

16 August 2018



WHAT

IPART engaged Aither to review bulk water trading markets, to identify the factors that affect trade and to assess the impact of IPART's pricing and licensing frameworks on trade.

Aither delivered its Final Report to IPART on 9 August 2018.



WHY

There were four aims of the review. We asked Aither to:

- ▼ Provide an overview of bulk water markets (both within NSW and between NSW and other jurisdictions).
- ▼ Identify and discuss factors affecting trade in these markets, including (but not limited to) regulatory frameworks.
- ▼ Assess the impact that IPART's regulatory approach (pricing and licensing) has on trade, including whether the current framework facilitates or impedes efficient trade.
- ▼ Where applicable, recommend changes to IPART's regulatory approach to facilitate efficient trade.



HOW

The Final Report presents findings and recommendations for IPART to consider at future pricing and licensing reviews.

Aither characterised its findings in terms of the **direct** and **indirect** impacts of our framework on water trading markets.

- ▼ Direct impacts: impacts on trading in the market that generally relate to the pricing of services provided under IPART's regulatory framework.

- ▼ Indirect impacts: factors that indirectly influence the level of confidence stakeholders have with the market, which subsequently affects whether markets are operating efficiently.

Aither found that while IPART-regulated charges were incurred by market participants, they are generally viewed by stakeholders as a 'cost of doing business' and therefore they do not materially alter decision-making with respect to investment, trade and use.

Stakeholder views and other evidence suggests that other drivers such as climate and economic conditions affecting irrigation industries have a much greater influence on trading decisions in the entitlement and allocation markets.

Regardless, in the course of conducting its investigation, Aither identified a few issues for IPART to consider in its next review of WaterNSW's rural water prices, including the application of the usage charge, the tariff structure, the refund application process and the method for demand forecasting.



WHAT NEXT

Aither's Final Report provides guidance on matters we will consider when we begin our reviews of prices for:

- ▼ the Water Administration Ministerial Corporation's (WAMC) services in mid-2019, to apply from 1 July 2020, and
- ▼ WaterNSW's rural bulk water services in mid-2020, to apply from 1 July 2021.

We are not seeking stakeholder submissions at this stage. There will be opportunities to provide input during our price reviews for WAMC (2019-20) and WaterNSW (2020-21).