



October 17, 2016

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

Broadly, Waterfind is happy with the approach the Independent Pricing and Regulatory Tribunal of NSW (IPART) has taken for the Review of Water NSW's Bulk Water Prices. Thus, Waterfind does not have comments for any of the 60 specific issues listed for stakeholder comment as such.

However, Waterfind would like to provide commentary on a specific issue that is not mentioned in the IPART Issues Paper, but is touched on by the WaterNSW Pricing Proposal.

At present, WaterNSW requires the payment of variable usage charges (VUC) for all allocation assignments (temporary) involving a buyer licence not linked to a NSW Works Approval. In effect, all interstate trades incur this fee. As interstate trading is commonplace, a significant amount of irrigators' funds are spent on this charge as they were trying to manage their water assets in the most effective way. Effectively this creates a significant trade barrier in the Southern Connected Murray Darling Basin temporary water market.

In November 2015, the Australian Competition and Consumer Commission (ACCC) released a proposed rule change (under its Review of the Water Charge Rules) that would prohibit WaterNSW from levying, at the point of trade, the variable usage charge for temporary allocation trades where the buyer does not have a NSW Works Approval.

We note that in its Pricing Proposal WaterNSW have responded to the ACCC's statement that the ACCC:¹

"... acknowledges that it is important that operators are able to recover their prudent and efficient costs. Therefore the intent of the rule is not to preclude infrastructure operators from imposing these charges to recover revenue necessary to cover these costs. The issue is when an infrastructure operator imposes such charges. The ACCC therefore recommends that operators consider alternative charging structures that would achieve this objective, without distorting water use and trade decisions. For example, the ACCC considers that levying variable charges at the time water is allocated, rather than when water is used, could be an option that allows operators to continue to levy charges in a manner that takes into account water availability (which is a key

¹ ACCC (2015) Review of Water Charge Rules Draft Advice, November 2015, p. 69

rationale for the current reliance on variable charges), but in a manner that does not distort decision-making. The ACCC is of the view that this approach could strike the appropriate balance between ensuring that infrastructure operators are able to recover prudent and efficient costs while still ensuring that water users face appropriate incentives to trade their water.”

WaterNSW’s response² was that:

- There is little evidence to suggest that trade is prohibited by WaterNSW’s approach. The current market price of water in the Murray is \$180/ML relative to the 2015-16 WaterNSW usage charge of \$6.40/ML (approximately 3.5 per cent of the market price).
- The ACCC proposed option to levy charges at time of allocation is not a feasible option for WaterNSW. Customers are not obliged to use their water allocation and the ACCC proposal suggests charging customers for unused water. This is a significant change from current arrangements and is not likely to be supported by customers. We note that water allocations may increase during the year and this would require substantial and costly reconfigurations of the water account and billing systems.

Waterfind fully supports the ACCC’s proposed rule change, and believes that WaterNSW’s response is not sound on this matter.

Firstly, Waterfind considers there is plentiful of evidence that the trade out fee distorts the market. This was supported by the ACCC commissioned report³ from Marsden Jacob Associates (MJA) that a specific charge had led to dual pricing for NSW water allocation in the southern Murray-Darling Basin (MDB), with NSE sellers listing their (NSW) water allocations at a \$5-\$7 discount in Victorian and SA markets. From a pure water market perspective, in Waterfind’s opinion it is an undeniable fact that this fee distorts the water market. This opinion is also generally shared by Waterfind’s clients actively trading in the Southern Connected system.

Secondly, the current market price of temporary water in the Murray is now <\$80/ML and continuing on a downwards trend. This price relative to the 2016/17 WaterNSW usage charge of \$6.48 which, when combined with the usage fee of \$1.04 from DPI Water totals \$7.52/ML (approximately 9.4% of the current market price as of October 2016). Thus the fee represents a significant proportion of the current market price, and effectively hinders NSW irrigators from getting the best price for their water whilst selling on the temporary market.

As a result, Waterfind supports the ACCC consideration that levying variable charges at the time water is allocated, rather than when water is used, would strike the appropriate balance between ensuring that infrastructure operators are able to recover prudent and efficient costs while still ensuring that water users face appropriate incentives to trade their water.

WaterNSW’s assertion that the feasibility of this change would require substantial and costly reconfiguration of the water account and billing systems appears unfounded, given the overall benefit to all participants in the water market.

² Issues Paper - Review of prices for WaterNSW - Rural bulk water services from 1 July 2017, p 116-117

³ Available at: <http://www.accc.gov.au/system/files/Marsden%20Jacobs%20Associates%20-%20Impact%20of%20Infrastructure%20charges%20on%20water%20trade%20in%20the%20MDB.pdf>

WaterNSW's point that "*This is a significant change from current arrangements and is not likely to be supported by customers*"⁴ directly conflicts with feedback from Waterfind's customers.

Waterfind reaffirm the ACCC's point that the benefit of this approach to levying variable infrastructure charges at the time of allocation would create incentives for greater participation in water markets⁵. Waterfind fully supports this suggestion, as it would level the playing field between NSW, SA & Vic irrigators in terms of interstate water trading as NSW water sellers would be indifferent between selling water to buyers in any state.

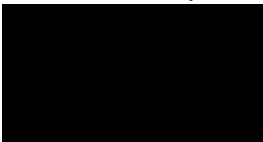
In a given season when an irrigator decides that they do not wish to use the water allocated against their licence, the irrigator has a number of options including trade, carryover (subject to their arrangements) and forfeiture. Although Waterfind sympathise with WaterNSW's point that it is "*likely that any solution developed would have an adverse impact on customers who do not engage in trade*", given the ever increasing number of temporary water trades every year, it could be argued that the number of water licence holders that could be adversely affected is diminishing.

Levying variable charges at the time water is allocated would also solve another issue in relation to the WaterNSW variable water usage charge. This charge applies not only to interstate trades but also to intrastate temporary trades that involve a buyer whose licence is not linked to a NSW Works Approval. While in certain cases (e.g. the buyer only momentarily parks the water onto his account and moves it onwards to a licence that does have a works approval attached) it is possible to claim this fee back, at present this process is overly cumbersome. This has led to situations where persons rightfully eligible to claim their fees back have not done it due to the process being too difficult. Levying variable charges at the time water is allocated would therefore fix this issue as well.

This process has since been further complicated by WaterNSW now specifying all requests for refunds require the customer to demonstrate that they have been charged twice for the same parcel of water in the same water year. Moving water to a licence with a works approval does not demonstrate that the water has been charged twice, rather it simply highlights the potential that this is possible should the water be used through the meter or on-sold to a licence without a works.

To conclude, as the leading Australian water broker Waterfind believes it is well positioned to comment on the WaterNSW variable usage charge. Based on the comments provided in this submission, Waterfind suggests that IPART enforce ACCC's proposed rule change and prohibit WaterNSW from charging this fee. 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.

Sincerely,



Alister Walsh
CEO
Waterfind Australia

⁴ Issues Paper - Review of prices for WaterNSW - Rural bulk water services from 1 July 2017, p. 117

⁵ ACCC (2015) Review of Water Charge Rules Draft Advice, November 2015, p. 69