

20 August 2020

Dr Paul Paterson
Chair
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Dr Paterson,

WaterNSW rural bulk water prices from 1 July 2021

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to comment on the length of determination period for WaterNSW's rural bulk water prices from 1 July 2021.

PIAC has a number of concerns regarding WaterNSW's proposal for the one-year determination period. We consider a one-year determination may result in worse outcomes in the near and long term, and do not support the proposal.

Stakeholder engagement

WaterNSW's primary justification in seeking a shorter determination is to allow it time to consult and engage with stakeholders on their long-term supply needs. It also cites the need to alleviate pressures on consumers caused by drought and the COVID-19 pandemic. PIAC does not consider these reasons sufficient because:

- WaterNSW has had the opportunity to engage with stakeholders regarding their needs for three years and has not done so. The need for stakeholder consultation and the key areas requiring stakeholder input are well established, with the determination timeframes known well in advance. WaterNSW has not explained why it has not engaged with stakeholders during the past three years and there is no clear reason why one further year will make substantive engagement any more possible or likely. The ongoing impacts of COVID-19 over the next 12 months may make meaningful engagement more difficult.
- The elements WaterNSW highlights as requiring more detailed engagement are unlikely to be able to be materially changed as a result of

stakeholder input. WaterNSW has cited long-term supply needs as requiring substantive engagement. PIAC notes, however, the NSW Government has already made key investment decisions regarding supply expansions and the associated expenditure is flagged in this proposal. We also note WaterNSW's 20-year infrastructure investment options study includes well-established, long-term supply allocation shortages. Given supply shortages and the expenditure required to address them is already established, PIAC questions whether there is scope for stakeholders to have a material impact through any engagement that could be undertaken in the next 12 months.

While PIAC strongly supports meaningful integration of stakeholder preferences in investment and pricing proposals, we do not consider WaterNSW's engagement concerns a valid justification for delay in this case.

Alignment of determinations

In its proposal, WaterNSW notes a shorter determination period would allow alignment between the next WaterNSW rural bulk water and Broken Hill pipeline determinations, which is a valid consideration for IPART.

In general, PIAC supports aligning determination processes where there are benefits in doing so. We highlight the Water Administration Ministerial Corporation (WAMC) price determination commencing on 1 July 2021 that will have material interaction with the WaterNSW rural bulk water process, for example through the handling of Murray Darling Basin Authority (MDBA) and Dumaresq-Barwon Border Rivers Commission (DBBRC) user share of cost recovery charges.

PIAC regards alignment between WAMC and WaterNSW rural bulk water charges to be preferable. In preventing these two determinations aligning, a one-year determination could potentially have negative flow-on impacts. As a stand-alone process occurring at a later date, the Broken Hill pipeline determination period could be adjusted to align with WaterNSW should further alignment be a priority.

Community impacts

PIAC supports investment and pricing that recognises the long-term impacts of climate change on water resource availability, and supports sustainable and affordable access to water for the community. Responding to the ongoing drought with 'temporary' under-recovery and lower pricing invites longer term risk and inefficient cost, and PIAC does not support this approach.

Water scarcity continues to heavily impact many rural communities reliant on WaterNSW's services. Ensuring these communities have sustainable access to affordable water resources should be the priority objective of IPART's pricing determinations.

PIAC supports WaterNSW engaging with stakeholders and communities to determine how best to support those impacted, however we do not consider it is the role of a regulated business to unilaterally propose temporary prices that intentionally under-recover costs. PIAC notes IPART is required to ensure regulated monopoly businesses like WaterNSW invest and price efficiently so their costs are minimised and recovered efficiently. Importantly, the recovery of costs should ensure the long-term sustainability of the business and its ability to service the community.

In seeking a one-year determination, WaterNSW is proposing to under-recover its costs for the period, ostensibly as a means of mitigating the impact of ongoing drought on the community. PIAC does not consider this appropriate for a regulated monopoly business, or a sustainable approach to a long-term issue. Support for businesses and communities in dealing with the

impacts of water scarcity is important, but it is more appropriately provided through transparent, rebates, grants or subsidies targeted at those experiencing disadvantage. Setting prices below the real efficient costs for a single year may have negative long-term impacts, including price volatility and the risk of inefficient investment and behavioural decisions by water users.

PIAC also notes periods of water shortage are likely to become more extreme, protracted and frequent. In undervaluing water services when they are most scarce. WaterNSW’s proposal is not a sustainable response to such risk. We note that such an approach would also contradict IPARTs recent decision to implement dynamic drought pricing for WaterNSW, Sydney Water and Hunter Water.

Further engagement

PIAC would welcome the opportunity for further engagement with IPART and other stakeholders to discuss these issues in more depth. Please do not hesitate to contact Douglas McCloskey on [REDACTED]

Yours sincerely,

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Public Interest Advocacy Centre

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