



10 April 2017

Dr Peter Boxall, AO
Chair
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
Haymarket Post Shop, NSW 1240

Lodged online

Re: Submission by Gwydir Valley Irrigators Association Inc on the *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021* for WaterNSW.

Dear Dr Boxall

We thank the Independent Pricing and Regulatory Tribunal (IPART) NSW for the opportunity to provide feedback on the *Review of prices for rural bulk water services from 1 July 2017 – 30 June 20121* for WaterNSW.

We provide this letter on behalf of our members as a formal submission for consideration by IPART NSW. This document represents the concerns and views of GVIA's members. However, each member reserves the right to express their own opinion and is entitled to make their own submission. The GVIA and its members are members of the NSW Irrigators Council and we endorse their submission.

The GVIA do not support the draft determination of prices by IPART NSW, as they draft prices endorse WaterNSW's position of embellishing their business risk at the expense of water users. We do however, support the maintenance of the current 40:60 fixed to variable price structure and price cap approach but will reserve the right to examine this again in future determinations, due to the disproportionate penalty being placed on general security customers which is engrained into IPART NSW's draft determination. We believe that the draft decision appears to unfairly target general security customers, resulting in disproportionate impacts between entitlement holders.

We therefore, do not support the following decisions by IPART NSW:

- Discontinuation of the under and overs mechanism (UOM);

- Inclusion of a payback mechanism for the UOM and the targeting of general security only customers to leverage this payback;
- Inclusion of a volatility allowance; and
- Adoption of 20-year rolling averages for forecasts.

However, we do support the updated calculations for the high security premium and acknowledge that it is playing some role in the impact to customers. But we will caution IPART NSW on the use of allocations, as opposed to usage for high security customers in our valley to be explained later.

We believe our charges should be more in the order as outlined within Table 1, which removes the additional financial requirements for the above-mentioned components. This would see general security customers also have a reduction in prices of 8.6% or 6.6%, depending on the comparison to current prices at the start of the next determination period or the end respectively.

Table 1: Suggested prices for the Gwydir Valley

	Current	2017-18	2020-21	% change current to 2017-18	% change current to 2020-21
High Security Fixed	14.13	10.25	10.25	-27.5%	-27.5%
General Security Fixed	3.47	3.17	3.24	-8.6%	-6.6%
Usage	12.13	11	11	-9.3%	-9.3%

The decision by IPART NSW to discontinue the UOM is at odds with the views of industry, whom were 'convinced' by the arguments of the previous regulator that this mechanism provided the 'best long term' opportunity to stabilise prices and provide security for all. We recommend IPART NSW consult further around this analysis prior to making their final decision.

One of the significant benefits to users with the UOM, is that it allowed revenue that was over-recovered to be captured in high water availability years to offset lower revenue years. Such an opportunity had not been available to users in the past and one that current proposal by IPART NSW, does not allow. The previous regulator recognised that there were many years where revenue captured by WaterNSW was over and above their regulated requirements and indeed, often above their actual expenditure and therefore, the UOM allowed users to eventually be recompensed for that behaviour rather than disadvantaged.

As WaterNSW continues to reform and improve efficiencies, the allowed revenue must not be considered a guaranteed amount but rather a maximum benchmark. Therefore,

when WaterNSW's expenses are well below that benchmark or where additional revenue is recovered, prices must be adjusted accordingly allowing users to benefit from their earlier contributions. IPART NSW has made no attempt to consider how the UOM as compared to a fixed volatility allowance, provides an opportunity to adjust prices dependant on actual as well as targeted, revenue and expenses.

This is highlighted by an assessment of actual expenditure¹ versus owed revenue in the UOM balance², which we calculate there to be \$6.8M³ that is not actually required by WaterNSW over and above the current under and overs balance. This is in addition to \$29.79M for MDB valleys of capital expenditure⁴ also not delivered yet it is assumed that revenue has been collected to be utilised later.

As most the savings will exist at the end of this determination period, we do not consider it appropriate that users will be required to pay-back this surplus revenue which is largely redundant to their on-going business activity.

Furthermore, we do not support general security customers being unfairly penalised for low water availability. Noting that while high security allocations were 100% during the determination, actual usage was of 50% of allocation⁵ which is not reflected in the current calculations for the pay-back mechanism.

We therefore, recommend:

- 1. IPART NSW remove the requirement to payback the UOM balance during the current determination period.**
- 2. IPART NSW continue to UOM and allow current balances to be repaid over the long-term from all water users as reflected in usage charges.**

WaterNSW continued desired for maximum business security will be to the detriment of the long-term sustainability of the industry that it services. IPART NSW appears to be encouraging this dialogue via the inclusion of a volatility allowance. The volatility allowance is conserved a poor solution to an embellished problem, as it will provide a fixed return to WaterNSW regardless of the actual volatility encountered throughout the determination period, artificially increasing prices at the expense of industry.

¹ Actual operating expenditure was \$21.7M less than allowed as per Table 5.3 on Page 47 of IPART NSW *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021*. This is also predominately user share component as per Table 5.4.

² Current UOM balance as per Table 8.3 on page 82 of IPART NSW *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021*.

³ The current UOM balance of \$14.9M was deducted from the savings on actual operating expenditure of \$21.7M.

⁴ Actual capital expenditure for MDB valleys was \$29.79 less as per Table 6.1 on page 52 of IPART NSW *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021*.

⁵ High security usage for 2016-17 = 8,337.7ML out of 20,199ML, 2015-16 = 11,244ML out of 20,199ML, 2014-15 = 7,230 ML out of 20,199ML as per <http://www.water.nsw.gov.au/water-licensing/registers>

We reject the need to include a volatility allowance or risk transfer product (as proposed by WaterNSW) with a preference to maintain the UOM. We also believe that with the large proportion of the business costs either recovered from government or via fixed charges, the level of revue risk to WaterNSW is must less than we are lead to believe.

We therefore, recommend:

3. Remove the requirement for a volatility allowance.

The current 20-year rolling average used for forecasting usage in the valley has inherent time lag following actual water availability and is a short-term solution, when compared to the IQQM outputs that are calculated on more than 100-years of data over various climate scenarios. We reject IPART NSW's analysis against IQQM⁶ which while it is a policy testing tool, it is also used for compliance reporting for Plan Limit and managing extractions within the Murray Darling Basin Ministerial Cap and is the only robustly constructed and tested model to provide long-term usage estimates. No model or 'average' calculation would have been able to predict the impact of the millennium drought on water availability but at least the IQQM data provides long-term cycles of droughts and floods and various levels of water availability in-between that the 20-year snap-shot will never replicate.

We therefore, recommend:

4. IPART NSW adopt the IQQM for usage forecast in the Gwydir Valley.

We are also concerned with the discussion around user shares held during the public hearing as well as evidenced within the draft determination, where we believe further work must be undertaken to broaden the user base so that WaterNSW can meet changing community expectations as well as increased requirements for operational decisions due to changed behaviours with the increased demands for managing environmental water. Neither requirement meets the current 'impactor pays' principle where consideration should not also be given to 'beneficiary pays'.

Finally, we are increasingly becoming concerned with the long-term pricing impact of the current building block approach, where the regulatory asset base (RAB) provides an increasingly large proportion of input costs for prices. This current determination will see the RAB be least 69.8% of the total revenue requirement following a growth of 33%⁷ over the last two determinations alone, this will continue to grow with a proposed return of \$64.3M and return on \$116.8M to be added to this building block

⁶ IPART NSW *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021*- page 102.

⁷ NSWIC submission on WaterNSW Regulated Charge Review 1 July 2017 to 30 June 2021 – Draft Determination, Chapter 5.

throughout the next determination period⁸. The long-term sustainability of this model is questionable, as WaterNSW will reach a threshold where operational expenses cannot be further reduced, resulting in prices that are largely influenced by the RAB will be on an ever-increasing trajectory that may be out of sync with customer's business', threatening everyone's viability. The undesirable outcome will be that RAB requirements will make using water in some regions commercially unviable and that assets will decline, as water users reject capital expenditure due to price impacts. IPART NSW must examine this impact of the current RAB calculations on customer's ability to continue to pay for these assets.

We thank IPART NSW for the opportunity to provide a written submission in addition to our evidence provided at the public hearing in Sydney on 4th April.

We have summarised four key recommendations as part of this submission process for IPART NSW to consider as part of their final determination on prices.

Please do not hesitate to contact me for further information.

Kind Regards

A black rectangular redaction box covering the signature of Zara Lowien.

Zara Lowien
Executive Officer
Gwydir Valley Irrigators Association

⁸ IPART NSW *Review of prices for rural bulk water services from 1 July 2017 – 30 June 2021* - page 40.