

Please see attached submission which is endorsed by Barwon Darling Water Inc. Barwon-Darling Water Inc (BDW) is the peak body representing water users on the unregulated Barwon-Darling River. Barwon-Darling Water is an independent, apolitical body funded by its members. It was set up to provide advice on the Barwon-Darling River to members and decision makers, to assist with policy development, and to advocate on behalf of the interests of its members. Our membership is made up of local water user groups – including local government, irrigators and basic right users. We represent all licence holders and water users on the Barwon-Darling – from Mungindi on the Queensland border to the Menindee Lakes.

SUBMISSION PAPER

INPUT TO A SUBMISSION ON

REVIEW OF NSW RURAL BULK WATER PRICES

WATERNSW & WATER ADMINISTRATION MINISTERIAL CORPORATION

NSW Irrigator's Council

Prepared by:

Rod McInnes

Prepared for:

Input to The Independent Pricing and Regulatory
Tribunal

October 2020

<Insert LOGO>

Level 5 491 Kent Street

PO Box Q640

Queen Victoria Building NSW 1230

nswic@nswic.org.au www.nswic.org.au

About NSW IC

The NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These licence holders access regulated, unregulated and groundwater systems. The NSWIC's Members include valley water user associations, food and fibre producers, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

About this Report

This report forms advice for input to the finalisation of a formal submission in response to Review of Bulk Water Prices from 1 July 2021 and IPART's Review of Water Management Prices 2021, including the Cost Sharing Methodology for both reviews. For ease of use it is written in the form of a submission to IPART, but does not in this form state the position of NSW IC, only of advice on that position.

Table of Contents

1. Introduction	4
2. Bulk Water Review.....	5
Efficiency	5
Operating Expenditure.....	5
Capital Expenditure	7
Required Revenue	8
3. WAMC.....	9
Operating Expenditure.....	9
Capital Expenditure	10
Required Revenue	10
4. Cost Shares.....	11
5. Recommendations.....	12

Figures

Figure 1: WaterNSW Operating Proposed, Actual and Forecast Expenditure, 2021 dollars.....	6
Figure 2: WaterNSW Capital Expenditure	7
Figure 3: WAMC Operating Expenditure.....	9

1. INTRODUCTION

This report forms advice to the NSW Irrigator's Council on the Review of Bulk Water Prices from 1 July 2021 and IPART's Review of Water Management Prices 2021, including the Cost Sharing Methodology for both reviews.

The report is accordingly divided into three sections dealing with each issue. Appendices include collated direct responses to IPART's Issues Paper questions, referenced back to the analysis within the report body .

The NSWIC sees the bulk water prices being determined in these separate reviews for a number of delivery and regulatory organisations as integrally connected and requiring consistent clear regulatory decisions by IPART to deliver efficient services to all customers and the community as whole in terms of the public good services that the system provides. NSWIC represents the most significant users of these systems. The water systems were established by Government historically from the early twentieth century for social policy reasons, with little regard to cost or cost-benefit. Under economic reform in past two decades, change has been focused on moving the systems to an economically efficient mode, recognising that there are significant constraints to achieving this, given existing investments were not configured for efficiency.

Planning

Bulk water systems by their nature, comprise long lived assets such as dams and permanent natural features such as waterways which require matching long term planning, but which properly monitored, should not confront managers with any surprises.

However, the thrust of the price proposals before IPART are that unforeseen situations have led to the failure to meet past planning targets, the dramatic revision of that trajectory in setting future targets, and at least for the bulk water review, a continued uncertainty of what targets can be set at all beyond a twelve month period. In this challenging environment, Government decisions to proceed with a number of major dam projects are increasing the demands on planning teams within the water utilities and potentially widen the scope of work of regulators.

The most recent regulatory period has seen significant institutional and regulatory change which provides a major challenge. This submission presents our views on how these challenges could be met within an efficient and prudent expenditure envelope funded with clear, fair and affordable prices to water users.

2. BULK WATER REVIEW

The Review of Bulk Water Prices from 1 July 2021 addresses WaterNSW's proposal. This section addresses the efficiency of operating and capital expenditure and

Efficiency

WaterNSW was setup in 2014 with a primary purpose of providing greater scale and efficiency in bulk water delivery, by merging rural and urban bulk water management. In the prior 2014-2018 determination period there were large cost reductions apparently achieved. The price proposal to this review reports what appears to have been a sharp reversal of those achievements.

Operating Expenditure

Water NSW has proposed a significant reduction in operating expenditure for financial year 2022, the one year of the determination period for which they have supplied data. IPART needs to scrutinise closely the evidence that such savings can be achieved.

The data in Figure 1: WaterNSW Operating Proposed, Actual and Forecast Expenditure illustrates that WaterNSW's allowance (Proposed expenditure for the past price path, as accepted by IPART) was intended to deliver a substantial real reduction in operating expenditure. This was based on savings of 25% over the previous price determination (2014-2017) coming from claimed efficiencies from the merger of State Water and Sydney Catchment Authority from 2014. The average cost level in that determination period is shown on the chart at 2017.

IPART, with some minor reductions, accepted WaterNSW's argument that it could continue to reduce costs from that level at the rate that it had been doing so in the previous determination period. Thus, the lower line on the chart shows the IPART allowed expenditure in 2018 to 2021 trending downwards over time, showing the reductions from the continued realisation of efficiencies.

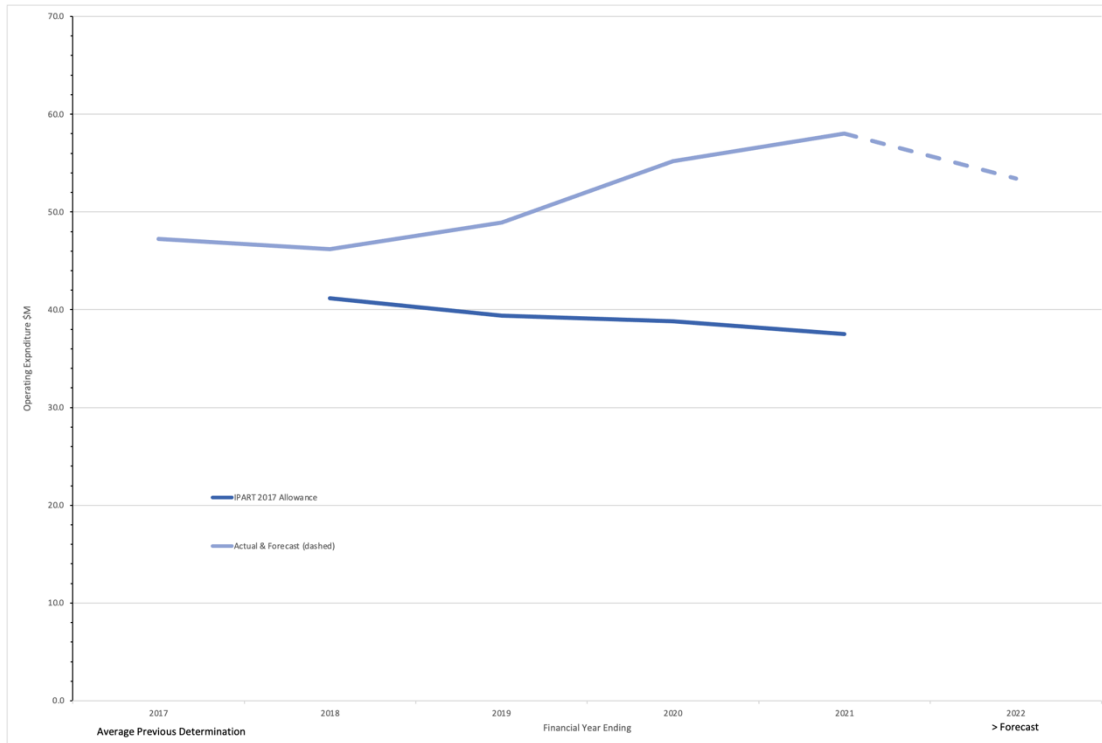


Figure 1: WaterNSW Operating Proposed, Actual and Forecast Expenditure, 2021 dollars

However, the actual expenditure in the upper line shows that not only weren't these savings realised, but there were substantial cost increases, so that real operating expenditure now well exceeds the average annual expenditure in the previous determination period. In effect, the savings from the scale economies of the merger have been lost.

So, the chart highlights a number of NSWIC concerns. Firstly, that planned savings have not been realised, secondly, that past savings appear to have been lost, and thirdly that these two experiences do not inspire confidence that the planned savings for 2022 could be achieved, let alone savings across a full four year determination were WaterNSW had been able to deliver such plans. The fact that planning is not available beyond one year, is a concern in itself, given that despite the drought project planning challenge, the bulk water business by its nature, is very amenable to comprehensive long term planning. The bulk water business is dominated by long life civil assets, with relatively low proportions of short life electrical and mechanical assets, thus only requiring regular rigorous asset condition assessment to guide cycles of medium to long term asset maintenance and refurbishment. In turn, this means relatively low exposure to operating cost risks such as energy or labour cost inflation.

Looking the reasons for this underperformance, it has to be acknowledged that this has been a challenging period with the drought. However, WaterNSW data¹ shows that the main areas of expenditure overrun were in corrective maintenance, which

¹ Pg. 76 *ibid.*

NSWIC would not expect to be impacted by drought. WaterNSW itself argues in its Proposal² that the overrun has been caused by a range of factors, including insurance, whereby the Risk Transfer Product was much more expensive in drought, tax, energy and labour cost increases. Some items are of particular concern to NSWIC. The reason for increased overheads, and the justification for an increased allocation to rural valleys needs to be investigated by IPART. The urban water utility part of WaterNSW has very different quality and service standards to the bulk water business that is the subject of this price review, and only overheads that are relevant to this business should be passed through.

Capital Expenditure

Expenditure in Figure 2: WaterNSW Capital Expenditure shows a pattern typical with regulated utilities, of being underspent in the early part of the determination period and overspent in the later period. The chart does not include the capital expenditure on drought projects. Though typical, this pattern may be less than efficient if it does not make good use of fixed staff and other resources through the period. More concerning is that the total spend is 43% more than allowed. NSWIC is not in a position to scrutinise whether this expenditure was efficient from the proposal information, but IPART’s reviewers should investigate the business case justification for this work.

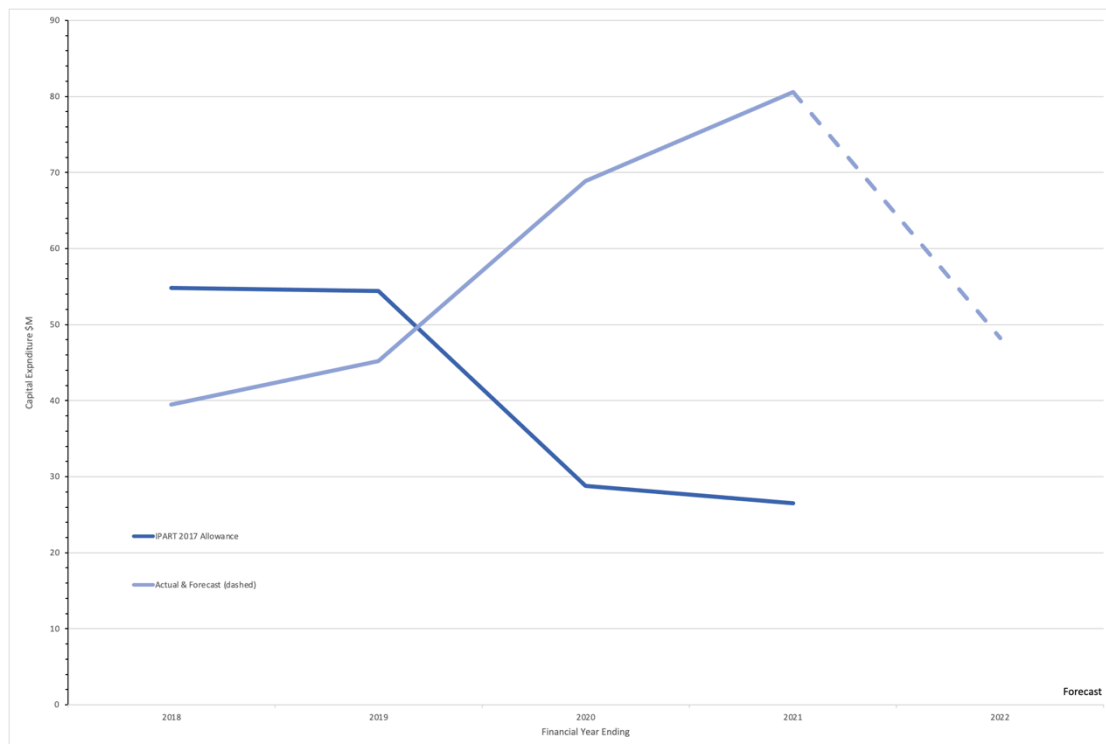


Figure 2: WaterNSW Capital Expenditure

² Pg. 74, WaterNSW Pricing Proposal to the Independent Pricing and Regulatory Tribunal 30 June 2022

Required Revenue

Given the above excessive expenditure, both in the past and forecast, NSWIC's view is that the Required Revenue allowance claimed is overstated.

3. WAMC

The WAMC water management function has undergone significant change during the current price determination period. The failure of license compliance has resulted in the formation of a new body, the NRAR. In addition, there continued to be changes related to WaterNSW's takeover of water monitoring functions.

Operating Expenditure

Figure 3: WAMC Operating Expenditure shows spending trends for the five separate bodies funded under the WAMC charges. The chart shows average allowance in the previous determination period and forecast allowance if the submissions from DPIE and WaterNSW are accepted by IPART.

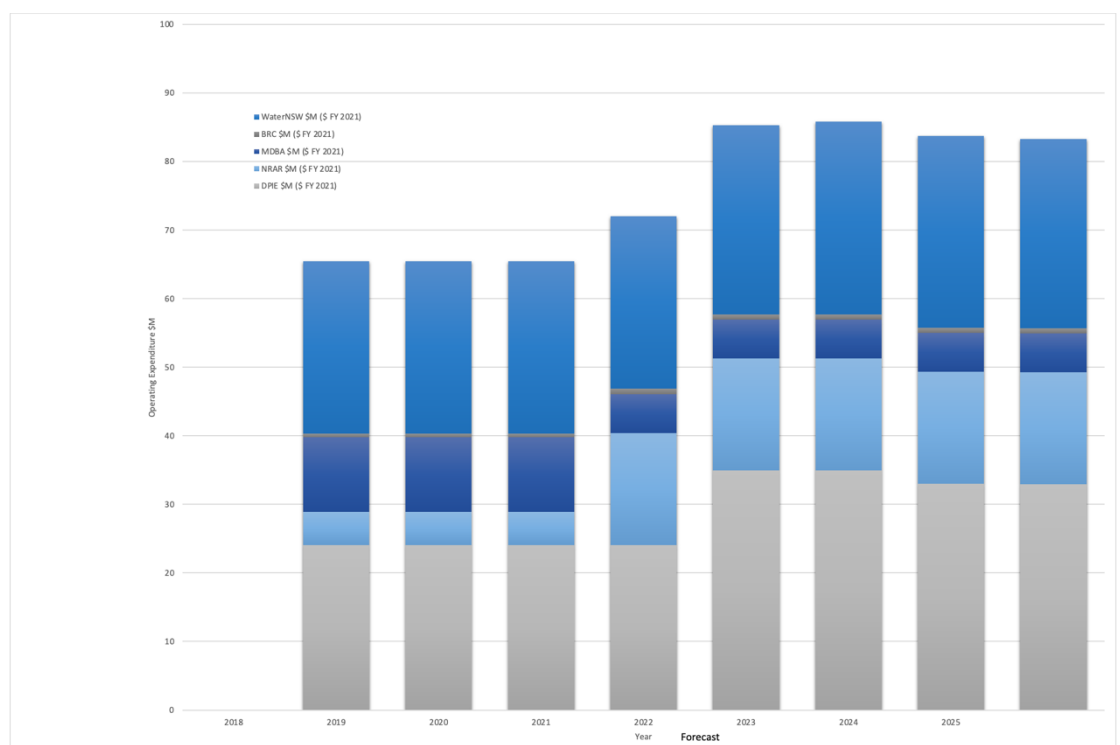


Figure 3: WAMC Operating Expenditure

In summary:

- WaterNSW continues to have the largest share of expenditure, though its spending is relatively stable. Expected savings have not been delivered.
- DPIE has huge growth of over 60% in expenditure
- NRAR has substantial spending increases due to setup costs of surveillance and enforcement systems.

NSWIC is not convinced that the WAMC proposal provided proves that costs are increasing. In particular, IPART was told previously that there were substantial operating cost saving to be made by merging water monitoring responsibilities within WaterNSW It is important to remember that the rationale for WaterNSW taking on

these activities was the efficiencies that could be gained by integrating it into WaterNSW's existing large scale activities.

The extent of expansion in DPIE's activities would seem to be responding to Government requirements rather than customer needs. A large amount of effort is going into water planning, with a significant portion covered by Commonwealth funding. It's important to remember that water planning for the community is a government activity that customers are not required to fund. NSWIC argues that regional water planning should be treated exactly the same as floodplain and drainage management planning, as activities of Government that should be funded by government.

The establishment of NRAR involves significant setup costs. The most critical aspect of NRAR's activities is providing integrity and confidence that water regulation is robust and fair. At the end of the day, the public confidence in this will ensure long term reliable access to water resources for NSWIC members. As such, it is important that NRAR is adequately resourced and has technology that is efficient for its enforcement tasks, given the remote locations where its inspection is required. That said, the cost increase in order to set it up is substantial and NSWIC argues that this needs to be underwritten by Government.

Capital Expenditure

WaterNSW is the only entity with a capital expenditure proposal in the WAMC determination.

These relate to water monitoring activities which were transferred to WaterNSW in 2016 as part of reforms to create scale and share overhead costs. This proposal seeks expenditure increases for this activity. However, it seems unlikely that WaterNSW had not contemplated the shared capital costs of taking on this activity when it was initially planned. In particular, on an incremental basis, the share of costs should have been very small, or else the transfer would not have been justified.

NSWIC asks that IPART investigate the cost savings planned for this activity, and how the new proposals relate to making good use of corporate systems.

Required Revenue

Again, on the basis of the excessive expenditure, the Required Revenue is overstated.

4. COST SHARES

Cost shares are relevant at multiple levels and in both price reviews.

- WaterNSW is a Government owned corporate that as a result of reforms in 2014, combines urban and rural bulk water utility functions. Overhead costs are therefore shared between the urban and rural entities are significant increases in overhead costs make this issue important; and
- All the entities involved in both determinations have funding responsibilities shared between users and government according cost allocations last determined by IPART in 2016.

WaterNSW has shown significant increases in overhead costs shared with its rural bulk water utility. Appendix C includes detailed comparison of cost share codes.

In general, the NSWIC seeks IPART's expert review of corporate overhead allocation, so that overheads related to the services required in urban utilities are not allocated to the rural bulk water utility. There are significant staff and corporate systems required to deal with the operating license and service levels of drinking water bulk supply which do not apply to rural utilities. Rural customers should not cover these costs on an arbitrary cost allocation basis.

On the IPART cost shares, NSWIC has concerns that some of the activities, particularly for water management under the WAMC determination, are for planning activities that are specifically excluded from customer funding. Other WAMC functions are new or reorganised in response to regulatory failures in the past determination period. NSWIC believes that customer should not fund work to be redone or to have entities re-established. It is also good governance, as with IPART's funding basis, that industry does not fund regulatory activities, but that this share is borne by Government. This creates and arms length relationship and reduces the changes of regulatory capture.

5. RECOMMENDATIONS

The key recommendations to NSW IC for the submission are to make clear that:

- The failure of WaterNSW to achieve its efficiency targets in the previous period make it difficult for NSWIC to have confidence in it meeting its spending reduction target for 2022;
- The proper assessment of efficiency requires that a full determination proposal be assessed. One year is not adequate for assessment, nor desirable for creating incentives for efficiencies; .
- WaterNSW needs to explain more clearly why the economies of scale from its creation appear to have been reversed in the current determination;
- In particular, the extent that capital overspend is justified in being rolled over into the RAB, and the required revenue needs to be investigated;
- In regards to WAMC NSWIC does not see justification for the significant cost increases being paid for by customers, given that customers previously paid for these services which were not done.
- Cost sharing needs to exclude any urban utility standards or activities from overheads.
- IPART cost shares need to recognise that planning activities are not part of customers responsibility, but of Government
- More specific recommendations are supplied in Appendix C.

Appendix A: IPART Issues Paper Questions – Bulk Water Price Review.

1. *How well has Water NSW delivered its bulk water services since 2017?*
WaterNSW's has not been able to control operating expenditure in the determination period, and the reasons for this, even given the pressures of the drought are not clear.
2. *Was Water NSW's capital expenditure over the 2017 determination period efficient?*
Expenditure shows a pattern typical with regulated utilities, of being underspent in the early part of the determination period and overspent in the later period. Though typical, this may be less than efficient if it does not make good use of fixed staff and other resources through the period. More concerning is that the total spend is 43% more than allowed. NSWIC is not in a position to scrutinise whether this expenditure was efficient from the proposal information, but IPART's reviewers should investigate the business case justification for this work.
3. *Is Water NSW's proposed expenditure on maintenance efficient?*
A fundamental issue with assessing the efficiency of maintenance expenditure is having sufficient data to see longer term trends. The proposal only contains one year of justified data, whereas maintenance efficiency relies upon keeping long lived assets in use. To determine if this expenditure was efficient would require longer term condition and operating expenditure data.
4. *Do you have any comments on Water NSW's operating activities and associated operating costs?*
A concern for NSWIC is that WaterNSW has sufficient planning resources to undertake the peak demands of the Government funded drought projects. There is potential for the drought projects, even though separately funded, to severely disrupt normal operations because of their scale and demands on specialist expertise.
5. *Is the current structure of the RTP efficient and equitable?*
NSWIC has concerns that WaterNSW does not have access to efficient risk markets to purchase the RTP.
6. *How should Water NSW manage its revenue volatility risk?*
The type of revenue volatility risk that WaterNSW faces is usually addressed by using a different capital structure to the one that IPART sets as benchmark for utilities. For example, Graincorp, which operates large storage and logistics assets which are prone to patterns of being under and overutilised because of seasonal variation, at times extreme due to drought, maintains a high low debt to total assets ration of circa 25%, compared to IPART's benchmark of 60%. A capital structure with low debt to total assets allows for bridging revenue shortfalls across years by access to short to medium term finance.
7. *How should Water NSW most efficiently meet its requirements for fish passageways?*
Fish passageways have limited technological options because of the specific requirements for native Australian fish. However, WaterNSW should work with other environmental managers to ensure that fish productivity and abundance is enhanced by avoiding fish losses outside of the passage area.

This includes such options as environmental flow management for fish breeding and irrigation pump filters which avoid fish kill.

8. *What are your views about Water NSW's overall level of core capital expenditure over the 2021 determination period?*
NSWIC is not in a position to determine what the efficient level of spend is from the provided information, but we are supportive of justified capital expenditure.
9. *Should governments bear all the costs of increasing water security and availability for licence holders?*
Licence holders are supportive of increasing water security, and in principle support that increased service levels be paid for by customers. However, as WaterNSW states in their proposal, declining levels of reliability are being driven by climate change. From a licensee's point of view, the inability of the supplier to maintain the contracted service is something that Government, as the original party to the irrigation system investments, has an obligation to ensure that service levels are maintained, particularly given the social, rather than economic objectives of the investment.
10. *Who should pay for future expenditure on major drought-related projects, including asset renewals and upgrades?*
At this stage of the drought projects there are no business cases available to show the likely benefits and costs for irrigation projects from the current drought projects. In this situation, the only regulatory option is for Government to bear that cost. In future determinations, when business cases are available, there may be an opportunity to assess this properly. It should be always borne in mind that the original bulk water investments were not built for economic reasons but for social objectives such as decentralisation and population increase.
11. *Over what determination period should we set prices?*
Bulk water supply requires long term planning and long duration projects for its maintenance and expansion. Effective regulation of such work requires time for project progress and performance to be assessed and for incentives to be responded to. A one year determination does not meet any of these requirements, and so the determination period should be the same as current practice, that is, at least four years.
12. *Are there policy and industry reforms that make four-year forecasts of costs and usage difficult? Has COVID-19 hampered Water NSW's customer consultation?*
Industry reform by its nature, creates new utilities with setup costs and technology investments and new operating procedures which are difficult to assess *a priori*. However, this is a regulatory situation that IPART has faced many times in the past, and can be effectively managed. Covid-19 is a challenge for community consultation, but like other businesses, there are alternative consultation techniques which could have been used and which WaterNSW, given its geographical challenges, has had previously developed capability for, such as video conferencing.
13. *Do you agree with the cost share ratios set in our cost share review? If not, for which activities should we modify the cost share ratio? Please specify an*

updated cost share ratio and explain why it is appropriate.
See Appendix C: Cost Shares.

14. *We are required to set prices that recover Water NSW's efficient costs in the MDB valleys. If efficient costs are increasing, how should costs be recovered over the determination period?*

NSWIC is not convinced that the proposal provided proves that costs are increasing. There is not a clear rationale as to why the economies of scale and scope behind the creation of WaterNSW have been reversed in the current determination period. There are particular issues with why corporate overheads would be increasing, and why operating licence and customer requested service standards would be increasing.

If however, it is found that costs are increasing, there needs to be a clear connection between the rationale for those increases and the demand for customers for those services. If the increases are due to an attempt to maintain service standards in the face of climate challenge, the legacy issues of Government infrastructure built for social purposes needs to be taken into account. There is a legacy issue for Government to maintain service standards where this is not economic. Further business case development around the drought projects will assist.

15. *How should we set prices in coastal valleys?*

NSWIC supports IPART's approach of setting prices to be constant in real terms.

16. *What is the appropriate mix of fixed and usage charges?*

NSWIC supports, as in previous submission, in maintaining the current price structure.

Appendix B: IPART Issues Paper Questions – WAMC Review

1. *How well has WAMC performed its water management functions?*
The failures in water management functions in the past determination period have been well documented. NSWIC sees it as important that water users are not penalised for these failures.
2. *Do you agree with WAMC's proposed areas of focus for water management (and their associated costs)?*
The scope is appropriate, but the increase in costs is substantial. NSWIC understands that the new regulatory structure will involve establishment costs, but argue that these are costs that should be borne by Government, given their responsibility for the failed regulation which customers had funded already in good faith, believing that it would be governed appropriately. Customers should not be responsible for funding the setup of this regulation twice.
3. *How well has NRAR performed its water regulation functions?*
It is still too early to fully assess NRAR's regulation activities. It is of notice, but not necessarily of concern that NRAR has decided up investing in technologies to enable efficient surveillance and enforcement of regulation, where these technologies may have risks in implementation. For this reason too, it may take some time to assess NRAR's performance in planning, project delivery and operation of its regulatory responsibilities.
4. *Will NRAR's proposed activities and costs facilitate effective and efficient water regulation?*
The most critical aspect of NRAR's activities is providing integrity and confidence that water regulation is robust and fair. At the end of the day, the public confidence in this will ensure long term reliable access to water resources for NSWIC members. As such, it is important that NRAR is adequately resourced and has technology that is efficient for its enforcement tasks, given the remote locations where its inspection is required. That said, the cost increase in order to set it up is substantial and NSWIC argues that this needs to be underwritten by Government.
5. *How well have Water NSW and NRAR performed their licence processing functions?*
TBC
6. *Do you agree WAMC should focus on providing better services (eg, more information and consultation) to customers, supported by higher levels of expenditure?*
NSWIC agrees that WAMC should inform and consult with customers. However, it's not clear why this extra expenditure is required.
7. *Do you consider DPIE, NRAR and Water NSW consulted adequately with stakeholders on their pricing proposals?*
There has been little or no consultation with customers as part of the development of this proposal.
8. *How important is it to improve the incentives for DPIE to actively engage in negotiating MDBA and BRC contributions to ensure only efficient costs are passed onto WAMC customers?*
The complex institutional arrangements for MDBA and BRC makes the distance to the customer such that it is difficult for those acting on customers behalf to do so adequately.

9. *Was it efficient for Water NSW to apply capital expenditure from its water monitoring program to cover its shared capital costs?*
 It is important to remember that the rationale for WaterNSW taking on these activities was the efficiencies that could be gained by integrating it into WaterNSW's existing large scale activities. As such, it seems unlikely that WaterNSW had not contemplated the shared capital costs of taking on this activity. In particular, on an incremental basis, the share of costs would be very small, or else the transfer would not have been justified.
10. *Is WAMC's water monitoring program efficient?*
 Comment
11. *Given the increase in WAMC's capital costs, is the arrangement of Water NSW providing WAMC's capital program efficient?*
 An increase of a factor of ten does not fit in with the above assessment that in 2016 WaterNSW allowed for integrating water monitoring into its systems at a low incremental cost. We would encourage IPART as part of its efficiency review to examine closely what economies were on offer and why they were not taken up.
12. *Do you agree with the cost share ratios set in the cost share review? If not, for which activities should we modify the cost share ratio? Please specify an updated cost share ratio and explain why it is appropriate.*
 See Appendix C.
13. *Over what determination period (ie, how many years) should we set prices?*
 Water management, though not as capital intensive as bulk water supply, also requires long term planning and sustained operations to robust procedures. The determination period should be the same as current practice, that is, at least four years.
14. *If we set a shorter period for Water NSW rural bulk water prices, are there benefits in aligning WAMC's determination period with Water NSW rural bulk water? What are the costs and benefits of setting a one-year period for WAMC to potentially align with Water NSW rural bulk water? Alternatively, what are the costs and benefits of setting a longer period (eg, five years) and aligning these two determinations at the next review?*
 There are benefits to better aligning regulatory periods, but this could be done by lengthening, not shortening determination periods.
15. *What are your views on WAMC's proposed price structures?*
 Generally speaking, NSWIC prefers a higher volumetric portion than the typical status quo of 70:30 fixed: variable, although this does vary between valleys and customers based on the variability of water offtake. A more general principle is that charges should be aligned with revenue variability of customers.
16. *Is there merit in setting separate charges to recover MDBA and BRC costs?*
 Although separate charges would increase transparency, the more significant question would be as to whether this would lead to pressure for more efficient services. The complexity of the planning and funding process probably means that cost control will be no better, but the billing process will appear more complex.
17. *How should we transition prices to achieve full cost recovery? Or, what is a reasonable price path that would enable transition to full cost recovery? How would this affect customer affordability?*
 The reality is that except for Murrumbidgee Groundwater and the Peel,

WAMC has practically secured cost recovery for 2021. The issue is rather the large increases in WAMC costs for the upcoming determination. NSWIC argues above that these cost increases are a function of WaterNSW failing to implement the incremental savings approach to scale economies that it promised in the previous determination, the double recovery of expenditure to deliver compliance services and investment in regulatory rectification that is properly the responsibility of Government. If cost shares are set appropriately, cost recovery is achievable.

18. Do you agree with Water NSW's proposal to introduce a demand volatility adjustment mechanism for WAMC to address its revenue risk? Should we effectively allocate more risk to customers?

Risk should be allocated to the parties who can bear it at least cost. That is, risk sharing should be cost efficient. The WAMC Government entities have access to debt funding at all time record low interest rates, whereas farmers required to pay an impost with a high fixed charge component would need to fund this through their own equity or relatively high commercial interest charges. Neither are efficient.

Appendix C: Cost Share Ratios

As raised in the Issues Paper, cost-shares refers to the system for allocating costs between customers and Government for both Bulk Water and WAMC. (There is also an issue of cost-sharing WaterNSW's corporate overheads between urban and non-urban customers, addressed in the body of the report above). In this Appendix the former cost-sharing system is addressed.

IPART has proposed in its Issues Papers to:

- For Bulk Water: retain the existing impactor pays activity-based costs shares that are applied to rural bulk water pricing in NSW, as revised in 2019;
 - Separately to this, WaterNSW proposes that all government directed drought projects be fully recovered from Government (0% User Share).
- For WAMC, to also retain the same impactor pays system for each of the 33 WAMC activities, but to consider WAMC's proposal to treat three activities differently:
 - Water consents overhead: remove and allocate to Water consents direct cost;
 - Business governance and support: remove and allocate to all activities.
 - Corporate capital expenditure: WaterNSW proposes to apply a 94% weighted average customer share.

In the 2017 Rural Water Price Review WaterNSW proposed changing the cost shares to a service based model. After review, IPART did not support this change, and in these proposals, WaterNSW does not propose changing the cost-share system.

At a high level, the major issue with cost-shares for the two Determinations is the large increases in costs, compared to the previous Determinations which were for cost reductions (WaterNSW) or a much lower cost base (WAMC). WaterNSW responded to this issue in its proposal by proposing prices that do not recover costs. For WAMC, the increase in expenditure is such that most valleys move from a high level of cost recovery to a much lower level. There is a significant impasse here and IPART is seeking suggestions from customers. In particular, it is seeking suggestions for the treatment of fish passage, which are potentially a large user cost.

NSWIC sees that a number of these cost items need to be treated differently from the way proposed. The particular items that need addressing are:

- Water resource planning: this is a Government activity and under COAG principles should always be paid for by Government;
- Fishways: fish passage is regulated to be delivered whenever an asset is upgraded or refurbished. This has become a practical disincentive to the upgrading of weirs in particular, where many weirs have low economic value. There are current federal programs which can act to remove this obstacle to achieving fish passage, and these should be pursued.
- Overheads: the coding of overheads should be conditional on the overheads being shown to be efficient;

- Corporate capital expenditure: this WaterNSW item with a 94% customer share needs to be assessed against criteria showing why the expenditure is not shared with other activities.