

Level 5, 491 Kent Street,
Sydney NSW 2000

PO Box Q640,
Queen Victoria Building NSW 1230



Tel: 02 9264 3848
nswic@nswic.org.au
www.nswic.org.au

ABN: 49 087 281 746

SUBMISSION

REVIEW OF WATERNSW RURAL BULK WATER PRICES FROM 1 JULY 2021

REVIEW OF WATER MANAGEMENT (WAMC) PRICES FROM 1 JULY 2021

October 2020



Contents

NSW Irrigators' Council.....	3
NSW Irrigation Farming.....	3
NSW Irrigators' Council's Guiding Principles	4
Introduction.....	5
Planning	5
Overview	6
Key Recommendations & Findings.....	6
REVIEW OF WATERNSW RURAL BULK WATER PRICES.....	7
Efficiency.....	7
Operating Expenditure.....	7
Capital Expenditure	8
Required Revenue	9
IPART Issues Paper Questions	9
REVIEW OF WATER MANAGEMENT (WAMC) PRICES	14
Operating Expenditure.....	14
Capital Expenditure	15
Required Revenue	15
IPART Issues Paper Questions	15
COST SHARES.....	20
Overview.....	20
Cost-sharing WaterNSW's corporate overheads.....	21
Assessment of cost-sharing system.....	22
Conclusion	23
Appendix 1: NSWIC Letter to IPART on the 2020 WAMC Pricing Submissions (July 2020).....	24
Appendix 2: NSWIC Submission on the Length of the Determination Period (August 2020)	26



NSW Irrigators' Council

The NSW Irrigators' Council (NSWIC) is the peak body representing irrigation farmers and the irrigation farming industry in NSW. Our members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton and horticultural industries.

Through our members, NSWIC represents over 12,000 water access licence holders in NSW who access regulated, unregulated and groundwater systems. NSWIC engages in advocacy and policy development on behalf of the irrigation farming sector. As an apolitical entity, the Council provides advice to all stakeholders and decision makers.

Irrigation farmers are stewards of tremendous local, operational and practical knowledge in water management. With more than 12,000 irrigation farmers in NSW, a wealth of knowledge is available. Participatory decision making and extensive consultation ensure this knowledge can be incorporated into best-practice, evidence-based policy.

NSWIC and our members are a valuable way for Governments and agencies to access this knowledge. NSWIC offers the expertise from our network of irrigation farmers and organisations to ensure water management is practical, community-minded, sustainable and follows participatory process.

NSWIC welcomes this opportunity to provide a submission to the Independent Pricing and Regulatory Tribunal (IPART) on the pricing reviews.

NSWIC sees this as a valuable opportunity to provide expertise from our membership to inform the Inquiry. Each member reserves the right to independent policy on issues that directly relate to their areas of operation, expertise or any other issues that they deem relevant.

NSW Irrigation Farming

Irrigation farmers in Australia are recognised as world leaders in water efficiency. For example, according to the Australian Government Department of Agriculture, Water and the Environment:

“Australian cotton growers are now recognised as the most water-use efficient in the world and three times more efficient than the global average”¹

“The Australian rice industry leads the world in water use efficiency. From paddock to plate, Australian grown rice uses 50% less water than the global average.”²

Our water management legislation prioritises all other users before agriculture (critical human needs, stock and domestic, and the environment), meaning our industry only has water access when all other needs are satisfied. Our industry supports and respects this order of prioritisation. Many common crops we produce are annual/seasonal crops that can be grown in wet years, and not grown in dry periods, in tune with Australia's variable climate.

Irrigation farming in Australia is also subject to strict regulations to ensure sustainable and responsible water use. This includes all extractions being capped at a sustainable level, a hierarchy of water access priorities, and strict measurement requirements.

¹ <https://www.agriculture.gov.au/ag-farm-food/crops/cotton>

² <https://www.agriculture.gov.au/ag-farm-food/crops/rice>



NSW Irrigators' Council's Guiding Principles

Integrity	Leadership	Evidence	Collaboration
Environmental health and sustainable resource access is integral to a successful irrigation industry.	Irrigation farmers in NSW and Australia are world leaders in water-efficient production with high ethical and environmental standards.	Evidence-based policy is essential. Research must be on-going, and include review mechanisms, to ensure the best-available data can inform best-practice policy through adaptive processes.	Irrigation farmers are stewards of tremendous knowledge in water management, and extensive consultation is needed to utilise this knowledge.
Water property rights (including accessibility, reliability and their fundamental characteristics) must be protected regardless of ownership.	Developing leadership will strengthen the sector and ensure competitiveness globally.	Innovation is fostered through research and development.	Government and industry must work together to ensure communication is informative, timely, and accessible.
Certainty and stability is fundamental for all water users.	Industry has zero tolerance for water theft.	Decision-making must ensure no negative unmitigated third-party impacts, including understanding cumulative and socio-economic impacts.	Irrigation farmers respect the prioritisation of water in the allocation framework.
All water (agricultural, environmental, cultural and industrial) must be measured, and used efficiently and effectively.			Collaboration with indigenous nations improves water management.



Introduction

This submission is divided into three sections: the *Review of WaterNSW Rural Bulk Water Prices from 1 July 2021* (herein, Bulk Water Review), the *Review of Water Management Prices 2021* (herein, WAMC Review), and then key issues such as cost-sharing methodology (relevant to both reviews).

NSWIC sees the bulk water prices being determined in these separate reviews for delivery and regulatory organisations as integrally connected and thus require consistent and clear regulatory decisions by IPART. This is required to deliver efficient services to all customers and the community in terms of the public good services. NSWIC represents the most significant users of these systems – irrigation farmers.

The water systems we have today were established by Government historically from the early twentieth century for social policy reasons, with little regard to cost or cost-benefit. Under economic reform in past two decades, change has been focused on moving the systems to an economically efficient mode, recognising that significant constraints to achieving this, given existing investments were not configured for efficiency.

Planning

Bulk water systems, by their nature, comprise long-lived assets (such as dams) and permanent natural features (such as waterways). These require matching long-term planning, but if properly monitored, this should not confront managers with any surprises.

However, the thrust of the price proposals before IPART is that:

- Unforeseen situations have led to the failure to meet past planning targets;
- The dramatic revision of that trajectory is setting future targets, and;
- At least for the bulk water review, a continued uncertainty around what targets can be set beyond a twelve-month period.

In this challenging environment, Government decisions to proceed with major dam projects are increasing the demands on planning teams within the water utilities and potentially widening the scope of work for regulators.

The most recent regulatory period has seen significant institutional and regulatory change which presents a major challenge. This submission presents the views of the NSW irrigation industry on how these challenges could be met within an efficient and prudent expenditure envelope with clear, fair and affordable prices to water users, and an appropriate cost-share for public good services and programs.



Overview

Key Recommendations & Findings

- A new cost-sharing framework for setting prices is required that accounts for and facilitates cost recovery for public interest/benefit items. This should include shifting from the highly contentious ‘impactor pays’ principle to a ‘user pays’ principle, consistent with the National Water Initiative.
- In regards to the WAMC Review, NSWIC does not accept the justification for customers paying the significant cost increases, given that customers previously paid for these services which were not delivered, or delivered poorly.
- The failure of WaterNSW to achieve its efficiency targets in the previous regulatory period makes it difficult for NSWIC to have confidence in WaterNSW meeting its spending reduction target for 2022.
- The proper assessment of efficiency requires that a full determination proposal be assessed. One year is not adequate for assessment, nor desirable for creating incentives for efficiencies.
- WaterNSW needs to explain more clearly why the economies of scale from its creation appear to have been reversed in the current determination.
- In particular, the extent that capital overspend is justified in being rolled over into the RAB, and the required revenue needs to be investigated.
- Cost sharing needs to exclude any urban utility standards or activities from overheads.
- IPART cost shares need to recognise that planning activities are not the customers’ responsibility, but Government’s.

More specific recommendations are outlined throughout this submission.



REVIEW OF WATERNSW RURAL BULK WATER PRICES

The Review of Bulk Water Prices from 1 July 2021 addresses WaterNSW's proposal. This section addresses the efficiency of operating and capital expenditure.

Efficiency

WaterNSW was set up in 2014 with a primary purpose of providing greater scale and efficiency in bulk water delivery, by merging rural and urban bulk water management. In the 2014-2018 determination period, large cost reductions were apparently achieved. The price proposal to this review reports what appears to have been a sharp reversal of those achievements.

Operating Expenditure

Water NSW has proposed a significant reduction in operating expenditure for financial year 2022, the one year of the determination period for which they have supplied data. IPART needs to scrutinise closely the evidence that such savings can be achieved.

The data in *Figure 1: WaterNSW Operating Proposed, Actual and Forecast Expenditure* illustrates that WaterNSW's 2017 allowance (proposed expenditure for the past price path, as accepted by IPART) was intended to deliver a substantial real reduction in operating expenditure. This was based on 25% savings over the 2014-2017 determination period from claimed efficiencies by merging State Water and the Sydney Catchment Authority in 2014. The average cost level in that determination period is shown on the chart at 2017.

IPART, with some minor reductions, accepted WaterNSW's argument that it could continue to reduce costs at the same rate in the 2018-2021 determination period. Thus, the lower line on the chart shows IPART's allowed expenditure from 2018 to 2021 trending downwards over time, showing the reductions from the continued realisation of efficiencies.

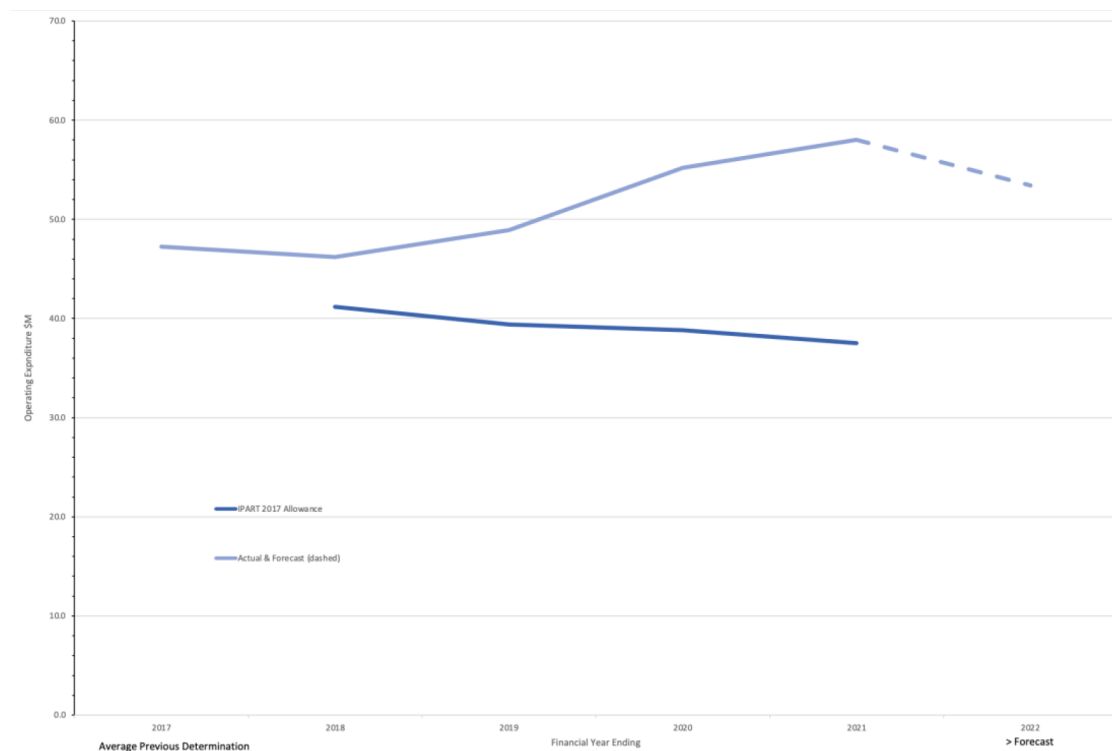


Figure 1: WaterNSW Operating Proposed, Actual and Forecast Expenditure, 2021 dollars

However, the actual expenditure in the upper line (~\$58 million by June 2021) shows that not only weren't these savings realised, but expenditure will have ballooned 53% above the IPART ~\$38 million allowance by June 2021. Already, real operating expenditure by 2020 well exceeds the average annual expenditure in the previous determination period.



In effect, the savings from the scale economies of the merger have been lost. WaterNSW's claimed 21% savings for the next determination period are against its expenditure blowout over the last determination period. This masks the fact that even with a 21% saving, WaterNSW is still proposing that customers pay for a ~\$16 million, or 42%, increase in expenditure in 2021-22 over the 2018-21 million allowance.

Figure 1 highlights several concerns:

1. The planned savings have not been realised;
2. The past savings appear to have been lost; and,
3. That these two experiences do not inspire confidence that the planned savings for 2022 could be achieved, let alone savings across a full four-year determination where WaterNSW had been able to deliver such plans.

The fact that planning is not available beyond one year, is a concern in itself, given that despite the drought planning challenge, the bulk water business by its nature is very amenable to comprehensive long-term planning. The bulk water business is dominated by long life civil assets, with relatively low proportions of short life electrical and mechanical assets – thus, only requiring regular rigorous asset condition assessment to guide cycles of medium to long term asset maintenance and refurbishment. In turn, this means relatively low exposure to operating cost risks such as energy or labour cost inflation.

Looking into the reasons for this underperformance, it has to be acknowledged that this has been a challenging period with the drought. However, WaterNSW data shows that the main areas of expenditure overrun were in corrective maintenance, which NSWIC would not expect to be impacted by drought.

WaterNSW itself argues in its Proposal³ that the overrun has been caused by a range of factors, including insurance (whereby the Risk Transfer Product was much more expensive in drought), tax, energy and labour cost increases. Some items are of particular concern to NSWIC. The reason for increased overheads, and the justification for an increased allocation to rural valleys, needs to be investigated by IPART. The urban water utility part of WaterNSW has very different quality and service standards to the bulk water business that is the subject of this price review, and only overheads that are relevant to this business should be passed through.

Capital Expenditure

Expenditure in *Figure 2: WaterNSW Capital Expenditure* shows a pattern typical with regulated utilities, of being underspent in the early part of the determination period and overspent in the later period. The chart does not include the capital expenditure on drought projects. Though typical, this pattern may be less than efficient if it does not make good use of fixed staff and other resources through the period. More concerning is that **the total spend is 43% more than allowed**. NSWIC is not in a position to scrutinise whether this expenditure was efficient from the Proposal information, but IPART's reviewers should investigate the business case justification for this work.

³ Pg. 74, WaterNSW Pricing Proposal to the Independent Pricing and Regulatory Tribunal 30 June 2022

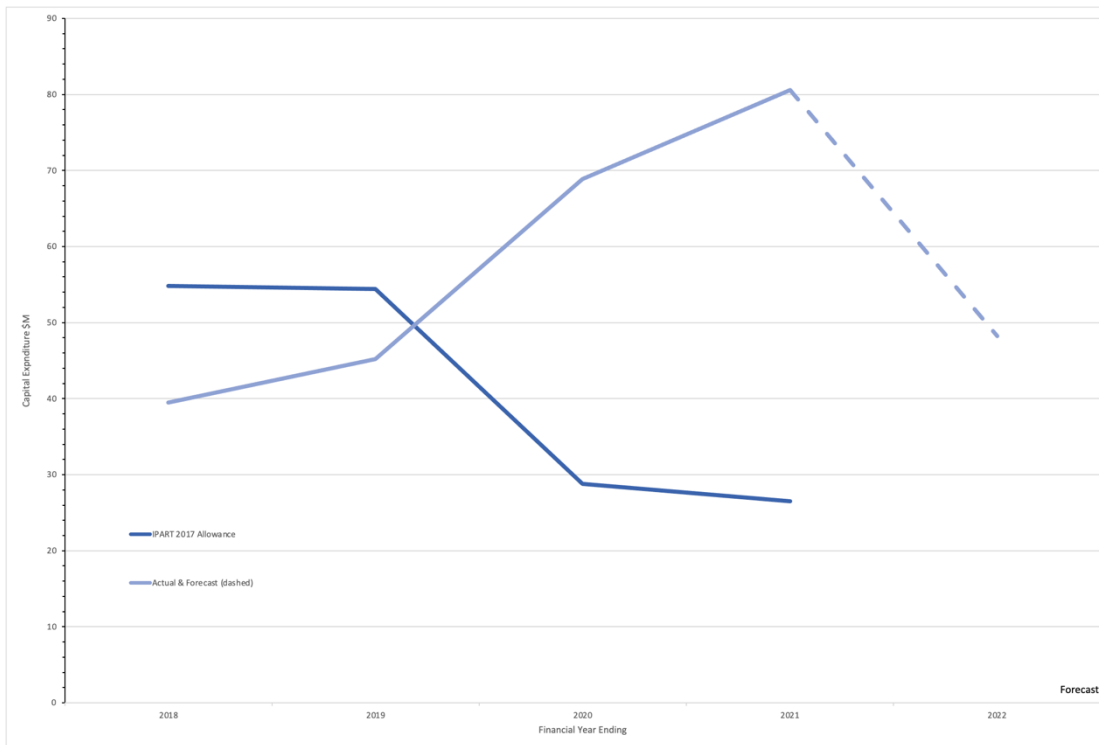


Figure 1: WaterNSW Capital Expenditure

Required Revenue

Given the above excessive expenditure, both in the past and forecast, NSWIC's view is that the Required Revenue allowance claimed is overstated.

IPART Issues Paper Questions

This section directly answers the questions posed by IPART.

1. How well has WaterNSW delivered its bulk water services since 2017?

WaterNSW has not been able to control operating expenditure in the determination period. The reasons for this, even given the pressures of the drought, are not clear.

2. Was WaterNSW's capital expenditure over the 2017 determination period efficient?

Expenditure shows a pattern typical with regulated utilities of being underspent in the early part of the determination period and overspent in the later period. Though typical, this may be less than efficient if it does not make good use of fixed staff and other resources through the period. Of greater concern, is the total spend is 43% more than allowed. NSWIC is not in a position to scrutinise whether this expenditure was efficient from the proposal information, but IPART's reviewers should investigate the business case justification for this work.

3. Is WaterNSW's proposed expenditure on maintenance efficient?

A fundamental issue with assessing the efficiency of maintenance expenditure is having sufficient data to see longer term trends. The proposal only contains one year of justified data, whereas maintenance efficiency relies on keeping long-lived assets in use. Determining if this expenditure was efficient would require long-term condition and operating expenditure data.

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

A concern for NSWIC is that WaterNSW has sufficient planning resources to undertake the peak demands of the Government-funded drought projects. There is potential for the drought projects, even though separately funded, to severely disrupt normal operations because of their scale and demands on specialist expertise.



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

NSWIC has concerns that WaterNSW does not have access to efficient risk markets to purchase the RTP.

6. *How should WaterNSW manage its revenue volatility risk?*

The type of revenue volatility risk that WaterNSW faces is usually addressed by using a different capital structure to the one that IPART sets as the benchmark for utilities. For example, Graincorp - which operates large storage and logistics assets which are prone to patterns of being under and over utilised because of seasonal variation (at times extreme due to drought) - maintains a high low-debt to total assets ratio of circa 25%, compared to IPART's benchmark of 60%. A capital structure with low-debt to total assets allows for bridging revenue shortfalls across years by access to short to medium term finance.

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

NSWIC fully supports fish passageways as very important for connectivity of native fish, and seek timely resolution of long-standing cost issues so that these important measures can be rolled out on the scale required.

NSWIC have two key recommendations:

- For Dam Safety Upgrade (DSU) fish passageways - these fish passageways should be included within the standard cost arrangements for DSUs (i.e. 100% Government funded), and not considered as an additional component (i.e. with cost sharing), given fish passageways are a regulatory requirement of the DSU itself. At the very least, outstanding fish passageways should be subject to the cost-sharing arrangements from the time (50:50) and not the present time (80:20).
- NSWIC seek that alternative funding is sourced for fish passageways, given they are exceptionally expensive, of public / national interest to protect native fish species, and greater efficiencies and effectiveness could be achieved via strategic investment beyond the funding scope of irrigators.

Dam Safety Upgrade fish passageways

DSUs for pre-1997 structures are 100% funded by Government. Fish passageways are a required part of the DSU (not additional), and thus should be subject to the same cost arrangements. However, for the outstanding DSU fish passageways (from 2009), rather than standard cost arrangements, the proposal for the fish passageway component was separated out, with a 50:50 cost-share.

NSWIC have two main concerns regarding the funding of DSU fish passageways:

- Failure to consider fish passageways as part of the DSU in costings despite regulatory requirements (i.e. considering it additional) leads to cost-shifting from Government to water users.
- Fish passageways are exceptionally expensive. For example, in the Lachlan Valley, a DSU triggered an additional fish passage compliance cost of 68% of the project CapEx itself.

Whilst irrigators raised these concerns historically, they nonetheless expressed support for the fish passageways and wanted the costing issues resolved without causing any significant delay to the important projects. There was no consultation conducted as to the option of significant delays, and what risks that would pose.

Unfortunately, long delays did result (of 11 years), beyond the control of water users. This had a number of impacts, both ecologically and economically:

- Economically - in this time, not only did costs increase, but the cost-share ratio also increased from 50:50 to 80:20. This meant that any cost-savings that were achieved during this period are likely not passed on to irrigators. This also means that irrigators



will likely be paying more now than they would have if the works were completed initially.

- Ecologically - it is important to highlight the environmental impacts of delays in stalling the provision of appropriate fish passage during this period.

Other fish passageways

NSWIC strongly encourage alternative funding arrangements, or alternatively, for IPART to adopt a unique cost-share ratio for fish passageways. The reasons for this recommendation are as follows:

- NSWIC is of the position that fishways are important ecologically, and are in the public and national interest.
- NSWIC consider it a duty of the NSW Government to build sufficient fish passageways in meeting their obligations under current NSW and Commonwealth environmental laws to protect native and threatened species.
- The significant funding injection currently required by irrigators for fish passageways is not only inappropriate, but also does not allow the provision of sufficient funding to provide fish passage on the scale required to achieve efficiencies, and maximise the benefits.
- Fish passageways are exceptionally expensive, partly because fish passageways have limited technological options in Australia because of the specific requirements for native Australian fish.

WaterNSW should additionally work with other environmental managers to ensure that fish productivity and abundance is enhanced by avoiding fish losses outside of the passage area. This includes such options as environmental flow management for fish breeding and irrigation pump filters which avoid fish kill.

8. What are your views about Water NSW's overall level of core capital expenditure over the 2021 determination period?

NSWIC is not in a position to determine what the efficient level of spend is from the provided information, but we are supportive of justified capital expenditure.

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

Ultimately, the answer to this question comes down to who is receiving the increased water security, and what the driver of that increase is. The benefits of improvements to water security go beyond the licence holder, to regional communities (both for their water security but also supporting businesses that depend on the water security of licence holders).

Licence holders are of course supportive of increasing water security, and in principle support that the fair proportion of increased service levels be paid for by customers. However, as WaterNSW states in their proposal, declining levels of reliability are being driven by climate change. From a licensee's point of view, the inability of the supplier to maintain the contracted service is something that Government, as the original party to the irrigation system investments, has an obligation to ensure that service levels are maintained, particularly given the social, rather than economic objectives of the investment. Where the supplier has a deteriorating ability to maintain the contracted service, there is an expectation that the supplier should make all reasonable efforts to maintain their level of service.

NSWIC also recommends that IPART investigate the primary drivers of Government seeking to increase water security, and how the benefits of increased water security are shared between licence holders and others who do not directly pay for these services. Primarily, efforts to increase water security are driven by the need to protect critical human needs and town water supplies. The irrigation industry is largely built around an ability to switch on and off with the climatic extremes of Australia, however, other water users (such as towns) require consistent



water supply even during climatic extremes. Most of the recent and planned water security initiatives are seeking to address town water security, following the recent period where towns were approaching 'Day 0'. It is evident through the draft Regional Water Strategies which seek to plan for water security (recently released for public exhibition) that the water security of irrigators is not the primary objective.

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

At this stage of the drought projects there are no business cases available to show the likely benefits and costs for irrigation products from the current drought projects. In this situation, the only regulatory option is for Government to bear that cost. In future determinations, when business cases are available, there may be an opportunity to assess this properly. It should always be borne in mind that the original bulk water investments were not built for economic reasons but for social objectives such as decentralisation and population increase.

11. Over what determination period should we set prices?

Bulk water supply requires long term planning and long duration projects for its maintenance and expansion. Effective regulation of such work requires time for project progress and performance to be assessed and for incentives to be responded to. A one year determination does not meet any of these requirements, and so the determination period should be the same as current practice, that is, at least four years.

See appendices for more information.

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?

Industry reform by its nature, creates new utilities with setup costs and technology investments and new operating procedures which are difficult to assess a priori. However, this is a regulatory situation that IPART has faced many times in the past, and can be effectively managed. Covid-19 is a challenge for community consultation, but like other businesses, there are alternative consultation techniques which could have been used and which WaterNSW, given its geographical challenges, has had previously developed capability for, such as video conferencing. This is a planned set process, and WaterNSW would have been aware over the previous 4 years that a submission on pricing for the next 4 years was due on 30 June 2020, which allowed significant time. The impacts of COVID-19 in Australia were only in the very final months of this timeframe.

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

See subsequent section on 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?

NSWIC is not convinced that the proposal provided proves that costs are increasing. There is not a clear rationale as to why the economies of scale and scope behind the creation of WaterNSW have been reversed in the current determination period. There are particular issues with why corporate overheads would be increasing, and why operating licence and customer requested service standards would be increasing.

If, however, it is found that costs are increasing, there needs to be a clear connection between the rationale for those increases and the demand for customers for those services. In instances where the demand for new or improved services comes from outside of the customer base (general public), it is not reasonable to expect customers pay to meet the demands of others. If the increases are due to an attempt to maintain service standards in the face of climate change, the legacy issues of Government infrastructure built for social purposes needs to be taken into account. There is a legacy issue for Government to maintain service standards



where this is not economic. Further business case development around the drought projects will assist.

15. How should we set prices in coastal valleys?

NSWIC supports IPART's approach of setting prices to be constant in real terms.

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

NSWIC is of the position that each individual valley requires a unique approach to determining the mix of fixed and usage charges, based on what is most suitable to the specific circumstances of each valley.



REVIEW OF WATER MANAGEMENT (WAMC) PRICES

The WAMC water management function has undergone significant change during the current price determination period. The failure of license compliance has resulted in the formation of a new body, the Natural Resource Access Regulator (NRAR). In addition, there continued to be changes related to WaterNSW's takeover of water monitoring functions.

Operating Expenditure

Figure 2: WAMC Operating Expenditure shows spending trends for the five separate bodies funded under the WAMC charges. The chart shows average allowance in the previous determination period and forecast allowance if the submissions from DPIE and WaterNSW are accepted by IPART.

For clarity, the colours representing each agency are as follows (from order of bottom to top): DPIE (grey), NRAR (light blue), MDBA (dark blue), BRC (orange), WaterNSW (mid blue).

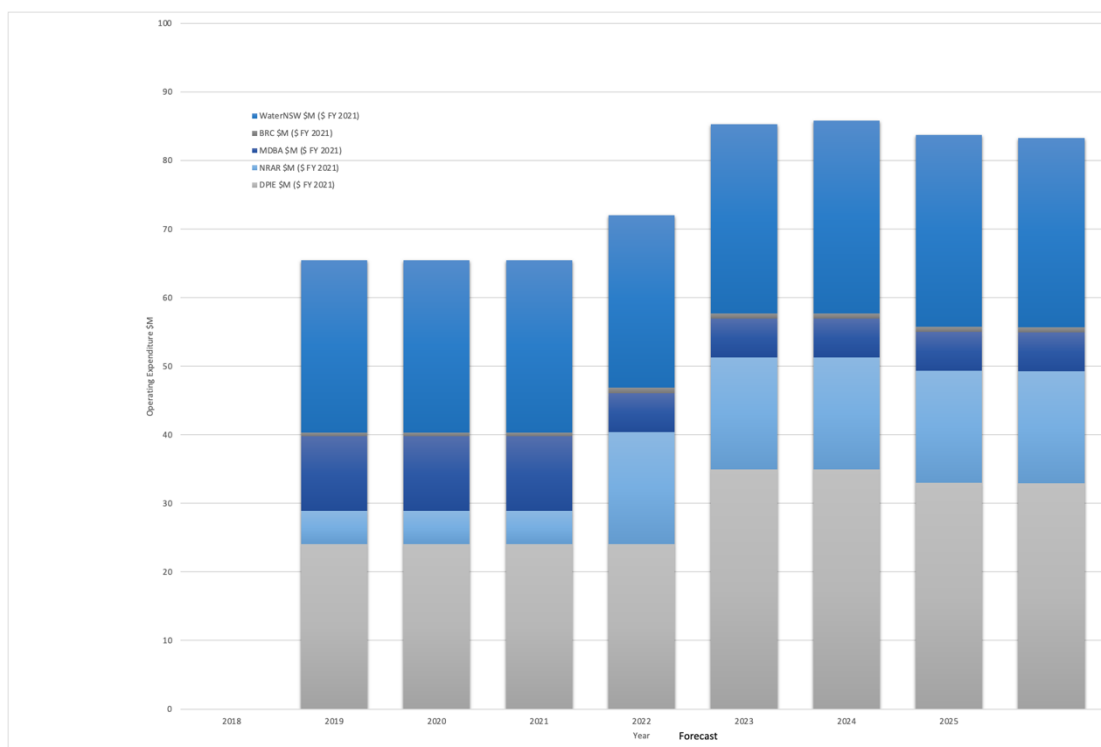


Figure 2: WAMC Operating Expenditure

In summary:

- WaterNSW continues to have the largest share of expenditure, though its spending is relatively stable. Expected savings have not been delivered.
- DPIE has had huge growth of over 60% in expenditure.
- NRAR has substantial spending increases due to setup costs of surveillance and enforcement systems.

NSWIC is not convinced that the WAMC proposal provided proves that costs are increasing. In particular, IPART was told previously that there were substantial operating cost saving to be made by merging water monitoring responsibilities within WaterNSW. It is important to remember that the rationale for WaterNSW taking on these activities was the efficiencies that could be gained by integrating it into WaterNSW's existing large scale activities.

The extent of expansion in DPIE's activities would seem to be responding to Government requirements rather than customer needs. A large amount of effort is going into water



planning, with a significant portion covered by Commonwealth funding. It's important to remember that water planning for the community is a government activity that customers are not required to fund. NSWIC argues that regional water planning should be treated exactly the same as floodplain and drainage management planning, as activities of Government that should be funded by government.

The establishment of NRAR involves significant setup costs. The most critical aspect of NRAR's activities is providing integrity and confidence that water regulation is robust and fair. At the end of the day, the public confidence in this will ensure long term reliable access to water resources for NSWIC members. As such, it is important that NRAR is adequately resourced and has technology that is efficient for its enforcement tasks, given the remote locations where its inspection is required. That said, the cost increase in order to set it up is substantial and NSWIC argues that this needs to be underwritten by Government. Water users have historically paid for water compliance services, but these were poorly delivered. Water users should not have to pay to make up for the previous underperformance of agencies.

Capital Expenditure

WaterNSW is the only entity with a capital expenditure proposal in the WAMC determination.

These relate to water monitoring activities which were transferred to WaterNSW in 2016 as part of reforms to create scale and share overhead costs. This proposal seeks expenditure increases for this activity. However, it seems unlikely that WaterNSW had not contemplated the shared capital costs of taking on this activity when it was initially planned. In particular, on an incremental basis, the share of costs should have been very small, or else the transfer would not have been justified.

NSWIC asks that IPART investigate the cost savings planned for this activity, and how the new proposals relate to making good use of corporate systems.

Required Revenue

Again, the on the basis of the excessive expenditure, the Required Revenue is overstated.

IPART Issues Paper Questions

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

The failures in water management functions in the past determination period have been well documented. NSWIC sees it as important that water users are not penalised for these failures.

As one example, water users have reported concerns about declining levels of services to minimum requirements for some functions of WaterNSW. One example is in regards to metering, as shown in the below Case Study.

Case Study: WaterNSW Meter Reading Services

As a direct quote from a water user, "I can remember when, not too long ago, meter reads were done monthly, then over time they were quarterly and now yearly."

The operating licence for WaterNSW states "*WaterNSW must determine the volume of water Extracted by, or Supplied to, each of its Customers, at least annually, for the purpose of accurate account management, billing and reporting.*" Whilst reporting 'at least annually' is the minimum requirement, the standard practice of WaterNSW has historically been to perform more frequent meter reads. Water users have reported that the frequency of meter reading by WaterNSW has progressively reduced over time.



This declining level of service has significant implications for water users, government and the general public - most significantly regarding the availability of official information on water take, which is critical to the social licence of water use and management. This issue was raised in the Independent Panel Assessment of the Management of the 2020 Northern Basin First Flush Event in July this year, which says (P 66):

“WaterNSW has advised that the current manual and labour-intensive process to obtain extraction data for the Barwon-Darling inhibited the timely publication of that information. Currently, meter reads along the Barwon-Darling must be done manually - a labour (and resource) intensive process that requires WaterNSW officers to visit sites along the length of the Barwon-Darling. Ordinarily, this process is carried out once per year, after 30 June to line up with the end of the water year. Given the event concluded in late May, it wasn’t considered an appropriate use of resources to do an extra meter reading for the event (rather than waiting until the end of the water year. An event-based meter run would probably have been appropriate if the event concluded in December, for example). COVID restrictions caused additional difficulties. This emphasises the importance of continuing and completing metering and telemetry reforms in a timely manner.”⁴

Water users consider WaterNSW to have an obligation to their customers to provide transparency on water use, which is driven by the heightened public interest in water take (mostly by non-water users). It is considered a responsibility of WaterNSW to be able to provide accurate and timely data to ensure the transparency and accuracy of information, and ultimately to help to restore confidence in the water management of WAMC. Importantly, the demand for this information is not coming from water users, but from the general public.

A water user also said: “Meter reads are or were far more than a meter read, they were the face of WaterNSW to farmers... and most certainly providing a service for what was being charged out as a metering fee.”

Water users are concerned that recent regulatory proposals by Government – e.g. the *Water Management (General) Amendment (Miscellaneous) Regulation 2020* – which involve requiring water users to conduct more frequent meter reading themselves, will lead to WaterNSW defaulting to its minimum requirements more frequently given they could rely on water user self-reporting. NSWIC provided a submission on this regulation, recommending that WaterNSW must maintain regular meter reads (above minimum requirements), or at the very least, reduce WAMC metering service charges appropriately to reflect the level of metering services from WaterNSW.

Additionally, with water users shifting to new metering requirements under the NSW Non-Urban Water Metering Framework from December 2020, it will be important for IPART to investigate the impacts on metering service charges. The new metering framework involves many water users shifting to telemetry devices (at their own expense) which transmits data to WaterNSW digitally (which previously would have required manual processes). These cost-savings, driven by private investment, must be included in determining prices.

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

The scope is appropriate, but the increase in costs is substantial. NSWIC understands that the new regulatory structure will involve establishment costs, but argue that these are costs which should be borne by Government, given their responsibility for the failed regulation which

⁴ <https://www.industry.nsw.gov.au/water/allocations-availability/northern-basin-first-flush-assessment>



customers had funded already in good faith, believing that it would be governed appropriately. Customers should not be responsible for funding the setup of this regulation twice.

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

It is still too early to fully assess NRAR's regulation activities. It is of notice, but not necessarily of concern, that NRAR has invested in technologies to enable efficient surveillance and enforcement of regulation, where these technologies may have risks in implementation. For this reason too, it may take some time to assess NRAR's performance in planning, project delivery and operation of its regulatory responsibilities.

4. *Will NRAR's proposed activities and costs facilitate effective and efficient water regulation?*

The most critical aspect of NRAR's activities is providing integrity and confidence that water regulation is robust and fair. At the end of the day, the public confidence in this will ensure long term reliable access to water resources for NSWIC members. As such, it is important that NRAR is adequately resourced and has technology that is efficient for its enforcement tasks, given the remote locations where its inspection is required. That said, the cost increase in order to set it up is substantial and NSWIC argues that this needs to be underwritten by Government.

5. *How well have WaterNSW and NRAR performed their licence processing functions?*

N/A

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

NSWIC agrees that WAMC should inform and consult with customers, and long-standing issues remain regarding the adequacy of consultation. However, it's not clear why this extra expenditure is required, and how it could be used to address these issues. NSWIC are of the position that many of the long-standing issues regarding information provision and consultation can be addressed with the better use of existing resources, rather than a need for additional resources.

7. *Do you consider DPIE, NRAR and WaterNSW consulted adequately with stakeholders on their pricing proposals?*

There has been little or no consultation with customers as part of the development of this proposal.

8. *How important is it to improve the incentives for DPIE to actively engage in negotiating MDBA and BRC contributions to ensure only efficient costs are passed onto WAMC customers?*

The complex institutional arrangements for MDBA and BRC makes the distance to the customer such that it is difficult for those acting on customers behalf to do so adequately.

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

It is important to remember that the rationale for WaterNSW taking on these activities was the efficiencies that could be gained by integrating it into WaterNSW's existing large scale activities. As such, it seems unlikely that WaterNSW had not contemplated the shared capital costs of taking on this activity. In particular, on an incremental basis, the share of costs would be very small, or else the transfer would not have been justified.

10. *Is WAMC's water monitoring program efficient?*

N/A



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

An increase of a factor of ten does not fit in with the above assessment that in 2016 WaterNSW allowed for integrating water monitoring into its systems at a low incremental cost. We would encourage IPART as part of its efficiency review to examine closely what economies were on offer and why they were not taken up.

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.

See section on cost-shares.

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

Water management, though not as capital intensive as bulk water supply, also requires long term planning and sustained operations to robust procedures. The determination period should be the same as current practice, that is, at least four years.

See appendices for more information.

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 better aligning regulatory periods, but this could be done by lengthening, not shortening, determination periods.

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

NSWIC is of the position that each individual valley requires a unique approach to determining the mix of fixed and usage charges, based on what is most suitable to the specific circumstances of each valley.

Generally speaking, NSWIC prefers a higher volumetric portion than the typical status quo of 70:30 fixed:variable, although this does vary between valleys and customers based on the variability of water offtake. A more general principle is that charges should be aligned with revenue variability of customers.

16. Is there merit in setting separate charges to recover MDBA and BRC costs?

Although separate charges would increase transparency, the more significant question would be as to whether this would lead to pressure for more efficient services. The complexity of the planning and funding process probably means that cost control will be no better, but the billing process will appear more complex.

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?

The reality is that except for Murrumbidgee Groundwater and the Peel, WAMC has practically secured cost recovery for 2021. The issue is rather the large increases in WAMC costs for the upcoming determination. NSWIC argues above that these cost increases are a function of WaterNSW failing to implement the incremental savings approach to scale economies that it promised in the previous determination, the double recovery of expenditure to deliver compliance services and investment in regulatory rectification that is properly the responsibility of Government. If cost shares are set appropriately, cost recovery is achievable.



18. Do you agree with WaterNSW's proposal to introduce a demand volatility adjustment mechanism for WAMC to address its revenue risk? Should we effectively allocate more risk to customers?

Risk should be allocated to the parties who can bear it at least cost. That is, risk sharing should be cost efficient. The WAMC Government entities have access to debt funding at all time record low interest rates, whereas farmers required to pay an impost with a high fixed charge component would need to fund this through their own equity or relatively high commercial interest charges. Neither are efficient.



COST SHARES

As raised in the Issues Paper, cost-shares refers to the system for allocating costs between customers and Government for both Bulk Water and WAMC.

Cost shares are relevant at multiple levels and in both price reviews. NSWIC welcome the question posed by IPART inviting stakeholders to specify an updated cost share ratio and explain why it is appropriate.

Overview

NSWIC firmly rejects the current cost-sharing arrangements in NSW.

This is due to the following reasons:

- Current cost-sharing arrangements have water users (irrigators) paying for **public interest** items, which in-principle, should be sourced from general revenue.
- Current cost-sharing arrangements - 80:20 for Capital Expenditure (with water users paying 80%), and 100:0 for Operational Expenditure (with water users paying 100%) – places a **disproportionate cost burden** on water users.
- Current cost-sharing arrangements are **inconsistent with the National Water Initiative** ‘Best Practice Water Pricing and Institutional Arrangements’ (Clause 64), which NSW is a signatory to. The NWI states:
 - (iv) “give effect to the principles 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”
- NSWIC **rejects the ‘impactor pays’ principle**, as 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 human civilisation (with or without irrigation) – and particularly in our society that values the sound management of water resources and health of river systems.
- If an ‘impactor pays’ principle continues - NSWIC believe that now the largest ‘impactor’ on waterways is **climate change**, and many of the services and new infrastructure is a result of preparing towns and river systems to be resilient to a drying climate. Compared to previous determinations, the impacts of climate change on waterways is more clearly evidenced, experienced and thus broadly accepted. It would be almost impossible, however, to develop a funding model based around this ‘impactor’ (unless from general revenue), and thus a reconsideration of the impactor-pays principle is required.
- Current cost-sharing arrangements can restrict valuable and necessary projects being **adequately funded**, based on financial limitations of water users and their capacity/willingness to pay. This is exacerbated following periods of drought and limited water access which lead to financial hardship of water users. These dry periods are typically the periods when new announcements (and costs) are made, as there is typically greater political will to announce new measures. NSWIC has concerns of the long-term sustainability of this funding model, given modelling predicts decreasing reliability of water entitlements and thus decreasing financial yields of water users. As one example, in the draft Lachlan Regional Water Strategy, it states “*general security users in the Lachlan could experience... a 60% decrease under long-term climate*”



*change projections*⁵. This trend, of decreasing reliability/yields of water entitlements from decreased water supply, but growing demand for water management services and infrastructure to manage decreased water availability, is not compatible with the current cost-sharing ratio.

- Current cost-sharing arrangements in NSW place some of the highest cost-shares on water users globally. The below table, sourced from the OECD (2010)⁶, compares the cost-sharing ratio between Government and water users in Spain, France, Canada, Japan and the USA. For demonstration, Australia has been annotated on in red font. It is clear from this table, that particularly for capital expenditure, most other countries have the majority of expenditure paid for by Government.

Shared financing of investments and operational costs in the water sector, in % (Dukhovny et al. 2009¹)

Country	Investment for water sector development		Operational costs	
	Government	Water users and municipalities	Government	Water users and municipalities
Spain	70	30	50	50
France	50	50	0	100
Canada	75	25	50-70	30-50
Japan	100	0	0	100
USA	70	30	50	50

Aus **20** **80** **0** **100**

- Many of the recent and current demands for new or improved services come from outside of the customer base, yet under the current cost-share ratio, water users are having to pay to meet the demands of non-water users. It is evident in recent media that the general public places great importance and value on water systems, regardless of whether they have any direct relationship on the system (i.e. as a customer). As aforementioned, many of the recent changes to water management have been to meet growing expectations of the general public, and for water services to meet their demands, not necessarily the demands of customers. The cost-sharing framework must be reflective of the **source of the demand**, so that those demanding increased services cover the appropriate costs.

Recommendation:

A new cost-sharing framework for setting prices is required, based on the ‘user pays’ principle, consistent with the commitments of NSW to the National Water Initiative. A new framework must account for and facilitate cost recovery for public interest/benefit items, rather than leave this to customers to pay on their behalf.

Cost-sharing WaterNSW’s corporate overheads

- WaterNSW is a Government owned corporate that as a result of reforms in 2014, combines urban and rural bulk water utility functions. Overhead costs are therefore shared between the urban and rural entities. Significant increases in overhead costs make this issue important.
- All the entities involved in both determinations have funding responsibilities shared between users and government according cost allocations last determined by IPART in 2016.

⁵ https://www.industry.nsw.gov.au/data/assets/pdf_file/0019/324514/draft-rws-lachlan.pdf

⁶ <https://www.oecd.org/env/resources/45058008.pdf>



WaterNSW has shown significant increases in overhead costs shared with its rural bulk water utility. The later section on cost-shares includes detailed comparison of cost share codes.

In general, NSWIC seeks IPART's expert review of corporate overhead allocation, so that overheads related to the services required in urban utilities are not allocated to the rural bulk water utility. There are significant staff and corporate systems required to deal with the operating license and service levels of drinking water bulk supply which do not apply to rural utilities. Rural customers should not cover these costs on an arbitrary cost allocation basis.

On the IPART cost shares, NSWIC has concerns that some of the activities, particularly for water management under the WAMC determination, are for planning activities that are specifically excluded from customer funding. Other WAMC functions are new or reorganised in response to regulatory failures in the past determination period. NSWIC believes that customers should not fund work to be redone or to have entities re-established. It is also good governance, as with IPART's funding basis, that industry does not fund regulatory activities, but that this share is borne by Government. This creates an arm's length relationship and reduces the changes of regulatory capture.

Assessment of cost-sharing system

IPART has proposed in its Issues Papers:

- For Bulk Water: retain the existing impactor pays activity-based costs shares that are applied to rural bulk water pricing in NSW, as revised in 2019;
 - Separately to this, WaterNSW proposes that all government directed drought projects be fully recovered from Government (0% User Share).
- For WAMC: to also retain the same impactor pays system for each of the 33 WAMC activities, but to consider WAMC's proposal to treat three activities differently:
 - Water consents overhead: remove and allocate to Water consents direct cost;
 - Business governance and support: remove and allocate to all activities.
 - Corporate capital expenditure: WaterNSW proposes to apply a 94% weighted average customer share.

In the 2017 Rural Water Price Review, WaterNSW proposed changing the cost shares to a service based model. After review, IPART did not support this change, and in these proposals, WaterNSW does not propose changing the cost-share system.

At a high level, the major issue with cost-shares for the two determinations is the large increases in costs, compared to the previous determinations which were for cost reductions (WaterNSW) or a much lower cost base (WAMC). WaterNSW responded to this issue in its proposal by proposing prices that do not recover costs. For WAMC, the increase in expenditure is such that most valleys move from a high level of cost recovery to a much lower level. There is a significant impasse here and IPART is seeking suggestions from customers. In particular, it is seeking suggestions for the treatment of fish passage, which are potentially a large user cost.

NSWIC sees that a number of these cost items need to be treated differently from the way proposed. The particular items that need addressing are:

- Water resource planning:
 - This is a Government activity and under COAG principles should always be paid for by Government;
- Fishways:
 - Fish passage is regulated to be delivered whenever an asset is upgraded or refurbished. This has become a practical disincentive to the upgrading of weirs in particular, where many weirs have low economic value. There are current



federal programs which can act to remove this obstacle to achieving fish passage, and these should be pursued. Further information on fish passageways, included more detailed recommendations, is outlined above.

- Overheads:
 - The coding of overheads should be conditional on the overheads being shown to be efficient;
- Corporate capital expenditure:
 - This WaterNSW item with a 94% customer share needs to be assessed against criteria showing why the expenditure is not shared with other activities.

Conclusion

NSWIC are available at your convenience, if you have any questions or would like any further information.

Kind regards,

NSW Irrigators' Council.



Appendix 1: NSWIC Letter to IPART on the 2020 WAMC Pricing Submissions (July 2020)

[Signature blocks removed for privacy protection]

24 July 2020

2020 WAMC Pricing Submissions

To whom it may concern,

NSW Irrigators' Council (NSWIC) has reviewed the *2020 Water Administration Ministerial Corporation Pricing Submission – Summary of the Department of Planning Industry and Environment, the Natural Resources Access Regulator and WaterNSW price proposals*⁷, which was published this month (July 2020).

We are very concerned that the submission proposes: “*a capped increase of 5% per year (plus inflation) to WAMC customers for fixed and variable charges and the minimum annual charge, for the four years from 1 July 2021*”.

This would be a very significant price increase for NSW irrigation farmers (22% over four years), who, as this document rightly acknowledges, are already suffering financial hardship from severe drought, very low water allocations, and ongoing reforms. We are therefore seeking IPART's assistance in rejecting or alleviating this price shock to irrigation farmers.

We are particularly concerned that this significant increase is being justified on grounds of water management changes resulting from recent inquiries and reforms, including:

- *Compliance and enforcement of water laws.*
- *Management of environmental water.*
- *Measurement of water take.*
- *Strategic water planning.*

These water management improvements are in the *public interest* and arose out of a need for the whole community to have greater confidence in the NSW water management system. While water users fully support strong enforcement of, and compliance with, water laws, and (in-principle) improved regulations, it is a fundamental role of Government to enforce the laws. It is highly unreasonable and inappropriate irrigation farmers should shoulder the costs alone.

We note the Water Reform Action Plan underpinning these recent reforms states “*We have a responsibility to the people of NSW to ensure we have an equitable and transparent*

⁷ See: <https://www.ipart.nsw.gov.au/files/sharedassets/website/shared-files/pricing-reviews-water-services-rural-water-review-of-water-management-prices-from-2021/legislative-requirements-review-of-water-management-prices-from-2021/joint-summary-of-water-administration-ministerial-corporation-wamc-pricing-proposals-30-june-2020.pdf>



*approach to the management of our water now and for future generations*⁸. That is, the responsibility is not just to water users, but the wider community.

We wish to highlight that delivering cost savings was a core tenet of the recent reforms. We are also concerned that the language and tone of this proposal suggests that it is protecting water users – e.g. “*our proposal to limit price increases*” – when ultimately, it is exposing water users to a very significant and largely under-justified price shock.

NSWIC thereby make the following recommendations to IPART:

1. **Reject the proposal** – on the basis that:
 - a. The specified changes to improve government administration serve a broader public interest to improve public confidence in water management.
 - b. The recent changes (such as law enforcement) are a fundamental Government role, and as such it is reasonable to expect it to be funded from general revenue.
 - c. Insufficient detail has been provided (to our knowledge) on the nature of the improvements and what subsequent additional costs need to be recovered.
 - d. The drought and financial situation for water users is an inappropriate and insensitive time to increase prices by such a significant amount.
 - e. The reforms were designed to deliver cost savings.
 - f. Water users were not consulted in the development of the proposal, nor have they (to date) been notified of this proposal.
2. **Request greater details** given such a significant price increase (22%). Specifically:
 - a. The precise costs of water management activities justifying the price hike.
 - b. Details of the additional costs that need to be recovered.
 - c. Justification of why these costs should be recovered from water users – when clearly the changes are in the public interest.

We ask that individual submissions by DPIE, WaterNSW and NRAR be made public (alongside the Issues paper in September) to enable informed submissions by water users.

I would also like to request a teleconference meeting with the appropriate IPART representative, myself, our Policy Manger, and our Water Pricing Policy Portfolio Leader, to discuss these matters further and work together on a constructive pathway forward.

Thank you for your consideration of these important matters.

Yours sincerely,

NSW Irrigators Council.

⁸ See: https://www.industry.nsw.gov.au/data/assets/pdf_file/0015/312144/nsw-government-water-reform-action-plan.pdf



Appendix 2: NSWIC Submission on the Length of the Determination Period (August 2020)

Overview

NSWIC does not support the proposal for a 1-year determination period.

NSWIC prefers that the determination period adheres to the established 4-year due process.

Key points for consideration are:

- The request for the shorter determination period did not come from water users, but rather, from WaterNSW.
- NSWIC is highly concerned that WaterNSW has made this proposal simply because it is under-prepared for a full determination.
- The WaterNSW Rural Bulk Water Pricing Determinations follow a regular established process which provides predictability and certainty to water users. NSWIC does not feel there is sufficient justification to deviate from this due process.
- There is no reason why WaterNSW should not be able to forecast its future efficient costs with certainty. NSWIC does not accept that WaterNSW would be in a materially better position in 12 months time, compared to now.
- Water users prefer the certainty, predictability and transparency of adhering to the 4-year due process.
- Consultation on this proposal has been inadequate – water users were ‘informed’ rather than ‘consulted’ and were not provided with detailed information on the reasons, pros/cons, and impacts of the proposal to facilitate water users reaching an informed position.
- There are outstanding concerns with the proposed Customer Jury process – the 4-year period allows time to properly resolve these concerns and develop improved methods of consultation.
- Determinations require significant resources from water user representative organisations which have limited resourcing.

NSWIC fully respects the intent of WaterNSW to support water users during what has been an incredibly difficult period of drought and major water reforms. However, the WaterNSW proposal does not reflect the views of water users, and whether this proposal would in fact serve the interests of water users is highly uncertain.

Whilst our preference is to adhere to the standard 4-year determination period, we note a number of matters that require consultation with water users to reach resolution, before they get locked in. NSWIC calls on IPART to lead consultation on these matters (e.g. fee structures, mechanisms to deal with variability, risk transfer product, etc) as part of the Issues Paper consultation period.

More broadly, NSWIC has significant concerns about WaterNSW’s consultation approaches, as outlined in this submission.

NSWIC thanks IPART for its engagement, particularly the meeting in early August with NSWIC to discuss these matters. NSWIC is also thankful for the highly informative Fact Sheet, which has been a valuable resource during this consultation.



Recommendations:

- (1) IPART reject the proposal for a 1-year determination period.
- (2) IPART lead consultation with water users on key matters (e.g. fee structures, mechanisms to deal with variability, risk transfer product, etc) as part of the Issues Paper consultation period.

Background

WaterNSW Rural Bulk Water Price Determinations are typically for a 4-year determination period. WaterNSW has instead proposed a 1-year determination period, on the basis of: needing to consult more closely with water users about water supply needs before setting prices for a longer-term period; that its pricing proposal would mitigate drought and COVID-19 impacts; and, allowing incorporation of Broken Hill pipeline services.

Prices for inland rivers in NSW are determined using a different approach to that for coastal valleys. Inland valleys follow the Commonwealth Government's *Water Charge (Infrastructure) Rules 2010* (WCIR), whereas coastal valleys follow the *NSW Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act).

These current arrangements are transitional, and the ACCC will shortly determine whether the WCIR will continue to apply. This decision will be prior to the next determination (regardless of whether in 1 or 4 years). The outcomes could be either:

- If WCIR discontinues – IPART will set prices under the IPART Act instead of the WCIR (like coastal valleys), giving IPART greater discretion in price setting.
- If WCIR continues – the ACCC will be responsible for setting prices using WCIR at the next review.

Under a 1-year determination period, there would be two steps:

1. IPART would set prices for 1 July 2021 – 30 June 2022 under WCIR.
2. IPART (or potentially the ACCC) would set new prices for 1 July 2022 onwards, based on a further review.

Submission

Consultation

The request for a 1-year determination period did not come from water users.

Water users were informed in October 2019 that WaterNSW intended to apply to IPART to defer the 4-year determination for 1 year, and then in February 2020 water users were informed that WaterNSW were proposing a 2-year deferral.

Subsequently, it became known that under the WCIR, pricing determinations could not be deferred. Thus, there is a view that the 2021/22 submission by WaterNSW is essentially a deferral in the form/guise of a determination.

It has been reported to NSWIC that during the CAGs water users mostly did not question the idea of a deferral, as it was justified by WaterNSW on the basis of supporting water users during drought, and thus intended as a favour for customers. Information on the specific details of benefits and impacts, to facilitate weighing up the pros and cons, was not provided. The discussion was more 'for information' rather than 'for input/consultation'.



Whilst a 1-year determination would allow more time to consult on the next full determination, NSWIC is of the position that it would be very unlikely for any substantial/material changes to arise from further consultation through standard means, that have not already been raised.

More broadly, NSWIC have significant concerns that the consultation methods of WaterNSW are inadequate. These include:

- CAGs are not effective and require an overhaul.
- The proposed Customer Jury process has outstanding issues which are yet to be resolved (detailed below).
- The number and structure of consultative groups is overly complex and duplicative – e.g. CAGS, ROSCCos, Customer Jury.

Water users' significant concerns about the proposed Customer Jury process include: ensuring the composition of the Jury reflects the customer base; ensuring the Jury is appropriately informed to make informed decisions; the overlap/delineation between the Customer Jury/CAG/ROSCCos; and, the time commitment of those in the jury being unreasonable. A 4-year determination period would allow more time to work through these concerns and develop improved methods of consultation prior to the subsequent determination.

Established Process

The WaterNSW Rural Bulk Water Pricing Determinations follow a regular established process which provides predictability and certainty for water users. NSWIC does not feel there is sufficient justification to deviate from this process.

NSWIC is highly concerned that WaterNSW has made this proposal simply because it is under-prepared for a full determination. This is not acceptable – particularly given the timeframes and requirements are well-known in advance.

NSWIC respects that WaterNSW is considering the impacts of the difficult times, with extreme drought, bushfires, floods and COVID-19 all taking a toll on irrigation farmers. However, on the matter of COVID-19, this has only arisen in the past 7 months, and preparations for the determination should have been well underway. It also cannot be assumed that conditions will be better in 12 months' time. On the matter of drought, whilst this has of course been an incredibly difficult time for water users, we do not feel a 1-year determination period would aid this sufficiently to justify changing the determination length.

Ultimately, providing certainty and following due process is the preferred outcome for water users.

Forecasting Future Efficient Costs

NSWIC notes that IPART is specifically seeking stakeholder views as to whether WaterNSW would be in a materially better position to forecast its future efficient costs for 4-plus years in June 2021 (for a potential submission to a 2021-22 price review) than now.

NSWIC is of the position that WaterNSW would not be in a materially better position in 12 months' time, compared to now. Given this is a set process, with known timeframes, WaterNSW should have been prepared. It also cannot be assumed that conditions will have improved in 12 months' time.

WACC

NSWIC notes that IPART indicates that the Weighted Average Cost of Capital (WACC) in 2021 is likely to be significantly lower under the WCIR, then under the IPART Act, which may flow through to lower prices. Thus, if a 1-year determination is made, any lower prices resulting from a lower WACC, would only be in place for 1 year rather than 4 years. However, NSWIC is aware that this must be considered in the context of IPART having greater discretion under the IPART Act.

Resourcing



Pricing determinations are a resource-intensive process for water user representative organisations, whose resources are limited. Going through the determination process twice in a short period is not ideal, particularly given the possibility the outcomes may not improve.

Conclusion

NSWIC thanks IPART for seeking the views of water users on the length of the determination period, and for providing helpful information to guide this process. Ultimately, NSWIC has come to the position that established arrangements should continue, and a 1-year determination period should not be permitted.

Please do not hesitate to be in contact if you have any questions, or would like any further information.

Kind regards,

NSW Irrigators' Council.