



Submission to the Independent Pricing and
Regulatory Tribunal NSW on:

*Draft Report on Review of Prices for the Water
Administration Ministerial Corporation (DPI Water)
from 1 July 2016*

Gwydir Valley Irrigators Association Inc

April 2016



making every drop count



GVIA

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6 April 2016

Dr Peter Boxall, AO
Chairman
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
Haymarket Post Shop
NSW 1240

Lodged online

Re: Submission by Gwydir Valley Irrigators Association Inc on IPART's Draft Report on Prices for Water Administration Ministerial Corporation starting 1 July 2016

Dear Dr Boxall

Please see enclosed the submission from the Gwydir Valley Irrigators Association Inc (GVIA) to the Independent Pricing and Regulatory Tribunal NSW in reference to your draft report on the 'Review of Prices for the Water Administration Ministerial Corporation – DPI Water starting 1 July 2016'.

We have developed 12 recommendations for consideration by the tribunal when making your final determination of prices.

Kind Regards



Zara Lowien
Executive Officer
Gwydir Valley Irrigators Association

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Appendix A: Letter to IPART Re: Floodplain harvesting licence structure.

1. Purpose of the Submission

This document has been developed by the Gwydir Valley Irrigators Association (GVIA) on behalf of its members as a formal submission for consideration by the Independent Pricing and Regulatory Tribunal (IPART) NSW during their determination of DPI Water's water administration prices beginning 1 July 2016.

This document represents the concerns and views of GVIA's members. However, each member reserves the right to express their own opinion and is entitled to make their own submission.

The GVIA and its members are members of the NSW Irrigators Council and we endorse the submission made by this organisation.

2. Introduction

The Gwydir Valley Irrigators Association (GVIA) Inc welcomes the opportunity to provide this submission to the Independent Pricing and Regulatory Tribunal (IPART) NSW on their draft reporting into the 'Review of Prices for the Water Administration Ministerial Corporation – DPI Water starting 1 July 2016'.

We have prepared this submission following review of IPART's draft report, their consultant's report, a follow up teleconference with IPART NSW staff on specific pricing issues in the Gwydir Valley and the transcript following our appearance at the public hearing in Tamworth. Upon review of this information, the GVIA still does not believe that there is an appropriate level of detail and transparency in DPI Water's revenue requirement to justify the current draft determination. Not to mention, adequate consideration given to other factors influencing the appropriateness of DPI Water's revenue like their capacity to deliver and inherent inefficiencies.

However, we are comfortable with components of the draft determination; namely IPART's consideration of efficiency savings, recognition of past poor performance and initiation of annual reporting requirements.

We believe that there are remaining areas that require further consideration by the tribunal prior to finalization of prices in June 2016. We have outlined which decisions we support or reject as part of this submission and this commentary can be found in 3. Responses to Draft Decisions. Where we have made recommendations or rejected IPART's decision, we have provided greater detail within the bulk of this submission.

As a result, the GVIA have also developed 12 recommendations for consideration by IPART, with each of these outlined in 4. Recommendations,.

3. Responses to Draft Decisions

1. *IPART's draft decision is to accept DPI Water's proposed government monopoly service activities for the 2016 Determination*
 - a. *IPART has excluded 25% of the cost of the Metropolitan Water Directorate's development of the Metropolitan Water Plan, as IPART considered these costs do not relate to WAMC's monopoly activities.*

Accept

- 2. IPART's draft decision is to accept DPI Water's proposed 4-year determination period, from 1 July 2016 to 30 June 2020.*

GVIA supports a 4-year determination period provided that it will not align with the proposed WaterNSW determination. It is imperative that these processes remain separate to provide customers the best opportunity to provide input and feedback into both processes.

- 3. IPART has reduced DPI Water's proposed operating expenditure allowance by \$20.12million (9.8%) from \$204.72 to \$184.60 million over the 2016 determination period.*

Whilst the GVIA accepts the reduction in operating expenditure but questions if this reduction is indeed low enough to reflect DPI Water's past performance, over recovery and current reformation.

GVIA along with NSWIC are also concerned with the significant increase in average user share component and the impact that this will have on customers in the immediate term.

Reject and revise further.

Refer to 6.1 Support for further Revenue Reductions and 7.1 Revenue Building Blocks.

- 4. IPART has accepted DPI Water's proposed allowance for BRC costs, totalling \$1.47 million over the 2016 determination period.*

Comment not applicable.

- 5. IPART has reduced DPI Water's proposed allowance for MDBA costs by \$1.2 million (or 3.2%), from \$37.1 million to \$ 35.9 million, over the 2016 determination period.*

The GVIA remains concerned over the total costs for the MDBA and distribution of these onto users as part of this determination.

There remains little information to determine the appropriateness of these costs for the NSW Government let alone for the valley.

We reject the determination of MDBA costs for our region and recommend IPART revise these further.

Reject and revise.

Refer to 7.1 Revenue Building Blocks.

- 6. IPART's draft decision is to accept DPI Water's historical capital expenditure over the 2011 determination period.*

Refer to NSWIC submission.

7. *IPART's draft decision on forecast capital expenditure over the 2016 determination period.*

a. *We have accepted Synergies' recommendation to reduce DPI Water's proposed capital expenditure by a total of \$1.9 million over the 2016 determination period.*

The GVIA does not consider that the information supplied by DPI Water is sufficient to justify the proposed CAPEX programme. DPI Water have underperformed on previous capital projects and have an inability to meet proposed timeframes. We believe greater consideration to past performance as well as capacity to better manage, must be taken into account and as a result, we believe that the proposed CAPEX budget is too aspirational and should be revised further.

Further to this, the GVIA believes that those customers believed to generate the benefit from any capital projects should be responsible for funding those projects. We require greater transparency on the proposed programmes to assess the potential benefits for the proposed costs in our region.

Reject.

Refer to 6.1 Support for further Revenue Reductions and 7.1 Revenue Building Blocks.

8. *IPART has set DPI Water's opening Regulatory Asset Base at the commencement of the determination period (1 July 2016) at \$6.30 million.*

No comment.

9. *IPART has applied a post-tax real WACC of 4.8% to calculate the return on DPI Water's assets. This would generate a return on assets of \$2.04 million over the 2016 determination period.*

The GVIA rejects the inclusion of a WACC for a Government Agency that provides monopoly services.

Reject and remove.

Refer to 7.1 Revenue Building Blocks.

10. *IPART has set the return on working capital at \$1.94 million over the 2016 determination period.*

Refer to NSWIC submission.

Reject and remove.

Refer to 7.1 Revenue Building Blocks.

11. *IPART has set regulatory depreciation at \$3.71 million over the 2016 determination period.*

The GVIA believes that users will be charged to replace items of depreciating value at the end of their asset life. As a result, we an allowance for depreciation can be viewed

as double accounting. As we NSWIC, we question whether this proposed allowance fits within the water management charge rules.

Reject and remove.

Refer to 7.1 Revenue Building Blocks.

12. IPART has included a tax allowance of \$0.27 million over the determination period for DPI Water's taxable income for its monopoly services.

The GVIA does not support a State Government agency being provided a tax allowance.

Reject and remove.

Refer to 7.1 Revenue Building Blocks.

13. IPART has not included DPI Water's government cash grants and contributions in calculating the tax allowance.

The GVIA does not support a tax allowance. DPI Water should pursue cash grants and external contributions without negative impacts on customers.

Accept.

14. IPART's draft decision on DPI Water's notional revenue requirement (NRR) for its monopoly water management services is shown in Table 7.1. This totals \$229.9 million over the 2016 determination period.

The GVIA rejects the NRR due to the elevated proposed operational and capital expenditure as well as the inclusion of inappropriate costs within the revenue building blocks. As a result, we recommend at least a \$16.25M reduction in the NRR from the following components:

- a) Decrease in operational expenditure by another 5% or \$9.23M
- b) Decrease in capital expenditure by a further \$1.0M
- c) Removal of WACC provisions of \$2.04M
- d) Removal of Depreciation equalling \$3.71M
- e) Removal of Tax Allowance of \$0.27M.

The GVIA supports a further revision of MDBA costs and Working Capital.

Reject and revise.

Refer to 6.1 Support for further Revenue Reductions and 7.1 Revenue Building Blocks.

15. IPART's draft decision is to accept DPI Water's proposed 72% user share of costs, consistent with the impactor pays principle. This means the user share of DPI Water's total efficient costs (to be recovered through water management charges) is \$166.1 million over the 2016 determination period.

The GVIA rejects the NRR, however we accept that a share of this revenue requirement should be recovered from users based on the 'impactor pays principle'. We are concerned with the significant increase in average user share between determination

periods and request this be considered when determining the final user share components and price.

The GVIA believes that a number of barriers to understanding appropriate user shares have evolved, these include a movement towards regional based pricing and away from valley specific as well as the establishment of new cost codes.

We request a revision of the average user share proportions as a means to minimise impacts to customers.

Reject and revise.

Refer to 7.2 Cost Drivers.

16. IPART's draft decision is to accept DPI Water's proposed cost drivers to allocate the user share of costs across water sources.

The GVIA is concerned at the significant rise in the proportion of user share being recovered within this determination and believes this stems from inaccurate cost drivers and allocation of users shares.

Not to mention the amalgamation of valleys into region pricing is undermining our ability to interrogate cost drivers and their impact on cost.

Reject.

Refer to 6.2 Valley Specific Pricing and 7.2 Cost Drivers.

17. IPART's draft decision on the allocation of the user share of costs across water sources is provided in the draft report (above).

The GVIA does not support the amalgamation of groundwater and unregulated river sources and therefore cannot interrogate valley prices, reducing transparency.

Reject.

Refer to 6.2 Valley Specific Pricing and 7.2 Cost Drivers

18. IPART's draft decision is to maintain the geographic split of prices for regulated and unregulated sources, and an inland/coastal division for groundwater sources.

The GVIA supports the maintenance of valley specific pricing that reflects the costs associated with managing and monitoring entitlement and water take in that region for those entitlement types. We do not support regional pricing approach.

Reject.

Refer to 6.2 Valley Specific Pricing.

19. IPART's draft decision is to accept DPI Water's proposed tariff categories for licences, namely:

- a. *entitlement charge licences (subject to an annual entitlement price through 1- or 2-part tariffs) .*
- b. *water take charge only licences (subject only to the water take price), and*
- c. *minimum charge only licences (subject only to the minimum annual charge).*

The GVIA as with NSWIC are concerned that the change in methodology may result in highly variable system like the Gwydir being at higher risk of greater revenue volatility and that this will have an impact in prices in future determinations.

Accept tariff proposal but reject water take methodology.

Refer to 7.2 Cost Drivers and 7.4 Prices.

20. IPART's draft decisions for entitlement charge licences are to set:

- a. *2-part tariffs, comprised of a fixed charge (\$ per ML of entitlement or unit share) and a water take charge (\$ per ML of water extracted), for regulated rivers, unregulated rivers and groundwater, where water take is measured, and*
- b. *1-part tariffs, comprised of a fixed charge (per ML of entitlement or unit share), for unregulated rivers and groundwater, where water take is not measured.*

Accept.

The GVIA notes that we encourage DPI Water to report on their initiatives to promote the opportunity of 2-part tariff to customers.

21. IPART's draft decisions for entitlement charge licences are to set the fixed and usage charge under each 2-part tariff so that 70% of forecast revenue from the 2-part tariff is recovered via the fixed charge and 30% of this revenue is recovered via the usage charge, except for North Coast regulated rivers where this ratio is kept at current levels of 92% fixed and 8% usage.

Accept.

22. IPART's draft decision is to establish 2016-17 prices (starting prices) using DPI Water's proposed basis so that the 'typical bill' for a 2-part tariff licence (not subject to the minimum annual charge) in each water source does not increase when compared to 2015-16 prices.

The GVIA supports IPARTs decision in-principle as a means to minimise the impact to customers between determination periods. However, the GVIA has concerns with the calculation of 'typical bills' and urges IPART to undertake scenario analysis on bill impacts on differing levels of water take activation, especially considering the dry antecedent conditions and weather forecast.

Accept principle but recommend further analysis.

Refer to 7.4 7.4Prices.

23. IPART's draft decision is to establish a price glide path from 2017-18 onwards whereby the annual real increase in prices is equal to 2.5% of the full cost recovery price, until full cost recovery is achieved.

The GVIA accepts a price glide path for valleys below full cost recovery. We however, reject the proposal of 2.5% of the full cost recovery price and believe this should be minimized considering the changes in prices as a result of altering the methodology of water take and cost drivers.

For the Gwydir regulated water source, fixed charge increases are being amplified due to the increased recovery percentage, that does not take into account the additional potential revenue to be recovered as a result of the imminent implementation of floodplain harvesting licenses.

Reject and revise.

Refer to 7.2 Cost Drivers and 7.4 Prices.

24. IPART's draft decision is to set a minimum annual charge (MAC) to transition from \$150 to \$200 per licence, per year over the proposed 4-year determination period.

Accept.

25. IPART's draft decision is to accept DPI Water's proposal to set separate water management prices to apply from 1 July following Ministerial approval to issue all floodplain harvesting licences (as water take charge only licences) for that water source.

The GVIA accepts the decision to determine separate water management charges for floodplain harvesting licences.

However, we do not accept the methodology adopted by IPART to determine these prices due to the limited information by which IPART had to make their decision.

We therefore recommend that IPART request the reporting of floodplain harvesting activities on a valley basis throughout this determination period to build on the knowledge base for calculation of a floodplain harvesting price in the following determination period.

We will in the interim accept the proposed \$1.00 water take (variable) charge but reserve the right to recommend alternative methodologies for determining FPH prices following a review of any new information generated throughout this determination period, as well as the finalisation of licences and the monitoring and compliance strategy.

Refer to 7.4 Prices.

26. IPART's draft decision is to accept DPI Water's proposed special categories of licences.

No comment.

27. IPART's draft decision is to apply a separate price to WaterNSW, which will recover the user share of Metropolitan Water Directorate's costs to review the Sydney Metropolitan Water Plan (MWP). The price will be an additional fixed charge (\$ per ML of entitlement or unit share) applied to the water access licences held by WaterNSW in South Coast (unregulated rivers) water source.

No comment.

28. IPART's draft decision is to apply the entitlement volumes proposed by DPI Water for the purpose of setting fixed charges.

Accept.

29. IPART's draft decision is to apply DPI Water's proposed entitlement volumes for WaterNSW, for the purpose of setting a separate price for WaterNSW (South Coast unregulated rivers).

No Comment.

30. IPART's draft decision is to apply the forecast water take volumes (including floodplain harvesting) submitted in DPI Water's pricing proposal, for the purpose of setting water take charges.

The GVIA continues to maintain concerns over the forecasting of water take in the Gwydir Valley and the impact on prices.

The GVIA believes that the forecasting provided by DPI Water will result in higher volatility of revenue recovered which, depending on the season have a resulting impact on future prices. The GVIA believes that if the current forecasting process is to be maintained then IPART must introduce a mechanism by which over recovery of revenue can result in the subsequent reduction in prices in that valley. The GVIA recommends alternative forecasting for our region.

Reject.

Refer to 7.2 Cost Drivers.

31. IPART's draft decision is to apply the forecast water take volumes for floodplain harvesting, submitted in DPI Water's pricing proposal, for the purpose of setting water take charges with floodplain harvesting.

The GVIA has provided an updated forecast for FPH volumes.

Reject.

Refer to 7.2 Cost Drivers.

32. We will consider at the next determination of WAMC's prices:

- a. An adjustment to the revenue requirement and prices to address any over or under-recovery of revenue over the 2016 determination period due to material differences between the level of billable water take over the period and the forecast water take volumes used in making this determination.*

- b. *At the next determination, we will consider whether and how best to make a revenue adjustment based on the circumstances at the time.'*

The GVIA believes that the potential for over recovery of costs will occur under charging system that adopts water take forecasting. As a result, we support the investigation by IPART of options to allow for adjustment in over recovery by NSW DPI. However, reserve the right to make further comment following the release of more information about IPART's proposed mechanism.

Accept in principle.

Refer to 6.3 Future Reporting Requirements and 7.2 Cost Drivers.

33. Outlined above (Price Schedules)

The GVIA recommends that the schedules be revised in response to our amendments proposed and further work by IPART.

Reject.

Refer to 7.4 Prices.

34. IPART's draft decision on meter service charges is listed in Table 11.1. We have:

- a. *Set charges based on meter size, but not differentiated charges by meter size to the extent proposed by DPI Water (i.e, we have adopted a flatter charge schedule).*
- b. *Accepted DPI Water's proposed structuring of meter charges based on two categories: (1) telemetered/non-telemetered and agency read, and (2) non-telemetered customer read sites.*
- c. *Applied a 1.5% efficiency adjustment to meter service charges, relative to DPI Water's proposal.*

No Comment, not applicable.

35. IPART's draft decision is to accept DPI Water's water take reading/assessment charge, subject to an efficiency adjustment of 1.5%.

Accept.

36. IPART's draft decisions on ancillary service charges are listed in Table 11.5. These charges are as proposed by DPI Water.

No comment.

37. IPART's draft decision on DPI Water's consent transaction charges is shown in Table 12.1. These charges are as proposed by DPI Water, except for:

- a. *three charges (regulated rivers dealings, unregulated rivers and groundwater low risk dealings, and water allocation assignments) where we made adjustments, and*
- b. *a 1.5% efficiency adjustment applied each year.*

The GVIA supports the provision of online discount for transactions and would support further efficiency gains in this area.

Accept.

38. IPART has not accepted DPI Water's proposed fee variations for:

- a. rounding fees to the nearest dollar, and*
- b. recovering future title register search costs.*

Accept.

39. We have assessed the impact of our draft prices on water users and consider the impact reasonable.

The GVIA rejects that the impact on prices has been reviewed. The 'typical bill analysis' is undermined on a limited assumption on water take and should address a range of scenarios especially considering the current antecedent conditions and winter forecast.

The GVIA believes that the change in methodology to water take is also driving up fixed prices.

Reject.

Refer to 7.4 Prices.

40. We have considered the impact of our draft prices on regulated rivers licences that also pay WaterNSW charges for bulk water services and consider the impact reasonable.

Reject.

Refer to 7.4 Prices.

41. We have assessed the impact of our draft prices on the cost of operating farm businesses and considered them reasonable.

Reject.

Refer to 7.4 Prices.

42. We have considered the impact of our draft prices within the context of the water market and note that the DPI Water costs are relatively minor in comparison to potential returns.

For water markets to be a mechanism to offset charges, water must firstly be available to trade. With an imperfect market existing in most valleys where the Commonwealth Environmental Water Holder have a large percentage of the entitlement, the market potential is reduced as a result of the restriction on them to trade.

Reject.

Refer to 7.4 Prices.

43. IPART's draft decision is for DPI Water to report annually against the output measures and in accordance with the framework listed in Appendix F. This report will be published on IPART's website.

Accept and recommend that additional reporting requirement be added including:

- Progress against Key Performance Indicators;
- Assessment of actual expenditure compare to allowed (budgeted) as well as income.
- Progress on key expected outcomes: WSP review, WRP development, FPH implementation, Water Take Measurement Strategy, Basin Plan implementation for example.
- Reporting on floodplain harvesting costs (outside of the project);
- Maintenance of valley specific information for disaggregation;
- External funding received and expended;
- Capital expenditure and asset planning; and
- Initiative to improve efficiency.

Refer to 6.3 Future Reporting Requirements.

4. Recommendations

1. IPART return to valley specific pricing methodology for all water entitlements.
2. IPART include the following additional annual reporting requirements for DPI Water:
 - Progress against Key Performance Indicators;
 - Assessment of actual expenditure compare to allowed (budgeted) as well as income;
 - Progress on key expected outcomes: WSP review, WRP development, FPH implementation, Water Take Measurement Strategy, Basin Plan implementation for example.
 - Reporting on floodplain harvesting costs (outside of the project);
 - Maintenance of valley specific information for disaggregation;
 - External funding received and expended;
 - Capital expenditure and asset planning; and
 - Initiatives to improve efficiency.
3. IPART further revise MDBA charges for our valley.
4. IPART revise DPI Water's working capital requirement.
5. IPART reduce DPI Water's NRR by at least \$16.25M and re-calculate valley specific prices accordingly. This reduction is a result of:
 - Decrease in operational expenditure by another 5% or \$9.23M
 - Decrease in capital expenditure by a further \$1.0M
 - Removal of WACC provisions of \$2.04M
 - Removal of Depreciation equalling \$3.71M
 - Removal of Tax Allowance of \$0.27M.
6. IPART reject Water Take as a major cost driver for pricing methodology.
7. IPART request DPI Water further substantiate their claim that costs are driven by water take by collecting additional information through this determination period.
8. IPART consider a mechanism by which prices can be revised down due to over-recovery.

9. IPART adopt the updated IQQM forecast for water take/usage in the Gwydir Valley.
10. IPART investigate using MODFLOW long-term average extraction information to derive forecasting for groundwater at a valley level.
11. IPART further revise cost shares of the four inconsistent codes to ensure they are reflective of impactor pays.
12. IPART provide typical bill impact analysis across a range of activation rates.

5. About the GVIA

5.1. Our region

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 250 water entitlement holders in the Gwydir Valley, centred around the town of Moree in North-West New South Wales. Our mission is to build a secure future for its members, the environment and the Gwydir Valley community through irrigated agriculture.

The region is highly dependent on agriculture and in particular irrigated agriculture for economic activity contributing over 40% of Gross Regional Product, employing 20-30% of the population and accounting for almost 90% of exports from the Moree Plains Shire in particular (Cotton Catchment Communities CRC Communities and People Series 2009).

The 2011 Agricultural Census estimates that the total value of agricultural commodities for the Moree Plains region was \$911,951,079 up from \$527,744,851 in the 2005-06 census. This is an estimated 7.83% of NSW's total agricultural production from a 1,040,021Ha principally used for agricultural crops¹.

The Gwydir is characterised as having low water reliability with the majority of water held as general security water with a reliability of 36%. Supplementary water entitlement is somewhat more reliable with 55% but accounts for less than a quarter of the total volume. Groundwater reliability is considered 100%.

Environmental water has been held in the Gwydir prior to the first water Sharing Plan and is primarily used to contribute waterbird and fish breeding events and to maintain the condition and extent of the internationally recognised Gwydir Wetlands. Entitlements owned for environmental purposes totals more than 150,000ML, made up of high security (375ML), general security (106,000ML), supplementary water (19,500ML) and an environmental contingency allowance (45,000ML).

The main broad acre irrigated crop is cotton with irrigated wheat, barley and Lucerne also occurring depending on commodity prices the total broad acre irrigated area is approximately 80,000 ha (although recent results indicate this to be around 110,000 ha) but is rarely cropped in one year. In 2010-11 census data indicated the total production value of irrigated cotton was \$623M and is estimated to be worth three times that to the local

¹ 2010 2011 Agricultural Census Report – agdata cubes, 71210D0005-201011 Agricultural Commodities, Australia

community using the Cotton Catchment Communities Research Corporation economic multiplier for cotton regions².

Currently there are also pecans, walnuts, oranges and olives being grown within the region covering approximately 1,500 hectares, generating an estimate \$31M with considerable benefits to the local community as a high intensity, permanent crop. There is however, significant and potential for expansion into horticulture and improve high security water utilisation on permanent cropping.

5.2. What we do

GVIA members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources. All of which are managed through water sharing plans, which have been progressively developed since early 2000. Total river water availability for irrigation is 26% of the long term average flows. There is around 575,000ML available to irrigators from regulated entitlement (high security, general security and supplementary water). There is also nearly 30,000ML available from groundwater aquifers. In addition, unregulated water is used for irrigation purposes with the use well below the volumetric licences.

The Gwydir Valley Irrigators Association organisation is voluntary, funded by a cents/megalitre levy on regulated, unregulated and groundwater irrigation entitlement. In 2014/15 the levy was paid on in excess of 93% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Regional Facilitator funded through Local Land Services and the Cotton Research and Development Corporation.

Much of the activity the association revolves around negotiating with government at a Federal, State and Local level to ensure the rights of irrigators are maintained and respected. While the core activities of the Association are funded entirely through a voluntary levy, the Association does from time to time, undertakes special projects, which can be funded by government.

The GVIA and its members are members of both the National Irrigators Council and the NSW Irrigators Council.

5.3. Association contacts

Gwydir Valley Irrigations Association
ABN: 49 075 380 648
100 Balo Street (PO Box 1451)
NSW, Moree, 2400
Chairman: Joe Robinson
Executive Officer: Zara Lowien

² Social and Economic Analysis of the Moree Community, 2009. Cotton Catchment Communities CRC

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6. General Comments

6.1. Support for further Revenue Reductions

Whilst the GVIA welcomed IPART's revision on DPI Water's pricing proposal, we encourage IPART to do more to ensure DPI Water strives to be an even more efficient monopoly service provider. The GVIA believe IPART should consider further reductions in revenue, which should lead to a reduction in overall prices due to DPI Water's:

- Past performance;
- Current capacity;
- Inefficiencies;
- Restructure and re-alignment of roles between DPI Water and WaterNSW.

Past Performance

DPI Water's past performance has been well below the expectations of users. The GVIA has as part of our submission on the issues paper and our appearance at the public hearing in Tamworth, has outlined our concerns over DPI Water (or their former, NSW Office of Water's) previous past under performance, particularly on the monitoring and review of our water sharing plans. However, there are other examples including:

- Poor engagement in Basin Plan programmes and implementation;
- Under performance on capital works programs and poor planning;
- Over expenditure of operational programmes; and
- Non-performance of IPART's own tasks including; developing a drought policy for deferral of water charges and development of a mechanism to incorporate stock and domestic charges.

All of which warrant consideration by IPART when making their final determination on allowable revenue.

This is of upmost importance considering that DPI Water have collected significant revenue for these activities without meeting required outputs and outcomes. This was substantiated by Synergies report which outlined up to \$14M, which is unacceptable that users are being asked to again contribute to overdue and delayed work.

Current capacity

The GVIA also question DPI Water's capacity (skills and systems) to implement the required tasks within the timeframe required. Our concerns were founded by Synergies who outlined DPI Water had a lack of budgetary controls, as well as simple planning tools for capital programs.

As DPI Water are yet to demonstrate how they are addressing these systematic issues, we believe further reductions in revenue should be made to match their ability to provide outputs on budget and on time.

Inefficiencies

The GVIA believes that DPI Water has considerable scope to improve efficiencies within the business; their systems, overheads and operational. This was supported by Synergies report that outlined that DPI Water's business overheads were higher than other similar businesses.

IPART has recognised that there is opportunity to improve efficiency within the pricing determination but further reductions could be supported. This is particularly important considering revenue reductions are the only mechanism to drive efficiency in a monopoly business like DPI Water.

Restructure

The GVIA notes that there will be further efficiencies and overhead reductions, realised through the current and future restructures of DPI Water and WaterNSW businesses. Whilst we appreciate that revenue attributed to tasks being restructured will be passed onto that business, it is assumed that this process will result in a reduction in costs in the long-term. As a result, further revenue reductions would act as a mechanism to immediately account for these gains rather than waiting another four years or more until the next determination.

Furthermore, as IPART sets the 'maximum' price chargeable, we suggest annual reporting by whichever organisation is responsible at the time should be detailed enough for IPART to make an assessment of whether prices could be reduced as a result of cost outcomes of the restructure.

6.2. Valley Specific Pricing

The GVIA does not support DPI Water's trend away from valley specific pricing. Regional pricing reduces transparency around cost allocation, services and cost recovery as well as leads to subsidisation between valleys.

The GVIA as outlined in our issues paper has had considerable challenges in determining the appropriateness of groundwater prices due to the amalgamation into inland valleys. The fact DPI Water are now not even reporting on a valley scale is of a major concern as we lose corporate knowledge of the costs at a valley scale. Not to mention, regional pricing does not appear to have any benefits to the user but rather simplifies the responsibility of reporting of DPI Water only.

The GVIA rejects regional pricing and recommends that IPART return to valley specific pricing.

The GVIA recommend that IPART return to valley specific pricing methodology for all water entitlements.

6.3. Future Reporting Requirements

The GVIA supports the inclusion of annual reporting requirements of DPI Water to IPART. We request that this reporting is also available for stakeholder scrutiny and provided in a timely manner to inform future price setting. We recommend additional reporting requirements to be requested by IPART.

The GVIA recommends that IPART include the following additional annual reporting requirements for DPI Water:

- **Progress against Key Performance Indicators;**
- **Assessment of actual expenditure compare to allowed (budgeted) as well as income;**
- **Progress on key expected outcomes: WSP review, WRP development, FPH implementation, Water Take Measurement Strategy, Basin Plan implementation for example.**
- **Reporting on floodplain harvesting costs (outside of the project);**
- **Maintenance of valley specific information for disaggregation;**
- **External funding received and expended;**
- **Capital expenditure and asset planning; and**
- **Initiatives to improve efficiency.**

7. Specific Comments

7.1. Revenue Building Blocks

The GVIA does not accept the IPART's draft determination on notional revenue requirement for DPI Water. As outlined earlier we believe there are a number of influencing factors that require further consideration by IPART to reduce revenue.

As a result, we recommend to IPART to reduce operational expenditure by another 5% to further drive efficiency within the business and realise the benefits of the DPI Water/WaterNSW restructure immediately. We also recommend that the capital program is further reduced by at least \$1M to better match the proposed program to DPI Water's capacity in that area.

The GVIA continues to have concerns with the calculation of MDBA charges for our region as we have no direct benefit from MDBA programmes and no benefit from MDBA planning activities. In fact, we believe that the MDBA planning role duplicates what is already being undertaken by state governments in our valley. We therefore request further review of the determination of MDBA charges and their disaggregation to a valley level.

The GVIA recommend that IPART further revise MDBA charges for our valley.

Further to this, we also believe that the decision by IPART to provide a tax and depreciation allowances as well as a weighted average cost of capital is inappropriate for a state agency. Whilst we appreciate IPART establishes these allowances/provisions to provide DPI Water the perception of being a non-monopolised business, backed by a State Government. These provisions mask the real inefficiencies and only add to the total revenue requirement, and drive prices up for water users. We therefore recommend that the \$0.27M tax allowance, \$3.71M depreciation allowance and \$2.04M allowance for WACC is removed from the revenue requirement. We request that DPI Water's working capital requirement is also revised.

The GVIA recommend IPART revise DPI Water's working capital requirement.

We therefore, recommend that IPART revise DPI Water's revenue requirement by least a \$15.25M and re-calculate valley prices accordingly.

The GVIA recommend that IPART reduce DPI Water's NRR by at least \$16.25M and re-calculate valley specific prices accordingly. This reduction is a result of:

- **Decrease in operational expenditure by another 5% or \$9.23M**
- **Decrease in capital expenditure by a further \$1.0M**
- **Removal of WACC provisions of \$2.04M**
- **Removal of Depreciation equalling \$3.71M**
- **Removal of Tax Allowance of \$0.27M.**

7.2. Cost Drivers

Water Take

The GVIA does not support the change in methodology to water take at this point in time. Water take does not significantly increase DPI Water's delivery of core services but rather they are fixed based on the number of megalitres being planned, managed and monitored across a number of resource frameworks and the number of customers they deliver services for.

Furthermore, as outlined in our issues paper submission, for highly dynamic systems, like the Gwydir Valley improper forecasting results in elevated usage charges, but also lead to very significant over-recovery as the chances of exceeding the average consumption forecast has been significantly increased.

The GVIA recommends IPART reject Water Take as a major cost driver for pricing methodology.

We recommend that IPART request DPI Water finalising their Water Take Strategy and collect data throughout this determination period which IPART and stakeholders could review for a change in methodology in later determination periods.

The GVIA recommend IPART request DPI Water further substantiate their claim that costs are driven by water take by collecting additional information through this determination period.

In the absence of a return to entitlement driven charges, there is now an increasingly high chance of revenue being over-recovered and hence, the GVIA recommend that a mechanism to allow for over-recovery to reduce future prices is investigated.

The GVIA recommend that IPART consider a mechanism by which prices can be revised down due to over-recovery.

Forecasting

The GVIA does not support the adoption of 20-year rolling average for regulated water take and as such recommends that IPART return to the utilisation of the updated Integrated Quantity and Quality Model (IQQM) output for the Gwydir.

This calculation is run now over more than 100-years of data with an update on current conditions and behaviour and therefore is a better snapshot of 'average' take. Recent

updated model information³ would suggest forecasts for the Gwydir being more in the magnitude of:

- 290,000ML for regulated (high security, general security and supplementary); and
- 150,000 ML for floodplain harvesting.

Noting that there are risks associated with all forms of forecasting but this is a more robust methodology than a rolling average which can be easily influenced by a few extreme years of take, at either end of the spectrum.

The GVIA recommend IPART adopt the updated IQQM forecast for water take/usage in the Gwydir Valley.

The GVIA could not ratify the forecasted take for groundwater in our region and believed that an assumption of 84% of entitlement of active inland groundwater sources should be used to calculate take, which would equal approximately 24,000ML for the Lower Gwydir groundwater water source. The GVIA are not aware of the reasoning behind this assumed take and believe a more robust approach should be adopted.

Noting that a rolling average would not be appropriate in this water source as a larger volume of water was available in the water source until recently when supplementary groundwater entitlements were extinguished.

The GVIA recommend IPART investigate using MODFLOW long-term average extraction information to derive forecasting for groundwater at a valley level.

Activation Rates

The GVIA requests a review of the activation rates for the Gwydir Valley as used to determine possible bill impacts. For example, for regulated river entitlements activation/long-term reliability is at least 99% for High Security, 41% for General Security, 51% for Supplementary licences.

The GVIA request IPART to request updated activation rates for the Gwydir Valley due to updated modelling.

Activation rates for unregulated water sources will be largely driven by antecedent conditions and long-term average take. We are not in a position to determine if these are appropriate or not.

As outlined above in 'forecasting' due to the amalgamation of groundwater sources into inland systems, we cannot make a determination on the appropriateness of activation in the Lower Gwydir groundwater source.

User Shares

The GVIA continues to have concerns with the proportion of user shares for some activity codes within the draft determination. We note Synergies review of the amalgamation of cost codes revealed four codes; W02-02, W06-01, W06-02 and W6-06 that were in consistent in comparison between C and W codes. The GVIA does not accept Synergies and IPARTs

³ Provided to GVIA by DPI Water in April 2016 as part of Water Sharing Plan review.

acceptance of the higher user share percentage for these codes and recommends further investigation to establish representative cost shares.

The GVIA notes this is increasingly important considering the significant increase in percentage of total revenue being recovered from users between the 2011 and current proposed determination.

The GVIA recommends IPART further revise cost shares of the four inconsistent codes to ensure they are reflective of impactor pays.

7.3. Cost recovery

The GVIA notes that the Gwydir regulated system remains on a constrained glide path towards full cost recovery. We support this process for a gradual movement towards full cost recovery.

However, we reject the proposal of 2.5% of the full cost recovery price and believe this should be minimized considering the changes in prices as a result of altering the methodology of water take and cost drivers.

As endorsed by IPART, DPI Water are already utilizing the opportunity to implement Floodplain Harvesting (FPH) licenses to assist moving the valley toward full cost recovery at a greater rate. With the likelihood of FPH licenses imminent during this determination period, the GVIA believes a lower glide path should be adopted to reflect the increased revenue⁴ from these additional licenses.

The GVIA recommends IPART reduce Gwydir's percentage increase glide path to 2.0%.

7.4. Prices

As outlined in previous sections, the GVIA does not accept the current draft determination by IPART and recommends prices should be reviewed accordingly.

Of particular concern is the shift between fixed and variable charges and the increased glide path to full cost recovery in our region which will have a very real and sudden impact on prices.

Bill Impacts

The GVIA supports in principle, IPART's theory of ensuring that there is no initial price increase between determination periods but we do not see evidence within the methodology which will support IPART being able to achieve this outcome in the Gwydir Valley.

For example, an analysis of typical bill impacts in our region would highlight that at lower water take activation rates, price impacts are elevated not only in the first year but also across the determination period above the IPART reported 20% (See Table 1). The likelihood of lower than reported activation is high considering the current available water and weather forecast.

⁴ IPART forecast approximately \$124,000 additional revenue once implemented.

In the Gwydir, the higher the activation rate, the less of an impact on typical bills (See Table 1 and Table 2). However, the impact remains greater than 5% at the highest level of activation with the inclusion of FPH licenses (Table 2).

Table 1: Typical Bill Analysis in the Gwydir Regulated Water Source with Different Activation Rates without FPH licences (\$nominal with inflation) and 972ML average licence

Activation rate	Current typical bill	2016/17 price	2019/20 price	% Difference (current to 2019/20)
0%	1331.64	1351.08	1621.49	22%
35%	1760.29	1812.10	2110.60	20%
60%	2066.47	2112.45	2459.97	19%
100%	2556.36	2593.00	3018.96	18%

Table 2: Typical Bill Analysis in the Gwydir Regulated Water Source with Different Activation Rates with FPH licences (\$nominal – with inflation) and 972ML average licence

Activation rate	Current typical bill	2016/17 price	2019/20 price	% Difference (current to 2019/20)
0%	1331.64	1351.08	1621.49	22%
35%	1760.29	1742.02	1994.86	13%
60%	2066.47	1992.31	2261.55	9%
100%	2392.77	2392.77	2688.26	5%

The GVIA also notes that a typical license volume in the Gwydir would be 972ML entitlement with 1,263 ML water take (without FPH). This would account for supplementary entitlements.

As a result of this analysis, the GVIA recommends IPART consider bill impacts across a range of activation rates. Especially in regions where water availability is highly variable, like the Gwydir Valley.

The GVIA recommend IPART provide typical bill impact analysis across a range of activation rates.

The GVIA also rejects IPART’s analysis that the water market can be used to offset water price increases. The water market is an imperfect mechanism for this and requires allocation to be available and deliverable, for trade to generate income.

The water market will not help those in the Gwydir Valley to offset their significant price increase in the short-term. As there is approximately 8,000ML currently allocated to General Security license holders (excluding Commonwealth and NSW environmental entitlements). Not to mention, delivery loss and essential supply budgets are below target and therefore

there is a deficit that requires dam inflow before any additional allocations can be made. With such a small percentage of available water and a negative delivery loss account, a single bulk release is likely which will limit irrigators opportunity to take allocation and increase their inefficiency by making them store on farm. These factors will all undermine the water markets effectiveness at providing cash flow opportunities for irrigators water prices.

Floodplain Harvesting Prices

The GVIA does not accept the methodology utilized by DPI Water and IPART to determine FPH prices in our region. As outlined in our issues paper and subsequent letter to IPART on 24 February 2016 (Appendix A) there are a number of factor which limit a comprehensive calculation of a fair and efficient price for this newly determined form of licensed take.

We therefore recommend that IPART request the reporting of floodplain harvesting activities on a valley basis throughout this determination period to build on the knowledge base for calculation of a floodplain harvesting price in the following determination period.

We will in the interim accept the proposed \$1.00 water take (variable) charge for our region but reserve the right to recommend alternative methodologies for determining FPH prices following a review of any new information generated throughout this determination period, as well as the finalisation of licences and the monitoring and compliance strategy.

We note that by charging for FPH licence take, DPI Water will receive additional revenue generated from this form of licence (once implemented) and that this new licence category is being used by IPART and DPI Water to accelerate our path towards full cost recovery.

8. Conclusion

The Gwydir Valley Irrigators Association (GVIA) Inc welcomes the opportunity to provide a submission to the IPART on their draft report into the 'Review of Prices for the Water Administration Ministerial Corporation – DPI Water starting 1 July 2016'.

Whilst the GIVA has accepted components of IPART's determination we have provides 12 specific recommendations for further investigation and/or revision by IPART, prior to their finalization of DPI Water prices for July 2016.

Appendix A

Letter to IPART Re: Floodplain Harvesting Pricing Structure



6 April 2016

Dr Peter Boxall, AO
Chairman
NSW IPART
PO Box K35
Haymarket Post Shop
NSW 1240
ipart@ipart.nsw.gov.au

Sent via email

Dear Dr Boxall,

Re: Floodplain Harvesting Pricing Structure

The Gwydir Valley Irrigators Association Inc (GVIA) received notification of NSW DPI Water's revised bill impacts for the Water Administration Ministerial Council water management charges and upon review, remain concerned at DPI Water's continued pricing request for future Floodplain Harvesting licences.

The issuing of floodplain licences will help to secure the future sustainability of the irrigation industry and irrigation dependant towns, by protecting the current legitimate access to this very unique form of water. Floodplain harvesting cannot be compared to any other form of water entitlement currently in existence. Therefore, we believe it is inappropriate to utilise the pricing structure adopted for other forms of water, but rather prices must be unique and representative of the type of access as well as, the nature of their establishment, these differences being:

- Access varies spatially and temporarily within and between valleys with average usage will be a gross miss-representation of accessibility for the purposes of price establishment.
- The determination and issuing of floodplain licences has been fully compensated by the Commonwealth Government as part of their funding of the Healthy Floodplains project.
- On-going costs should be limited to compliance activities and reporting as part of Water Sharing Plan reporting requirements, these are minimal as a result of project funding.
- A Monitoring and Compliance Strategy for these licences is not finalised.
- The project remains behind timeframe and therefore, prices may not be required during the proposed pricing determination period.

The GVIA are extremely concerned that the proposed pricing structure attempts to match existing pricing methodologies to this unique form of water, whilst also socialising existing costs for the regulated and unregulated systems between users. Furthermore, we believe it is premature of NSW DPI Water to establish other costs (outside of the project funds) associated with FPH licences like monitoring and /or compliance without the finalisation of a Monitoring and Compliance Strategy.


We strongly recommend IPART consider alternative approaches to establishing FPH prices by communicating directly with the valleys affected.

We would also like the opportunity to discuss with IPART the opportunity to establish prices for FPH entitlements mid-determination, which would allow for the finalisation of DPI Waters Monitoring and Compliance Strategy for Floodplain Licences and for most of the other valleys to fully progress through the project stages.

As the Gwydir Valley is the first of the Northern Valleys to participate in the Healthy Floodplains project for licencing floodplain harvesting, we invite IPART to the region to visit and discuss directly with irrigators the underlying principles that establish the uniqueness of this form of access and our concerns with NSW DPI Water's pricing proposal.

We look forward to hearing from you and hosting you in our region.

Kind regards

A black rectangular redaction box covering the signature of Zara Lowien.

Zara Lowien
Executive Officer
Gwydir Valley Irrigators Association

Cc: John Madden: John.Madden@ipart.nsw.gov.au