



Mr John Madden  
WaterNSW Rural Bulk Water Price Review  
Independent Pricing and Regulatory Tribunal  
PO Box K35  
Haymarket Post Shop, NSW 1240

Dear Mr Madden

### **IPART Review of Prices for WaterNSW Rural Bulk Water Services from 1 July 2017**

The Commonwealth Environmental Water Office (CEWO) makes the following submission in response to the *Independent Pricing and Regulatory Tribunal (IPART) Issues Paper for the Review of Prices for WaterNSW Rural Bulk Water Services from 1 July 2017*.

The Commonwealth is a major client of WaterNSW. As at 31 August 2016, the Commonwealth environmental water holdings included 985 gigalitres (GL) of regulated entitlements and 432 GL of supplementary entitlements managed through WaterNSW. In 2015-16, the Commonwealth paid WaterNSW \$5.052 million for entitlement and usage charges either directly or through water corporations and environmental water delivery partners. Last year the Commonwealth paid a further \$2.054 million to WaterNSW as pass-through costs to the Department of Primary Industries (DPI) Water for the regulated planning services and management services provided by DPI Water. Consistent with the *National Water Initiative Pricing Principles*, the Commonwealth is committed to the promotion of tariff structures which send clear signals on the real cost of services provided by water authorities to their customers. Prices should be set by water authorities to promote the economically efficient and sustainable use of water resources; water infrastructure assets; and other government resources devoted to the management of water.

The Commonwealth's environmental water holdings are managed by the Commonwealth Environmental Water Holder (the CEWH). The CEWH is a statutory position established under the *Water Act 2007* (the Water Act) to manage the holdings to protect and restore environmental assets in the Murray-Darling Basin, in accordance with the *Basin Plan 2012* (the Basin Plan), the Environmental Watering Plan and the Basin-wide environmental watering strategy.

The Commonwealth's environmental water holdings are actively managed by delivering water to environmental assets, carrying water over for use in future water years, or through trade (sale or purchase). As at 31 August 2016, the average annual yield of the Commonwealth's regulated and supplementary entitlements in NSW was 820 GL. These holdings are anticipated to grow until at least 2019 and possibly until 2024.



Commonwealth environmental water has contributed towards achieving a range of environmental objectives in NSW, including:

- providing river flows that support good water quality for the environment and water users,
- connecting rivers to floodplains to maintain food chains and support fish movement,
- filling wetlands that support native fish, birds and other native animals, and
- supporting the recovery of the environment following recent droughts, and building resilience in preparation for future droughts.

The CEWO maintains a positive and productive working relationship with WaterNSW, with the aim of maintaining healthy river systems and protecting and restoring environmental assets across the Basin catchments of NSW. This submission provides input to a number of questions posed by IPART in its issues paper published for comment in September 2016. We have discussed the matters with WaterNSW and they understand the nature of our views on the issues.

### Regulatory Framework and Services

#### 3 *What further information should be provided to stakeholders in relation to Murray-Darling Basin Authority and Border Rivers Commission contributions?*

Table 4.1 of the discussion paper, the *WaterNSW proposed notional revenue requirement (\$2016-17)* shows that the MDBA and BRC costs will increase from \$14.638 million in 2016-17 to \$19.383 million in 2017-18 (an increase of 32 per cent). This increase is followed by a reduction to \$15.204 million in 2018-19 (a reduction of 27%), after which the proposed user contribution remains reasonably stable in 2019-20 and 2020-21 at \$14.714 million and \$14.780 million respectively.

It is unclear why there is a significant increase in the proposed share of user contributions for the MDBA pass through costs in 2017-18, or why entitlement holders in that year are required to pay for a significantly higher proportion of those contributions than in future years.

Additionally, the CEWO seeks an explanation on the variation between the proposed MDBA and BRC notional revenue requirements provided in Table 4.1 and the estimated BRC and MDBA users share of costs provided in Table 8.2 *Estimated BRC and MDBA costs (\$'000, \$2016-17)*.

### Notional Revenue Requirement

#### 18 *Under current price structures, what measures should be used to manage risk (positive and negative) to WaterNSW?*

#### 21 *What implications, if any, should WaterNSW's proposed Risk Transfer Product (RTP) have for the Unders and Overs Mechanism and the annual adjustment to prices (and vice-versa)?*

#### 22 *Should water users pay for WaterNSW's purchase of a risk transfer product?*

The CEWO recognises that a significant proportion of WaterNSW's operating costs are of a fixed nature. If as proposed, WaterNSW maintain a two part tariff, The CEWO

would consider it reasonable for WaterNSW to consider any reasonable options to mitigate the risk of revenue volatility under the existing 40:60 tariff structure, and the resulting costs that are ultimately passed onto its customers.

If WaterNSW purchase a Risk Transfer Product to secure an 80 per cent fixed revenue stream as proposed, annual adjustments to prices should reflect an updated sales forecast and account for WaterNSW recouping a maximum of 20 per cent of the annual user share notional revenue requirement using the Unders and Overs Mechanism. This may provide a greater degree of certainty for customers regarding the potential rate of annual price increases.

WaterNSW have also proposed that general security customers may choose to remain on a 40:60 tariff structure and pay a risk transfer insurance premium, or move to an 80:20 fee structure to avoid payment of the additional cost. It is reasonable that the cost benefit of implementing a higher fixed tariff structure is adequately passed onto customers. The CEWO request that IPART investigate why the Unders and Overs mechanism isn't adequately providing WaterNSW with an appropriate level of security in managing its revenue stream, particularly in valleys where there is significant variation in water availability and use, as well as the suitability of passing third party risk management costs onto customers through the purchase of such an insurance product.

- 23 *Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of a risk transfer product (or a similar means of managing risk to WaterNSW of revenue volatility)?*

The CEWO recommends that WaterNSW continue to consult with its customers regarding changes to its pricing structures and options to move to different tariff model(s) within each of the valleys. The CEWO seeks clarification on the decision making process to make changes to the existing fee structure in each valley, and the potential price pathway from the existing Basin-wide fee structure to valley based fee structures.

Should WaterNSW have a longer term objective of providing options for customers to enter into individual pricing arrangements within and across valleys, the market impacts of having different entitlement holders within the same market operating on different tariff structures for the same tradeable products (i.e. entitlements and allocations) must be considered. Of particular concern is the market price impacts on the trade of water allocation between users who maintain differing variable use charges.

#### Pass-through charges

- 25 *How should BRC and MDBA costs be recovered from water users (i.e., how should charges be structured to recover these costs)?*

As the BRC and MDBA costs incurred by WaterNSW are of a fixed nature, the CEWO supports the proposal by WaterNSW to levy the BRC and MDBA pass-through charges on a 100 per cent fixed basis from 2017-18.

- 26 *Is WaterNSW's proposed adjustment to the high security premium reasonable?*

It is unclear how the reduction in the high security premium, as detailed in Table 8.3: *WaterNSW proposed BRC and MDBA HS premium*, is reflected in the WaterNSW proposed combined final prices, or how the reduction has been determined. The High

Security premium provided in Table 8.3 of the IPART Issues Paper does not appear to reconcile with the calculations provided by WaterNSW in Table 7 of their Pricing Proposal "*Calculation of High Security Premium*". The CEWO requests that this discrepancy be clarified and recommends that the basis of the High Security premium be further explained by WaterNSW, including the application of the "WSP ratio" used in their calculations.

The recovery of the user revenue foregone through the reduction in the High Security premium across the Murray, Murrumbidgee and Border Rivers catchments should also be explained. On the basis that the total user revenue share to be recovered in each of these valleys remains, there is an assumption that the savings provided to High Security entitlement holders will be borne by General Security entitlement holders. Until further information has been provided on this matter, the CEWO is unable to comment on whether the proposed adjustment is reasonable.

### Form of regulation and price structures

#### *32 Is WaterNSW's proposed 40:60 fixed to usage charge split appropriate?*

The CEWO considers that maintaining the current tariff split is appropriate while it is supported by the WaterNSW customers. As outlined in our response to *Question 23*, the CEWO recommends that WaterNSW continue to consult with its customers regarding options and potential changes to its pricing structures.

### Proposed prices

#### *42 Are WaterNSW's proposed MDBA and BRC pass through charges reasonable?*

The pricing proposal submitted by WaterNSW provides a broad description of the relevant activities undertaken by the MDBA and BRC. However, it is difficult to determine whether the pass through charges are reasonable, as the neither the proposal from WaterNSW or the IPART Issues Paper presents an analysis of the basis of the total costs incurred by the MDBA and BRC.

As discussed in question 3, the CEWO notes that there is a significant increase in the proposed MDBA and BRC costs in 2017-18; up from \$14.638 million in 2016-17 to \$19.383 million in 2017-18 (an increase of 32 per cent). The increase is primarily driven by a significant rise in the MDBA pass through charge. The proposed increase in 2017-18 is followed by a reduction to \$15.204 million in 2018-19 (a decrease of 27 per cent). The CEWO has sought an explanation as to the basis for the significant increase in 2017-18.

### Other charges

#### *50 Is WaterNSW's proposed environmental gauging station charge reasonable?*

The Commonwealth is committed to the promotion of cost recovery principles in the application of tariffs, and the principle that those costs should reflect the services provided to the customer. As with all other entitlement holders, the fees and charges payable by the Commonwealth contributes to funding the entire network of hydrometric gauging stations managed by WaterNSW, including those not directly used to account for the delivery of Commonwealth environmental water.

The 21 'environmental' gauging stations as referred to in section 13.2.2 of the issues paper were not constructed to provide additional services for environmental use. They are existing gauging stations operated by WaterNSW to run the regulated river system for all customers.

The use of existing gauging stations by environmental water holders to measure the delivery of environmental water to environmental assets across the Murray-Darling Basin is an efficient use of existing infrastructure. Were environmental water delivery to cease, there is no evidence to suggest that WaterNSW would no longer require these gauging stations to meet their obligations to monitor instream flows for all customers and to support their broader statutory reporting requirements, including their obligations under the Murray-Darling Basin Plan. The CEWO does not seek to utilise these stations for anything other than their intended purpose and as such does not support the implementation of an Environmental gauging station charge.

The pricing proposal from WaterNSW potentially discriminates against a particular category of user of this infrastructure, by shifting the cost of operating and maintaining these stations onto environmental water holders. In their pricing proposal, WaterNSW gives no indication that any other category of entitlement holder has been targeted to incur new costs associated with the operation and maintenance of existing infrastructure used to manage the regulated river system.

Further, the basis for a 212 per cent increase in the proposed charge, from \$8,789.45 per station per annum in 2016-17 to \$18,658.00 per station per annum in 2017-18, is unclear. The CEWO questions why the proposed charge on environmental water holders to operate and maintain existing infrastructure is significantly higher than the proposed maximum annual meter servicing charges applied to other customers in Table 13.1: *WaterNSW's proposed annual meter service charges (telemetry and non-telemetry) (\$2016-17)*.

If clarification or further information is needed with respect to this submission, please contact me on [REDACTED]

Yours sincerely

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Mr Mark Taylor  
Assistant Secretary  
Wetlands, Policy and Northern Water Use Branch  
Commonwealth Environmental Water Office

19 October 2016