



James Jackson
President

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Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Independent Pricing and Regulatory Tribunal,

Rural Water Cost Shares

The NSW Farmers' Association (NSW Farmers) welcomes the opportunity to provide comment on the NSW Independent Pricing and Regulatory Tribunal (IPART) Rural Water Cost Shares Draft Report. NSW Farmers' supports the continuation of a cost sharing framework that shares WaterNSW's and the Water Administration Ministerial Corporation's (WAMC's) costs between water users and the New South Wales Government.

NSW Farmers is Australia's largest state farming organisation, representing the majority of commercial farm businesses in NSW, ranging from broadacre, meat, dairy, wool and grain producers, to more specialised producers in the horticulture, egg, pork, oyster and goat industries.

NSW Farmers provides comment on the IPART draft decisions below.

1. *WaterNSW and WAMC's efficient costs will continue to be allocated between water customers and the NSW Government (on behalf of other users and the broader community) based on the impactor pays principle, ie, those that create the need for the cost to be incurred should pay the cost.*
 - a. *In applying the impactor pays principle, the counterfactual starting point is a world without a high consumptive use of water*

NSW Farmers supports the continued allocation of WaterNSW's and WAMC's costs between the NSW Government and water customers and recognises the NSW Government's policy of the 'impactor pays' principle, however the NSW Government should bear a fair and equitable cost ratio that recognises its contribution on behalf of the broader community. There are multiple beneficiaries of water managed or administered by the NSW Government, therefore irrigators should not be expected to pay 'full cost recovery' or be expected to pay a disproportional share of broader public benefits. The application of the 'impactor pays' principle should also be in line with other public uses of Government owned infrastructure (e.g. transport, health, etc.)

The IPART draft decision does not take into account that the application of the 'impactor' pays principle may not reflect the true range of 'impactors' and the conditions that generate costs for WaterNSW and WAMC (e.g. tourism, environment, recreational use etc.). Additionally, this current 'impactor' pays principle does not consider that costs change due to climatic conditions (e.g. costs incurred changes due to flood, average or dry conditions). Also, the counterfactual definition is overly simplistic and leans towards aligning costs towards water uses. The counterfactual also does not provide enough flexibility to consider the history and the original intent for the need of the cost sharing activities.

In order to improve the 'impactor' pays principle and ensure that costs are applied to the correct 'impactors', IPART need to take into account the 'true impactors' on WaterNSW and WAMC's costs and irrigators capacity to pay.

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2. *Legacy costs are considered to be those costs caused by past users and activities that are not attributable to current and future users of the regulated service. Legacy costs should not be reflected in the prices paid by current and future users.*
 - a. *Changes in costs due to changes in regulations or standards are not considered legacy costs.*

NSW Farmers believes that it would be inappropriate for water users to pay for legacy costs, however questions if the 'prior to 1997' approach remains relevant to define legacy costs. While IPART does not include changes in regulations or standards as legacy cost, the policy changes that have imposed additional costs have neither been demanded or are a result of water users, therefore these cost should not be fully borne by water users.

3. *To maintain the activity-based cost sharing framework.*

NSW Farmers accepts IPART's decision to maintain the activity-based cost sharing framework, as the alternative service-based cost sharing framework may result in less transparency and accountability than the current framework. NSW Farmers also encourages more transparency and process around how costs are allocated to the current activities.

4. *To update a number of customer cost share ratios for WAMC as per Table 5.2.*
5. *To update a number of customer share ratios for WaterNSW as shown in Table 5.4.*

The NSW Governments has historically accepted a level of cost share on the basis that Governments absorb costs of broader community benefits accrued from how water is managed. Irrigators are increasingly concerned that political policies have shifted the priorities for how water is managed and allocated. Government policies are increasingly undermining the property rights of water and reliability of water entitlements. The cumulative nature of these impacts means that while irrigators' access to water is reducing, the IPART draft decisions is suggesting a further weighting of costs towards irrigators.

Equity in cost sharing apportionment should recognise the impact of climatic conditions and major beneficiaries of flows under these scenarios. For example, the maintenance of continuous flows in regulated rivers brings broader community benefits, but irrigators' allocations may be low or non-existent. Therefore the IPART determination for cost share ratios should recognise and distribute cost shares on the basis of 'actual benefit'.

NSW Farmers opposes the proposed increase to the customer share of the cost share ratios for both WAMC and WaterNSW. Irrigators are already dealing with changes to their allocations, reliability of access to water and do not have the capacity to continue to absorb more changes and costs to their businesses. For the NSW Government to decrease their cost ratio and pass this onto water customers is unacceptable. The overly simplistic counterfactual also leans towards allocating costs to water uses.

NSW Farmers has concerns regarding the increases in the customer share to the following activities: water surface monitoring (W01), modelling (W04), environmental water management (W05-03), water management works (W07), flood operations and environmental planning and protecting. New South Wales Irrigators Council (NSWIC) has analysed the issues relating to these cost shares and the increase in cost allocation to consumptive users in their submission to the IPART Rural Water Cost Shares Draft Report. We support the analysis of the 'impactors' on the increased cost shares included in the NSWIC submission and their recommendations below:

- Retain the current user cost shares for water quality, algal and quantity monitoring.
- IPART maintain the 50% user cost share for surface water modelling and reduce the user share for groundwater modelling in recognition of other 'impactors' and increased costs due to Government policy and community expectations rather than water user needs.
- Recognise the legacy aspect of environmental water management.
- Maintain the current 50/50 user/government cost share to recognise the impact the broader community has on river flow management regimes.

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- Apply greater Government cost share to recognise the ‘impactors’ for flood operations are the population centres and not the “average” water user.
- Maintain the current 50/50 government/user cost share for environmental planning and protection as the main drivers of these activities are external legislative changes.

NSW Farmers requests justification on the reasons for the increased cost allocations to the customer cost share and also encourages there to be more transparency and process on how costs are allocated to a range of ‘impactors’.

6. *To consider, at the next price reviews for WaterNSW and WAMC, applying valley-specific cost share ratios on an exception basis, where the impactors’ relative contribution to the need to undertake an activity and incur costs is materially different to that assumed for the general cost share ratio.*

NSW Farmers supports the proposal to consider valley-specific cost share ratios for WaterNSW and WAMC at the next price reviews. By accessing cost shares on a valley-specific basis, differences in ‘impactors’ and cost share activities between valleys can be taken into consideration. Valley-specific cost share ratios will also allow the customer cost share to truly reflect the valley characteristics.

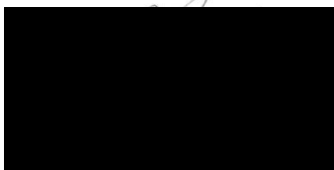
7. *To consider, at the next price reviews, removing activities from the framework that represent cost categories (rather than actual activities required to be undertaken) and allocating the associated costs across the remaining activities.*

NSW Farmers is supportive of IPART’s decision to remove activities from the framework at the next price review, that represent cost categories rather than activities. The removal of these cost categories will ensure consistency of the activity-based cost sharing framework. NSW Farmers requests that there to be full transparency on the process of reallocating the cost categories to relevant activities.

NSW Farmers also encourages the waiving of fixed water charges when exceptional circumstances prevail, such as when no water allocations are available. We are supportive of the waiving of fixed water charges and entitlement costs for general security water licences in the current NSW drought assistance; however this assistance is capped at \$4,000. This is unlikely to cover the full fixed water charges for the majority of irrigators, therefore we believe the cap should be removed and the full fixed water charges be waived.

NSW Farmers appreciated the opportunity to provide comment on the draft decisions from the NSW Independent Pricing and Regulatory Tribunal (IPART) Rural Water Cost Shares Draft Report. NSW Farmers encourages IPART to consider the full range of ‘impactors’ and the conditions under which the costs are incurred when applying the ‘impactor’ pays principle. As well we encourage further transparency and process on the decision of customer share ratios for both WAMC and WaterNSW.

Yours sincerely,



James Jackson
PESIDENT