



## Review of WaterNSW Rural Bulk Water Prices from 1 July 2021

and

## Review of Water Management (WAMC) Prices from 1 July 2021

### Introduction:

The Gwydir Valley Irrigators Association (GVIA) welcomes this opportunity to provide a submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) on the above-mentioned pricing reviews.

It is always an important opportunity for our organisation to provide input on behalf of our members, into the efficacy and effectiveness of WaterNSW our government-owned bulk water delivery operator and the Departments charged with administrative water in NSW.

Much has changed since the last pricing review. Water availability around the state has been at its lowest on record, with the Gwydir Valley only just managing inflows above our drought of record. The resulting low water availability put pressure on all water users but particularly several town water supplies, around the state. The management framework for water administration and many of the rules within it have also been significantly reformed. While many changes have been welcomed to improve community confidence in water management, the benefits are in many circumstances (metering reforms for example) are still yet to be realised as delays continue.

Drought together with an ambitious reform program, combined with delays on other regulatory commitments such as the water resource planning process has put water users, communities and indeed the Departments and staff, under significant pressure with everyone fatigued. The frustrations are evident, and the performance in terms of communication and engagement, as well as clarity in decision making by the agencies involved continues to be questioned by stakeholders.

These concerns are relevant upon review of the proposals for increased costs to water users. On one hand, they could be viewed as support for more resources. Alternatively, given past-performance and historical under-spending and delayed outcomes in areas such as planning and monitoring and compliance, all of which have cost the industry financially and reputationally, it's questionable whether just increasing financial resources will address the underlying issues of accountability, strategic planning, communication and engagement. At some stage an objective assessment of performance as a means to establish prudence and efficiency of costs should be undertaken.

We welcome the opportunity to provide this feedback and provide formal support of the submission provided by NSW Irrigators Council of which we contributed to. Individual members reserve the right to present their own advice on their circumstances.

Due to the time and resource constraints of the organisation and the detail contained within the NSWIC submission, we have limited this submission to a number of key areas for our members.

#### About us:

The Gwydir Valley Irrigators Association (GVIA) represents more than 450 water entitlement holders in the Gwydir Valley, centred around the town of Moree in North-West New South Wales. GVIA members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources. All of which are managed through water sharing plans, which have been progressively developed since early 2000. Our mission is to build a secure future for its members, the environment and the Gwydir Valley community through irrigated agriculture we can do this together by making every drop count in the river or the aquifer, on-farm, for the environment, or for our community<sup>1</sup>.

The GVIA organisation is voluntary, funded by a nominal levy, cents/megalitre on regulated, unregulated and groundwater irrigation entitlement. In 2018-2019 the levy was paid and supported by more than 91% of the eligible entitlement (excludes entitlement held by the NSW and Commonwealth governments).

Much of the activity of the association revolves around negotiating with government at a Federal, State and Local level to ensure the rights of irrigators are maintained and respected. While the core activities of the Association are funded entirely through the voluntary levy, the Association does also undertake programs to maintain and improve the sustainability of members on-farm activities and from time to time, undertakes special projects, which can be funded by government or research corporations.

The Association is managed by a committee of a minimum 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Project Officer funded through the Cotton Research and Development Corporation, the Gwydir Valley Cotton Growers Association and the GVIA.

The GVIA and its members, are members of both the National Irrigators Council and the NSW Irrigators Council. We support the submission and recommendations presented by NSW Irrigators Council as part of this review process.

The Moree Plains Shire region alone is highly dependent on agriculture and irrigated agriculture for economic activity contributing over 72% of the value of gross domestic product (cotton is around 60%), employing 20-30% of the population and accounting for almost 90% of exports from the Shire<sup>2</sup>.

The 2011 agricultural census estimates that the total value of agricultural commodities for the Moree Plains Shire region was \$911,951,079 up from \$527,744,851 in the 2005-06

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<sup>1</sup> For more information, see our corporate video on <https://vimeo.com/177148006>

<sup>2</sup> Cotton Catchment Communities CRC Communities and People Series 2009

census. This is an estimated 7.83% of NSW's total agricultural production from a 1,040,021Ha principally used for agricultural crops<sup>3</sup>.

The Gwydir is characterised as having low water reliability with most water held as general security water with a reliability of 36% (that means irrigators could expect in the long-term just over a third of their entitlement can be accessed). Supplementary water entitlement is somewhat more reliable with 55% but accounts for less than a quarter of the total volume. Groundwater reliability is considered 100% but there is less than 30,000ML available.

#### General Comments:

##### Performance and efficiencies:

We support the analysis of NSWIC submission that the efficiency gains of the previous corporate reforms of NSW water agencies is not being realised for customers.

We are concerned that the performance and services are diminishing despite the ongoing price increases across most agencies. For example:

- All contact with WaterNSW is now centralised and often a lack of local contact with little historical understanding is frustrating customers upon enquiries.
- There are considerable delays in processing times for water trading particularly in groundwater, again the process being centralised so in times of state-wide low water availability there is considerable state-wide trading demand.
- Within the agencies, the removal of local and regional staff in many instances, means policy decisions are lacking local context. Collaboration is difficult to achieve without strong local networks.
- Customers view the increase in satellite technology, the requirements for telemetry (as opposed to secure data logging) as prelude to continued reduction of boots on the ground for key activities like meter reading, proactive compliance and auditing.
- There is duplication between agencies for example, WaterNSW and DPIEW provide separate valley wide water accounting information. While the principle of clearly illustrating water use is supported, the risk of diminishing data integrity is high if the sites are not integrated. This is highlighted by recent confusion over Barwon Darling water use whereby the two sites had different water usage figures.

Furthermore, concerns with agency performance and administration is well documented, government's response required substantial reform to rebuild trust in water management. Many of these reforms were proposed with little consideration of the cost implications to individual water users who largely bear the costs of achieving them. The reforms often did not consider the Department's capability to continue to plan and implement them along with existing commitments or what that would mean to the future resourcing requirements of the agency once completed.

The metering reforms are an example of these, whereby users are required to have even existing meters validated at their own expense, if not their sites redeveloped to meet a limited number of government approved meters. Some clear decisions were made by government but then the Department delayed the technical information to allow this to be implemented such as the delayed development in the Data Acquisition Service and the restricted availability of compatible and approved devices, leaving many water users unable

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<sup>3</sup> 2010 2011 Agricultural Census Report – agdata cubes, 71210D0005-201011 Agricultural Commodities, Australia

to meet the requirements through no fault of their own. The Department has also continued to amend the rules almost on the run, with another range of consultation on further amendments just finalised. With all these changes, the initial set-up costs for the required portals and Data Acquisition Service now past, there does not appear to be a concurrent reduction in either metering costs or compliance costs to reflect the telemetry ready metering sites across the state with 1200 sites this December and another 2,500 next year<sup>4</sup>.

The pricing proposals by both WaterNSW and the agencies appears to highlight the impact of some of these decisions, especially set up costs for NRAR (which were originally a government commitment). However, these costs continue to increase, despite the efficiencies and improvements in technology as part of the reforms should also start to be realised.

Costs also are being allocated without any consideration to the fact these reforms were on behalf of the whole community and any benefits will be shared within the broader community and not just the irrigation sector. We'd suggest the costs to implement these from an agency perspective could also be paid for by the broader community i.e. as part of a government community service obligation.

#### Principles of Cost-sharing:

Water users wear the risk of government poor performance in water management and administration in NSW. At every failure of government, it is water users that either have to step-up to new challenges such as metering rule changes at significant cost or step-up to pay for more and more resources to fix the failing systems such as compliance activities, with the increases in costs requested as part of the proposal.

In many instances the benefits of such reforms are never assessed against the costs and with the beneficiaries being, in most cases, industry and the broader community.

We support NSWIC position that the impactor pays principle, is inconsistent with contemporary water management principles. This principle is based on an overly simplified counterfactual of pre-development conditions, that would inevitably lead to assigning costs to water users. The reality is water management activities are necessarily required for community benefit (with or without irrigation) and particularly whereby there is increasing community pressure for higher levels of management of our water resources and health of river systems

We, therefore, fully support a continued discussion around the beneficiaries pays system and a broadening of government's community obligations to certain activities.

#### Pricing Impact:

Analysis of the proposed prices at a valley scale can often be presented in a way to conceal the true impact of the pricing proposal. A comparison of prices from the current to the first year of the new pricing determination masks, the overall impact of the proposals.

For example, for WaterNSW the impact for High Security Customers is 61.1% under a full determination at full cost recovery, rather than the 49.8% presented (in table 4.1 of the issues paper) which is a doubling of the current prices. General Security charges increase by 18.9% rather than 10.7% (Table 4.1). Usage charges increase by 36% rather than 27.2% (Table 4.2).

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<sup>4</sup> NSW non-urban water metering framework – industry guide – works requiring a meter fact sheet. November 2018.

We recommend careful consideration of how pricing impacts are presented to ensure the true impact of the proposals are assessed over the short to medium term, not just through an end of determination to start of determination analysis.

Increases of this nature with little explanation coupled with the general removal of local services in favour of centralisation and online activities, is a significant concern for our members.

### Responses to Issues Raised:

#### Water NSW Proposal Feedback Questions:

Please note not all questions have been answered.

#### 1. How well has Water NSW delivered its bulk water services since 2017?

WaterNSW has had difficult circumstances to deliver limited water availability since the beginning of the last determination period and generally engaged well with customers around coordinating any bulk deliveries.

We did raise concerns with the prioritisation of deliveries when in critical drought measures and believe both WaterNSW and DPIEW could have undertaken a better customer focus and communication program during these times. These concerns were raised by a range of stakeholders and are well documented in the Independent Assessment of the First Flush<sup>5</sup>.

#### 2. Was Water NSW 's capital expenditure over the 2017 determination period efficient?

We are not able to assess efficiency of costs in this regard.

Further interrogation of capital expenditure should occur given the change to "non-project based" capital costing arrangement in the last determination period. We do acknowledge that the drought provide both the opportunity and in some cases the impetus to undertake capital works.

#### 3. Is Water NSW 's proposed expenditure on maintenance efficient?

We are not in a position to assess efficiency of costs in this regard. As with capital expenditure, we acknowledge that the drought provides the opportunity to undertake such work.

#### 4. Do you have any comments on Water NSW's operating activities and associated operating costs?

Reporting to local customer groups, indicated at a valley scale operating expenditure has been lower than budgeted for as part of the last determination. There were overspends in some categories but overall, there was \$\$\$.3M as of March 2020 quarter still available to be allocated<sup>6</sup>. This is interesting given the argument by WaterNSW that they are largely a fix cost business, yet during the drought there is evidence of lower than anticipated operational expenses.

#### 5. Is the current structure of the RTP efficient and equitable?

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<sup>5</sup> <https://www.industry.nsw.gov.au/water/allocations-availability/northern-basin-first-flush-assessment>

<sup>6</sup> Gwydir Customer Advisory Group Business Papers July 2020.

We continue to hold concerns with the adoption of a Risk Transfer Product to offset WaterNSW income from usage charges. The relative risk is over-stated and it is evident during the drought, the cost of this approach increases and will then be passed onto users.

The additional cost of this product during the drought at a valley scale was nearly \$1M when the overall budget to actual for the valley showed a surplus available to spend.

6. How should Water NSW manage its revenue volatility risk?

Further interrogation of the revenue volatility risk should occur. It's our understanding that this risk is often over-stated, that while there maybe annual variations there are opportunities for overs and unders to occur and water users are yet to see the benefits of any "overs" only the cost impacts of "unders".

A combination of a reconsideration of the impactor pays principles may seek to share the volatility better, with a greater proportion allocated to government.

Furthermore, objective analytical data on a range of fixed to variable sharing arrangements would help to better inform discussions around price setting and revenue risk.

7. How should Water NSW most efficiently meet its requirements for fish passageways?

WaterNSW have continued to delay, review, strategically redesign and delay again, the finalisation of fish passageways.

Balance must be achieved between providing passageways that allow for icon or critical species movement against further delays in seeking the perfect design for all species. Given the increase in raw materials alone over the delays in this program, further delays add to the costs and may limit the number of fish passage-ways that can be built.

We support NSWIC submission in revisiting the cost sharing arrangement for Dam Safety Upgrade offsets as well as new fish passage-ways.

9. Should governments bear all the costs of increasing water security and availability for licence holders?

Improving water security and availability has benefits beyond the water users. This must be considered under any proposal and shared accordingly.

For major projects, government should also have a large stake in the costs to ensure the appropriate drivers and solutions are recovered. If water users were to be fully responsible for the costs, then they should be able to develop, design and implement and own their own projects. As that is not the case, then other beneficiaries and government the ultimate decision maker and owner of the infrastructure should share in the costs.

10. Who should pay for future expenditure on major drought-related projects, including asset renewals and upgrades?

As with above.

11. Over what determination period should we set prices?

We support the current determination period of at least four years, to provide certainty in pricing.

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?

Unique project requirements can always be considered when they are required. A process for such contingencies could be considered however, even with the reforms during the past determination period because of their immediate need, government committed to them with a separate budget provision outside of the determination period which was supported given the wider community benefits.

COVID has impacted how everyone engages and WaterNSW is no different.

13. Do you agree with the cost share ratios set in our cost share review?

We would support further discussion around consideration to the beneficiary pays model for setting 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?

Any cost increases should be gradually stepped in to ensure there are no sudden price shocks.

We support the NSWIC submission that questions the basis for these increasing costs.

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

We have always supported the exiting fixed to usage charges in the Gwydir Valley as a balance between the risk and benefits of owning water entitlements in a low reliability valley. However, we do support the development of objective analysis of a range of fixed to usage charges to better inform a discussion within the industry.

WAMC Proposal Feedback Questions:

Please note not all questions have been answered.

1. How well has WAMC performed its water management functions?

There is a myriad of reviews, inquiries, assessments and reports on water administration and management in NSW since the last determination period. In many cases, government has responded swiftly to these criticisms but this has also resulted in challenges for implementation due to the ambitious and rushed nature of the reforms. Many of the reforms are overly ambitious, are made based on a simplified message and the technical detail back filled, making them often impractical to implement with the water user wearing the risk of these failures. These rushed reforms have often had the opposite impact to the desired outcome to improve the communities confidence in water management as errors occur, multiple amendments or drafts are needed to achieve agreement and delays in reform implementation occur as a response.

A more strategic review of regulatory gaps and priority must occur in consultation with communities. The proposed regional water strategies maybe a way forward in this regard but these are still slowly being delivered across the regions.

2. Do you agree with WAMC's proposed areas of focus for water management (and their associated costs)?

As suggested above and more strategic review of regulatory gaps and priority must occur in consultation with communities. Given the public interest in floodplain planning and drainage,

this would assume to be a good priority. Improved drought preparedness, contingency plans for at risk water users and towns, should also be considered.

Further engagement on regional water strategies and integration of these strategies with other regional planning is important.

Review and development of trading framework for unregulated systems should be considered, there has been little focus on this as part of the recent water resource planning process.

### 3. How well has NRAR performed its water regulation functions?

NRAR has continued to build its acceptance and reputation within the community for being a fair but firm regulator. We would agree in the issue paper that “Consultation conducted by DPIE and NRAR indicated stakeholders support this more robust compliance and enforcement regime. They wanted clear and transparent enforcement of the water management framework. Further, they considered it was important to adequately resource the compliance and enforcement regime, particularly relating to the number of compliance officers.”

As we raised earlier the benefits of these reforms are shared within the broader community and came about, partly due to government inaction. Therefore, we consider it prudent that there is a sharing these costs for the communities desired

### 4. Will NRAR’s proposed activities and costs facilitate effective and efficient water regulation?

As NRAR matures and evolves, their priorities and proposed activities will change. There will also need to be a balance between education, proactive and reactive compliance and NRAR need to seek that balance and resource that accordingly. We argue that while NRAR is the industries insurance policy to continue to operate, there is also a community benefit from having an independent and objective regulator which should be considered when sharing costs.

### 5. How well have Water NSW and NRAR performed their licence processing functions?

NRAR and WaterNSW have been addressing a range of legacy issues in licencing, coupled with critical drought requirements and applications for basic landholder rights and stock and domestic licences. Further information on the projections for these demands should be provided and strategically addressed, rather than a significant increase in resources.

### 6. Do you agree WAMC should focus on providing better services (eg, more information and consultation) to customers, supported by higher levels of expenditure?

We do agree that there should be a focus on providing better services but question the justification that better services come at more cost. There are efficiencies and improvements that can be made through improved planning and management that the agencies should consider, rather than a more people and more cost scenario. We would also note that the demand for more services and consultation is often not only from within the water licence stakeholders or the users, hence consideration of the sharing arrangement for broader consultation with other beneficiaries should occur.

### 7. Do you consider DPIE, NRAR and Water NSW consulted adequately with stakeholders on their pricing proposals?



No.

9. Was it efficient for Water NSW to apply capital expenditure from its water monitoring program to cover its shared capital costs?

Provided that efficiencies promised are realised as well as the outcomes of the water monitoring program align.

10. Is WAMC's water monitoring program efficient?

This is difficult to ascertain from the existing information and potentially benchmarking against other similar organisations/activities should be considered.

We are concerned that in some incidence the reporting and accounting of water monitoring outcomes are being duplicated between the agencies on separate dashboards.

11. Given the increase in WAMC's capital costs, is the arrangement of Water NSW providing WAMC's capital program efficient?

As raised previously, the efficiencies of previous restructures do not appear to be translating into cost reductions for customers. We recommend such expenditure be interrogated by IPART.

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.

We support NSWIC submission regarding concerns around cost shares and the value of the recent review.

13. Over what determination period (ie, how many years) should we set prices?

Water management would benefit from a more strategic and long-term planning arrangements that we have experienced recently, with multiple concurrent reforms. The determination period should allow for such planning and at a minimum should remain the same as current practice, that is, at least four years.

14. If we set a shorter period for WaterNSW rural bulk water prices, are there benefits in aligning WAMC's determination period with WaterNSW rural bulk water? What are the costs and benefits of setting a one-year period for WAMC to potentially align with WaterNSW 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 streamlining the regulatory periods but also challenges for water users and their industry bodies, to address significant reviews in the same timeframe. It does help to review both proposals simultaneously to ensure there is no duplication or missing of tasks and then provides a consistent pricing approach for the resulting period of time.

As raised by NSWIC, these periods could be aligned through lengthening, not shortening, determination periods.

Consideration of lengthening the process to provide extended consultation to address both pricing reviews would also be recommended.

15. What are your views on WAMC's proposed price structures?

We support the existing pricing structure for our valley.

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?

We support transitioning approach to full cost recovery in circumstances where the full range of beneficiaries of the services are included in the cost recovery approach. But before costs can be recouped, its important the costs are efficient and prudent. There are large increases in costs which have not be properly evidenced. There are also many costs which have been imposed to benefit both the broader community and government, not just industry, and these should also be shared more appropriately.

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?

Water users already bear the risks associated with the performance of the agencies charged with planning, managing and compliance of water use. To proportion financial risk onto these customers due to no fault of their own, appears to overly burden customers with risk. Given the agencies responsible for WAMC are part of the government structure they should have opportunities within government to mitigate this risk within the whole of government financial management.

#### Conclusion:

The GVIA welcomes this opportunity to provide a submission to the NSW Independent Pricing and Regulatory Tribunal (IPART) to be considered as part of our review of Bulk Water Prices and Water Administration Prices for NSW water users.

It is always an important opportunity for our organisation to provide input on behalf of our members and provide clear evidence on how performance and outcomes of previous pricing determinations from our members perspectives.

Please do not hesitate to contact our organisation for any further information or discussion the issues and positions raised within this submission.

We would welcome the opportunity to elaborate further as part of the public hearing scheduled in November 2020.

Submission ends.

Zara Lowien  
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