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Independent Pricing and Regulatory Tribunal (IPART)
Online submission
<https://www.ipart.nsw.gov.au>

Dear Sir/Madam

Response to Issues Paper - Review of prices for WaterNSW's Rural Bulk Water Services

Thank you for the opportunity to respond to your issues paper on your review of prices for WaterNSW's Rural Bulk Water Services from 1 July 2017.

Background

OEH manages water that is allocated to the environment to improve the health of rivers, wetlands and floodplains in partnership with local communities and government agencies. All environmental water is delivered to meet the objectives of the *Water Management Act 2000* (WMA), the *Commonwealth Water Act 2007* (Cwth WA) and other relevant water management objectives.

OEH has responsibilities for the management of environmental water in NSW in 3 key areas:

1. water provided for the environment under the WMA
 - a. advises the Minister for the Environment on his concurrence to the making of water sharing plans under the WMA
 - b. manages planned environmental water allowances set out in relevant water sharing plans where a decision to release environmental water for a specific purpose is required
 - c. advises WaterNSW in performing its obligations for the implementation of water sharing plans (specifically planned environmental water provisions) under the WMA. OEH considers the planned environmental water function of WaterNSW to be a non-market function under the WMA. WaterNSW delivers water from planned environmental water accounts on behalf of the NSW Government to meet government's statutory obligations under the WMA 2000.
2. management of the NSW environmental water holdings
 - a. The Minister for the Environment holds approximately 176 GL of regulated and 10.6 GL of unregulated entitlements across the Gwydir, Macquarie, Lachlan, Murrumbidgee, Murray and Lower Darling valleys, and the Barwon Darling
 - b. The WAMC holds approximately a further 543 GL of regulated entitlements (recovered primarily under The Living Murray initiative) which are managed by OEH, including the payment of fees and charges

- c. managing the licensed holdings can include direct water orders, trading allocated water to facilitate the efficient delivery of water to rivers and wetlands, and water market trading for partial cost recovery and to maximise environmental benefits across the portfolio
- 3. co-ordinates environmental water deliveries in NSW
 - a. OEH is the only entity which holds Adaptive Environmental Water licenses under the WMA and associated water use plans, which allow for water to be delivered for environmental purposes
 - b. OEH works in partnership with the Commonwealth Environmental Water Office and the Murray Darling Basin Authority to deliver allocations held by the Commonwealth Environmental Water Holder (CEWH) and under the intergovernmental Living Murray initiative.

Further information on NSW water management can be found on our website:
<http://www.environment.nsw.gov.au/resources/environmentalwater/140308-env-water-management.pdf>.

OEH has a Memorandum of Understanding with WaterNSW regarding the delivery of environmental water and the identification and implementation of improvements to water infrastructure to improve environmental outcomes.

A response to the IPART issues paper questions and some general comments on a potential Levels of Service model are detailed below. OEH notes that there are significant environmental implications for the long-term strategy for fish passage management being developed by Fisheries NSW and Water NSW.

Response to questions relevant to OEH

- 2. *Are WaterNSW's proposed monopoly services for the 2017 Determination appropriate?*
 - OEH does not support the 'environmental gauging station' charge presented in WaterNSW submission (see Q 50 for more details)
- 23. *Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of a risk transfer product (or a similar means of managing risk to WaterNSW of revenue volatility)?*
 - OEH does not have a strong preference but would support a higher fixed charge, which would improve budget planning, if it could be demonstrated that a change to the current pricing model would not significantly impact specific categories of users
 - This also applies to Q 32
- 40. *Are WaterNSW's proposed bulk water prices reasonable?*
 - OEH does not support the 'environmental gauging station' charge presented in WaterNSW submission (see Q 50 for more details)
- 47. *Are WaterNSW's proposed meter service charges reasonable?*
 - As above (Q 40)

48 *Should WaterNSW recover meter reading costs through a separate charge rather than including them in standard bulk water charges?*

- Not in the case of 'environmental' gauging stations (see Q 50)
- OEH needs more information about how the Water Take Measurement Strategy will be implemented and the proposed changes to charging to make an assessment of whether it should be a separate charge

50 *Is WaterNSW's proposed environmental gauging station charge reasonable?*

- OEH does not consider the proposed environmental gauging station charge is reasonable in either quantum or in principle.

Introduction to gauging stations and environmental water take

There are 2 key objectives for measurement and meter reading/telemetry of water take, to meet:

- WaterNSW *operational* requirements to run the system efficiently on a real-time basis (assisting to minimise losses which are socialised across all accounts), and
- *accounting* requirements to ensure that the total volume of water taken from each account each year, is sufficiently accurate to minimise potential impacts on allocations for other purposes when the account rules are applied.

The instream gauges that WaterNSW uses to operate the system for all users, measure the total flow at that location over time. The total flow is made up of several different components such as:

- conveyance water (required to meet system thresholds to enable deliveries to occur)
- water that may be 'lost' before the next gauging station (evaporation, seepage)
- water that may have entered the river downstream of the previous gauging station
- WSP deliveries (such as End of System Flows)
- unquantified stock and domestic use
- orders to licence holders for extraction
- an instream 'take' for environmental purposes (ordered from licensed or planned environmental water accounts).

Instream gauges only ever measure these flow components indirectly since an estimate of each component is made from the total flow measurements at each gauge in the system. The method used for calculating the different flow components is *at least* as important as the measurement accuracy of the total flow at a gauge and at all the other gauges used in the calculations. In addition, the accounting methods used for aggregating daily flow estimates can assist when dealing with uncertainty and should be considered when assessing the benefits and costs of maintaining or upgrading gauging stations.

At some point, additional certainty in the measurement of total flow will not improve the uncertainty in the estimates of each flow component.

OEH considers that for instream gauges, operating the system to enable deliveries and minimise losses for all users is the primary driver for measurement and meter reading/telemetry requirements. This is because any increase in measurement accuracy above the operational requirements, does not benefit anyone since no water savings have been made operationally. Any further risks, if they exist, in accounting for take at river gauges can be addressed with accounting methods that consider the uncertainty in:

- real time and daily measurements compared to total take, and
- the size of the individual components of the total flow at each location.

The total volume of water to be taken from accounts across an annual accounting period can be estimated more accurately than for individual days. This means that real time accounting for operational requirements will always be more stringent than accounting requirements for take at gauging stations.

In cases where operational savings *are* made from improvements in instream measurement or meter reading/telemetry, the costs for those should be socialised because WaterNSW operational activities are done on behalf of all users and any water savings are socialised between all users. Requiring different measurement standards to one flow component at a river gauge and not others is not possible to do in practice.

OEH's concerns

OEH does not support the 'environmental gauging station' charge presented in WaterNSW's submission and requests that IPART:

- recognise that the specifications for the measurement and meter reading/telemetry of licensed take and the timing for compliance, have not been finalised. DPIW is currently developing a Water Take Measurement Strategy consistent with the National Water Initiative principles in consultation with water users. The strategy could also potentially set requirements for the measurement of planned environmental water which WaterNSW is responsible for
- change the name of the charge to reflect that it applies to any licence with works approvals on gauges (now or in the future) - they are not 'environmental' gauges
- consider the temporary nature of works approvals
- remove the 'environmental gauging station' charge for the 2017-2021 period or be very specific on the service standards it covers so that the costs will not be applied if alternative solutions are found or require a lesser cost
- ensure that if no additional measurement or meter readings are required for the measurement of licensed take at gauging stations, above WaterNSW operating requirements, then individual licence holders are not targeted for a separate charge. This is consistent with the previous ACCC determination in respect to impactor pays, and reflects the primary obligations WaterNSW has for gauging stations to measure all water in the system, irrespective of any works approvals for licensed take

OEH further requests that IPART require WaterNSW to:

- provide information to OEH on it's proposed gauging station upgrades including:
 - which gauging stations they are referring to
 - when they reach 'end of life'
 - the water delivery measurement standards that are currently being met by the existing gauging stations and WaterNSW current practice to assist with a cost benefit analysis
 - whether there are any works approvals on gauging stations managed by WaterNSW where the water is used for *any purpose* (to ensure that the pricing approach is applied consistently for all licence holders)
- ensure they do not specify or carryout works or meter readings 'on OEH's behalf' without prior consultation, particularly in relation to:
 - identifying alternate solutions consistent with DPIW requirements
 - the cost benefits of upgrading gauging stations compared to other solutions.
- *expressly exclude* from any application of gauging station charges:
 - any works approvals on dams or any other unforeseen delivery infrastructure (for example, OEH has a licence with a works approval on Hume dam)

- locations where WaterNSW is obliged to deliver planned environmental water which does not require a works approval. Licensed water ordered to the same locations should not have additional measurement requirements
- flows outside of the range of orders for environmental water take (for example the gauging done during higher natural flows should not be shifted to individual licence holders)
- consider whether WaterNSW's operating licence, currently under review, could make the primary operational requirements more explicit to ensure appropriate standards apply to the measurement of all water in the system, prior to determining standards for licensed take.

In their submission, WaterNSW have indicated they will investigate whether environmental water holders should pay for the whole gauging station charge (rather than any incremental change). OEH considers this to be an inappropriate application of the impactor pays principle. As a licence holder, OEH already shares the costs for all gauges and does not receive any additional benefit relative to other licence holders who all benefit from efficient system operations.

Charging environmental licence holders for instream take measurement is equivalent to charging individual licence holders to meter the operational water used to deliver their extractive component. This additional charge would mean environmental water holders pay for the same service twice (once in the shared charges and again as a separate charge).

If these shared costs were placed solely on environmental water licence holders the charge proposed by WaterNSW (approx. \$400K/year) would significantly impact on our current and ongoing activities to meet the NWI and WSP environmental objectives by diverting funds from beneficial uses. If the new charge is applied, OEH will be forced to remove works approvals from our licenses and cause unnecessary administration costs for OEH, DPIW and WaterNSW, as well as risk to outcomes from changing a system that already works.

Comments on a potential Levels of Service framework

OEH understands that WaterNSW is proposing to introduce a 'Customer Levels of Service Framework' that differentiates between mandatory regulatory standards and discretionary standards. We accept that there will be some limited services that warrant a discretionary fee, however question whether a Levels of Service model is the appropriate method for addressing these. The following key principles should be considered for the application of any pricing model and should be assessed against current practice:

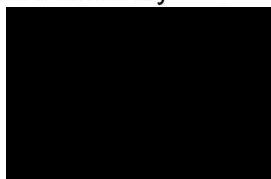
- if service levels are to be differentiated, it should be on service types rather than customer types:
 - to avoid charging a customer twice for the same service
 - to adequately deal with services that are used by multiple customers (as is the case with water trades under the water sharing plan rules)
- any differentiated service must be simple enough to be transparent, justifiable and cost effective to develop and implement
- environmental water licenses maintain the same characteristics of the purchased licences with the same access rules and cost sharing that apply to the total licence pool. Note that the environmental water delivered under licence does not contribute to impacts on the environment. This means environmental water holders are currently subsidising consumptive water users by paying a portion of the costs of mitigating the environmental impacts of consumptive use. OEH is not proposing any change to this arrangement.
- the minimum regulated standards should address both operational efficiency, and the ability to meet water resource management needs including environmental objectives.
- services and cost sharing of services are aligned with the water trading rules which provide the opportunity for any customer to trade between management areas and from upstream to downstream at any time subject to the water sharing plan rules. Methods for charging customers should not affect the ability, or the incentive of a customer (or potential customer) to trade

OEH would like continued consultation on whether this type of model is appropriate and equitable across all water user types, including:

- clarity on what an 'impactor' and a 'beneficiary' is for each type of cost and the implications of these costing models
- the risk assessment, fit for purpose and cost effectiveness tests, for operational efficiency and water resource management needs, to ensure a complementary and transparent approach with the Water Measurement Take Strategy currently being developed by DPI Water. For example, to inform the assessments regarding:
 - whether any additional measurement or telemetry requirements for instream gauges are justified for the measurement of licensed take
 - the extent to which alternate solutions to infrastructure or other system changes, (such as water accounting methods) can address the risks to water management objectives (see question 50 for more details).

Should you require further information please do not hesitate to contact Justen Simpson, Manager, Environmental Water Governance on [REDACTED]

Yours sincerely



13/10/16

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