntarily opt-in to telemetry increases (see Table below).

**Table 1.2 Draft decision on scheme management, telemetry and non-telemetry charges for different telemetry opt-in proportions (\$2021-22)**

Telemetry opt-in	Up to 25%	25-49%	50-74%	75% or more
Scheme management charge	74	67	60	52
Telemetry charge	226	204	189	180
Non-telemetry charge	226	221	221	221

Source: IPART using information provided by Water NSW and Cardno

NSWIC is highly concerned that this pricing structure is designed to shift people to ‘voluntarily’ opt-in to telemetry when they are not required under regulation to do so. This transfers a large responsibility from WaterNSW to the water user (and a large cost given the expense of purchasing, installing and maintaining telemetry equipment).

NSWIC is of the position that there is insufficient evidence to predict the behavioural response of users to telemetry incentives. Given the high costs for telemetry (at a time of numerous other reforms and financial pressures on the sector), NSWIC would predict that the one-off telemetry rebate will not materially increase the number of customers using telemetry over the 2021 determination period.

It must be noted that the rebate is relatively small in the scheme of total costs for purchasing, installing and maintaining telemetry equipment. It also must be noted that those who are not mandatorily required to install telemetry are smaller users with a generally lower ability to pay. For these reasons, we would predict that there will likely be low levels of voluntary opt-in above the regulatory requirements, despite the incentives in place, and any assumptions on voluntary uptake must be critically analysed.



## Implementation barriers

NSWIC has raised concerns to multiple authorities regarding the implementation of the metering reform. It is not on track, and has a number of unresolved barriers remaining for water users to achieve compliance (despite their best efforts). NSWIC has written a report including a detailed list of barriers to compliance, which is available upon request.

NSWIC is concerned about the number of costs that depend on successful roll-out of the metering reform. This is identified in the Cardno Report (P 23):

*“If roll-out is delayed, there is potential that some of these costs may need to increase.”*

Given Tranche 1 has been ‘delayed’ in many respects and yet to achieve 100% implementation, and since the barriers remain unresolved, it is almost certain Tranche 2 will not be fully implemented on time. Successful delivery of the reform on-time therefore cannot be assumed.

NSWIC seeks IPART’s clarification on:

- What is the nature and significance of the costs that will be impacted by delayed or problematic roll out of the metering reform?
- What will the arrangement be to cover the consequent potential cost increases? Who will cover these potentially increased costs?

This concern of delay is raised in the Cardno Report (P 23):

*“...progress to date has been well behind schedule for the meters that needed to be installed/validated in FY21 to meet the Stage 1 rollout deadline of 1 December 2020 for all surface water pumps 500 mm or larger. The program ramps up substantially for the Stage 2 Northern Region works that have a 1 December 2021 rollout date, with a total of 7,601 surface water and groundwater meters either needing to be installed, replaced, validated by a DQP as meeting the requirements to remain in place or to be made inactive by the water user.”*

The industry has raised these barriers to compliance to Government and agencies on multiple occasions throughout the course of reform implementation. Government is responsible for ensuring its policies are implementable and achievable in practice. These compliance barriers are beyond the control of water users, despite their willingness to comply and best efforts to do so. Whilst Cardno notes that these barriers for private meters are external events outside WaterNSW’s control, we must emphasise that these barriers are also external and outside the control of water users.

## Price structure

NSWIC agrees with the principle of the proposed price structure, given it ensures users are only paying for their individual circumstance (rather than socialising costs across different types of users).

NSWIC also agrees with the transitory approach for new charges coming into effect, aligned with the various rollout dates (but noting the delays in implementation which will almost certainly cause issues).





## **Conclusion**

NSWIC sees no feasible way for these costs to be recovered from water users. NSWIC is of the firm position that Government must fund the implementation of its own reform.

Kind regards,

NSW Irrigators' Council.