



April 13, 2017

WaterNSW Rural Bulk Water Prices
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Sir/Madam,

Review of prices for WaterNSW's Rural Bulk Water Services from 1 July 2017

As the leading Australian water broker, Waterfind would like to provide commentary on two water market related draft decisions made by the Independent Pricing and Regulatory Tribunal of NSW (IPART) in its draft report.

[Draft Decision 46](#) - *To set the trade processing charge as a single, fixed charge.*

Waterfind fully supports this draft decision. The water market participants will perceive a single fixed charge as a much improved and more transparent method compared to the current fee that incorporates a fixed and a variable component.

[Draft Decision 38](#) - *To maintain levying usage charges on customers trading water allocation (also known as a 'temporary trade') to persons who do not hold a NSW water access licence with an associated water supply works and complying metering (eg, for interstate trades), to recover the prudent and efficient infrastructure costs WaterNSW incurs in holding and releasing bulk water when it is traded out of NSW*

Waterfind maintains the view that the rationale and justification of this fee is flawed. A multitude of evidence supports this view that the fee distorts the water market (as detailed in our submission to the IPART Issues Paper¹). Furthermore, Waterfind believes the wording surrounding this draft decision requires further clarity. Firstly, in the IPART draft report² it is stated that

*"We have decided to levy usage charges **on all customers trading water**, irrespective of whether the water is traded inside or outside of NSW."*

Waterfind would like to clarify whether the above would continue to only be applicable in cases where the buyer's licence is not linked to a NSW Works Approval, or all NSW trades in general.

If the former is the right interpretation, Waterfind would like to remind IPART that this is already the case as the variable usage fee is applied also within NSW if the buyer's licence is not linked to a NSW Works Approval. However, if the fee would apply to all NSW temporary water trades regardless of the buyer's licence being linked to a works approval, as the wording implies, this would constitute an artificial and unnecessary trade barrier with disastrous consequences for the water market.

¹ Waterfind Australia Pty Ltd submission to IPART Issues Paper, October 2016, pp 1-3.

² IPART, Review of prices for WaterNSW's Rural Bulk Water Services from 1 July 2017 - Draft Report, March 2017, p 131.

In addition, further clarification is needed for the following statement³:

“Usage fees payable by customers who trade their allocations should be referable to the best available information held by WaterNSW as to usage by a trade recipient.”

Waterfind’s interpretation of the above is that the usage fee for the temporary water seller would be determined by the location of the buyer and the volume of water delivered to their location. Waterfind strongly disagrees with the rationale and logic of this point.

Furthermore, the draft decision regarding this matter is written in highly ambiguous language. There is confusion surrounding what it actually means if usage fees are referable to usage by a trade recipient – for example, if the buyer uses all the water they’ve bought, is the seller’s usage fee higher or lower? Irrespective of this, Waterfind fails to see what significance the buyer’s usage of the water has at all, and does not support this change.

Should the fee be determined as per IPART’s draft decision, this would have several disadvantages for the Australian water market, including;

- Trade processing times would be increased as WaterNSW would have to collect meter readings or provide a “best estimate” of water extracted by the buyer;
- The lack of cost transparency and standardised costs would constitute a trade barrier; and
- If the buyer did not use any water and instead carried it over to the next season, it could take months or even years before the seller’s final usage fee could be calculated.

Therefore, Waterfind would like to restate its position that it does not agree with the justification of this fee in the first place. Thus, based on the comments provided in this and the earlier submission to the Issues Paper, Waterfind recommends IPART to prohibit WaterNSW from charging this fee, and WaterNSW should look into identifying other, non-distortive ways to cover its ‘prudent and efficient costs’. The short and long term water market benefits would, in Waterfind’s opinion, far outweigh any of the costs or risks associated with this process.

However, if the levying of the fee is maintained, Waterfind considers the only logical way to achieve this is to continue WaterNSW’s current practice of levying a charge equivalent to the valley-of-origin variable (i.e. usage) charge for the full amount that is traded, because:

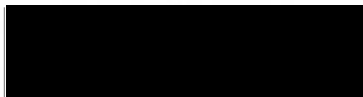
- The fee is standard for all NSW sellers (i.e. combined WaterNSW and DPI Water usage charges for the traded volume) and from a water market intermediary perspective it can be invoiced to the seller immediately when the trade takes place
- the fee covers WaterNSW’s ‘prudent and efficient costs’ in advance, regardless of what the buyer does with the water (uses it, trades it or carries it over to the next year)

³ *ibid.*

As the leading Australian water broker Waterfind believes it is well positioned to comment on the WaterNSW variable usage charge. Based on its experience and knowledge of the Australian water market, Waterfind's view is that the proposed changes to the determination of the usage fee would not be perceived positively by the market participants.

Whilst there have been many policy developments in the recent years that have attributed to the improved transparency of the water market, in Waterfind's opinion these changes proposed by IPART, if implemented, would be a step backwards.

Sincerely,

A solid black rectangular box used to redact the signature of Simo Tervonen.

Simo Tervonen

Manager – Trade, Policy & Market Operations
Waterfind Australia