NAMOI WATER

Supporting Sustainable Water Use

Mr Scott Chapman
Water Pricing IPART
Level 15
2-24 Rawson Place
Sydney
NSW 2000

Via electronic Mail

Dear Scott,

I am writing to you on behalf of Namoi Water regarding the pricing review for rural bulk water services for 1 July 2017 for Water NSW. Pricing determinations are one of the most single frustrating issues that we undertake on behalf of our membership. We have on numerous occasions asked IPART to review the engagement process, the hearing and panel discussions in the formal format do not allow for detailed discussions to occur. To this end we did not attend the Sydney hearing as the ability to engage in a meaningful way is extremely limited in this process. It ends up being a trial of Water NSW by statements/questions, limited information is provided to satisfy any parties in attendance as a process of genuine engagement. IPART is provided in numerous submissions from stakeholder's key issues that customers have a need for additional information or concerns. It is this information that provides a platform for the review process along with IPARTs own priorities for investigation. Namoi Water notes the draft determination does not provide any additional information for stakeholder's, rather the review is outsourced to consultants that do not have IPART's experience or expertise in understanding the areas of concern for a regulator.

Our primary concern is that the regulatory role is limited in its application as a result of this process and the outcome of the numerous pricing reviews has resulted in only minor adjustment to Water NSW's proposal. Customers cannot reconcile the detailed effort required to review the determination and provide evidence of impacts with the final reviews outcome. We make this point with all due respect to the effort that is undertaken by the IPART team in their investigations – however it is the process that is used by the regulator as a model for detailed investigation, engagement and decision making that requires in our view urgent review.

Water NSW is a monopoly service provider, we acknowledge current management is seeking to operate the business as a corporate entity under the banner of Australia's largest water supplier and give effect to effective delivery of customer and business objectives that are value for money. However it remains there is no choice for a customer to choose who delivers their water, this is a function of the assets being currently government owned. Continuation of pricing outcomes in this setting results in an increasing value of the regulated asset base value, which is now one of the most substantial impacts on pricing.

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

NAMOI WATER

Supporting Sustainable Water Use

Given the recent restructure in the merger with Sydney Catchment Authority, and transfer of functions from DPI Water as well as the ongoing uncertainty around the Water Charge Rules review by ACCC. The space of water pricing has become increasingly congested. Water NSW are supported in their recognition of the limits around resourcing for a number of significant issues such as user/government cost shares, legacy assets and choice in levels of service.

Please find attached the comments from Namoi Water as the peak organisation representing Water Licence holders in the Namoi Catchment area.

Regards

Jon-Maree Baker
Executive Officer

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

Key issues raised in our previous submission included;

- Review and comparison of actual revenue and costs to allow IPART and customers to assess Water NSW's financial risk and supply vulnerability.
- Detail of operational expenditure increases for water delivery and other operations dam safety compliance and customer support and compliance. The capital expenditure for maintaining capability approach was also requested with a level of detail to be provided.
- Gunidgera Weir upgrade costs were initially omitted and an additional "offset project" was included and we requested the offset not be approved for funding.
- The existing tariff structure of 40:60 fixed variable split was supported by customers.
- Customers rejected the volatility allowance, supported continuation of the unders and overs mechanism
- Our submission did not support the efficiency carryover mechanism and requested further consultation for this to be considered in future determinations

Pricing outcome IPART Review draft

- **Review and comparison of actual revenue and costs to allow IPART and customers to assess Water NSW's financial risk and supply vulnerability.**

Not supplied in IPART determination nor in any consultancy reports, although Aither's report did contain some Profit and Loss information however it was redacted. We continue to encourage IPART to assess this information as part of the pricing review and ultimately stakeholders should be provided with this as part of reporting obligations at the end of each pricing determination period.

- **Detail of operational expenditure increases for water delivery and other operations, dam safety compliance and customer support and compliance. The capital expenditure for maintaining capability approach was also requested with some level of detail.**

Aither in their report noted the logic of providing flexibility to undertake expenditure based on needs, which may change during a determination period however the approach by Water NSW appears to compromise both transparency around proposed spending and the accuracy of estimation and forecasting.

The previous approach of valley level approval of projects and upgrades to resources provided a level of transparency and discipline to provide defined projects, pricing options and timing of work for the valley level and within the broader program of work for the organisation. The inclusion in the pricing determination of capital works that do not proceed has an impact on customer pricing within the determination period.

Namoi Water asserts the function of valley CSC consultation/approval of expenditure and projects provides a level of accountability for Water NSW to ensure prudent and efficient expenditure of the capital program. It is critical there is transparency around the validation of the assessment process for renewal and replacement of assets. The current process removes transparency around costings and therefore customer confidence in the expenditure program.

Aither and therefore IPART's calculation for the the 25% reduction in renewals capital funding is still questioned by Namoi customers. Given there is no detail on the assessment of the valley costs available to customers, other than the Aither reported examples there is limited ability to assess capital expenditure proposed due to the removal of the previous approval process from the CSC's.

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

As the majority of the funding increase for augmenting capacity is justified as corporate systems and IT expenditure, it is critical to customers to have a level of transparency provided including provision of a detailed business case. This information has not been provided to either the CSC at valley level or the Chairs forum to our knowledge.

The southern metering program is an example of overspend on capital and under estimation of IT requirement (albeit initially Commonwealth funded) used in the business case to justify the "efficiency" of telemetered metering technology. The final report on the business case (cost benefit analysis) for the Metering trial has to date not been provided to northern valleys as evidence to suggest an efficiency gain from telemetry and pattern approved meters. We note that Water NSW proposes to reduce meter reading to save costs based on FTE position reductions, yet there is no indication of the additional IT costs required and other substantial IT upgrades needed for this efficiency to be realised. The cost benefit analysis for telemetered metering has not been provided to customers contrary to Aither report on Page 106. ***We support the concept of self-read metering when combined with lead sealing (or similar) of meters by Water NSW in the compliance check meter read***.

How much of the new augmenting capability from corporate systems and IT is associated with using technology such as Computer Aided River Management to manage regulated delivery in real time? The costs are spread over all valleys, customers are unable to review if these are prudent or efficient for their valley. It is our assertion there is no accountability for the uplift in augmenting capability expenditure due to a lack of detailed information.

For example Northern systems with dam wall debiting, run with considerably less surplus delivery, current river operations run within 3-5% over water orders. There is no business case for the substantial increases proposed against the current systems operational efficiency in the northern valleys. Namoi Water reiterates the level of transparency in provision of detailed businesses cases and costings is being eroded over time and spread across all valleys costings in changes to cost categories. Further to this point we will not support a dumbing down of the customer service committee role in providing review and advice for the business direction on these types of issues. This appears to be a function of the larger organisation structure resulting from merger/transformation that comes with an efficiency, but also disadvantage to rural customers in accountability and transparency.

- **Gunidgera Weir upgrade costs were initially omitted and an additional "offset project" was included and Namoi customers requested the offset not be approved for funding.**

For the record, on page 61 of the IPART determination we note Namoi Valley Irrigations Association does not exist.

The Aither report noted the reduction in the regulatory environmental category which is consistent with Water NSW's current position to hold off on the implementation of capital expenditure for fish passage projects until such time as the state wide review of fish ways is complete. We seek to correct IPART – Aither cannot possibly determine that Namoi customers paying for Walgett Weir Fish passage is prudent nor efficient. As a consultant without all the information on the issue they can only comment on the costings of the option presented. Aither would not have been sufficiently informed regarding the issue of cross valley subsidisation or the difference between a regulated valley and unregulated valley pricing determination process.

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

IPART in the determination fails to acknowledge the expenditure in the Unregulated Barwon Darling and additional cost impact on customers in the Regulated Namoi system as a result of the transfer of the existing Gunidgera Fish passage obligation to a lower “offset” structure at Walgett Weir has a number of third party impacts including increasing the Namoi Regulated Asset base value.

The Walgett Weir serves no benefit to the delivery or storage of water for regulated Namoi customers (emphasis added).

We reject the assertion by IPART this is deemed acceptable under the impactor pays principle (those that create the need to incur the cost should pay the costs) – fundamentally a regulated Namoi customer does not incur a need in the Barwon Darling River and Walgett Weir and therefore should not pay for assets in downstream unregulated catchments that do not provide benefit for water storage or delivery to Namoi customers.

We challenge IPART that the Impactor pays principle is met using this offset approach transferred over two catchments and water sources, otherwise we would have a strong case for postage stamp pricing. It is our view this approach does not meet the National Water Initiative pricing *principle (iv) give effect to the principle of user-pays and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management.*

Namoi customers acknowledge the effort undertaken by Water NSW to proceed with an alternative cost effective option for current gold plated fish passage infrastructure, however Water NSW have also acknowledged that the costings were not provided to customers for this option prior to the determination and highlights the risks that Aither noted in their report regarding asset renewal and maintenance process lack of transparency and costing being available.

The Keepit upgrade triggered fish passage obligations which were offset against proposed fish passage at Mollee, Gunidgera and Weeta Weirs. To date $10 million has been spent on installing a fish way at Mollee Weir and removing Weeta weir. We reject the costing of $9 million for Gunidgera Weir as a gold plated option that should be reviewed in conjunction with NSW Government’s current review of Fish Passage as part of a broader state wide review. This review may inform different options and funding requirements for the remaining obligation on Gunidgera weir.

In regard to the 2017-2021 pricing determination, we request as a priority the upgrade of Gunidgera Weir is funded as a fundamental action to improve delivery and access of water in the Gunidgera Pian system. In this regard we have requested from Water NSW the detailed costing associated with this particular project, however in principle support is provided for the upgrade of the Weir estimated as $200 000 and a potential fish passage offset within the Namoi system triggered as a result of this upgrade relative to this cost. We understand the downstream works associated with the project may result in additional expenditure of $580 000 of works, this work is also supported for inclusion in this pricing determination however we seek understanding of the need for these associated works to trigger any obligations under section 218 of the fisheries act.

As a matter of priority and pending the outcome of the state wide review of fish passage we remain committed to ensuring Gunidgera weir provides adequate fish passage whilst being developed as a capital expenditure project that results in the most cost effective outcome. There is potential for Gunidgera fish passage to be funded as a complimentary measure (despite differences in advice from state agencies), we note the deferral of this obligation allows for the longer timeframe for this decision to be finalised between the Commonwealth and State Governments.

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

NAMOI WATER

Supporting Sustainable Water Use

- **The existing tariff structure of 40:60 fixed variable split was supported by customers.**

We are pleased to see the continuation of the 40:60 fixed variable split for Namoi customers, however we disagree with the IPART view that the 80:20 tariff structure better reflects Water NSW's cost structure. Unless IPART can provide a full P/L report to customers (copy of sections redacted from Aither report) then there is no transparency around this statement. Functionally revenue is received in licence fees, trades, meter charges, fixed charges etc. up front prior to service delivery, usage charges are variable based on water availability a function of the storages reliability and climate. The current tariff structure of 40:60 is supported by all northern valleys and in particular Namoi customers.

For Peel customers the 80:20 fixed variable pricing provides a substantial benefit to general security customers, with small impact on Tamworth Regional Council. Given the business benefit to the council from the economic activity associated with general security water use, this tariff structure would suit residents/rate payers as a practical solution to the current pricing issues experienced in the Peel associated with Chaffey Dam costs being accounted for under full cost recovery methodology. Functionally if this option is rejected by TRC the negative impacts on the Peel continue and some form of Customer Service Obligation arrangement will need to be negotiated as the current pricing has substantial negative impacts on usage.

On this issue **Namoi customers reject any concept of merged infrastructure and therefore pricing between the Peel and Namoi valleys.** The negative social and economic impacts and management of infrastructure would have significant negative impacts on Namoi customers. We continue to urge IPART to resolve the Peel pricing in the Peel, as one Peel customer stated "the Peel already has a broken leg, don't give the Namoi one too".

- **Customers rejected the volatility allowance, supported continuation of the unders and overs mechanism**

The IPART decision to provide a volatility allowance is rejected by Namoi customers and we would expect the majority of water licence holders.

IPART have not justified their view on why the Under's and Over's mechanism is to be discontinued due to the view it does not mitigate revenue volatility risk – how then does a charge that adjusts each year enabling Water NSW to recover its notional revenue not fulfil this role of mitigating volatility? The UOM adjusts based on the actual circumstance experienced in terms of revenue rather than an inflated price based on the regulatory determination period. It does provide prices that move – that is the nature of the resource, however it is a transparent mechanism supported by customers. IPART provided two lines in the determination without justification or evidence as to the decision being made and it's implications.

Namoi Customers are substantially impacted by IPARTs decision to pay the UOM back in one pricing determination with interest – which is contrary to the IPART concern the mechanism causes price shocks. IPART are now party to a significant price shock for Namoi customers – UOM was developed for a long term tool and this resumption of the current balance has a significant impact on pricing.

Water NSW revenue volatility is highly questionable, there is a high level of fixed cost income that is received by the organisation. Due to the lack of reporting on the actual revenue and costs by Water NSW and allowed by IPART, when combined with continual reporting/reference to allowed versus

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]

recovered the issue of financial stability is clouded. Further we note that despite the misleading claim of a shortfall in revenue, the facts are that Water NSW has generated a net profit from its operations despite the dry climate period in the last determination. The Risk Transfer Product proposed by Water NSW proposes to mimic an 80:20 fixed variable structure, customers reject this premise and despite IPART's view that Water NSW could undertake self-insurance this will ultimately increase in subsequent pricing determinations.

We fully expect to see a creep in price of this "efficient service to customers" as self-insurance becomes a function of the pricing determination or Water NSW shifts this service to a third party provider. In effect a penalty is now applied based on the demand forecasting model using a 20 year rolling average that IPART approved in its previous determination due to this second volatility allowance measure.

If we are to seek real costs and efficiency, Namoi Water would reconsider our view on the RTP if as stated the insurance remains self-insurance and transparency is provided along with a change to the forecast consumption modelling back to the IQQM modelling of Long Run Average, providing a better estimate for valleys with lower reliability. For example Namoi Data from 1993-2013 suggests the General Security average usage is 119 379 megs, this compared to the Water NSW forecast of 164 800 megs appears a considerable difference in the model period averaging results from IPART of 58% reliability versus 46% based on our figures.

- **Our submission did not support the efficiency carryover mechanism and requested further consultation for this to be considered in future determinations**

We note IPART intends to establish and efficiency carry over mechanism and apply it for the Water NSW 2021 pricing review. Namoi customers question the purpose of this decision given its delayed implementation and lack of detailed information in the IPART report. The value of the incentive is questioned in terms of evidence to suggest the mechanism is required.

However we do see value in IPART considering an efficiency assessment in its annual pricing review to capture the progressive efficiency savings from Water reform processes and transfer of functions. We are pleased to see acknowledgment of the ECM will not apply to capital expenditure particularly given Gunidgera weir has been deferred for two pricing determinations is an example of the complexity and additional risk to customers.

ENDS.

PO Box 548 Narrabri NSW 2390
Em: eo@namoiwater.com.au
Ph: 0267925222 [redacted]