

Namoi Water

Submission to independent Pricing and Regulatory Tribunal

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

13th October 2015



Photo : Lake Keepit

Namoi Water : Supporting sustainable water use in the Namoi Catchment and representing water users in the Peel, Upper and Lower Namoi Catchment Area

Executive Officer : Jon-Maree Baker

PO Box 548

Narrabri NSW 2390

PH: 02 67925222

EM: eo@namoiwater.com.au

Web: www.namoiwater.com.au

Introduction

Namoi Water is the peak industry group for irrigated agriculture in the Upper Namoi and Lower Namoi Valleys in the North West of NSW. We are a non-profit, non-political organisation supporting our members to achieve a sustainable irrigation industry that meets the environmental, economic and social needs of our local communities. Namoi Water makes this submission on behalf of our membership collectively, however each member reserves the right to independent view and submission on any issues they deem relevant.

Namoi Water appreciates the opportunity to provide this submission to the 2015 review of prices for the Water Administration Ministerial Corporation – DPI Water. Whilst not directly requested in this review, but relevant to our interaction with DPI Water it is the quality of our interaction with staff whom provided exceptional service and support on a myriad of issues. From the experienced licencing team locally based in the region, to regional managers sorting through complex billing and work approvals, the hydros that present data to our members on our request, to the planning and policy staff who provide secondary service in their roles with the DPI above and beyond. Many thanks from Namoi Water board and staff for your contribution to the efficient and effective service of the department.

In terms of this submission, pricing is not the writers area of expertise and I thank the department staff that have patiently answered my belated questions. We make this submission on the basis of previous submissions and our direct requests to IPART in correspondence during past determinations. We would also make comment on our most recent determination experience and the thorough process undertaken by the ACCC in the review of Water NSW's pricing, this clearly sets a benchmark for IPART – effective consultation was directly undertaken with individual meetings with water users and water user groups. The determination resulted in clear recognition that ACCC has listened and applied water user feedback in making their recommendations.

The hearing process does not provide for adequate discussion at level of detail required to establish real issues and develop solutions. There is little confidence in IPART to hold DPI water to account, indeed there is a high level of apathy around this process to the extent that Namoi Water licence holders are disengaged. As part of this submission we request IPART consider its role in support and legitimising practices that are outside the legislative scope of the previous determinations and further the need to review both the scope of your assessment and the proposed engagement in consulting on this determination outcome.

In our previous submissions Namoi Water called on IPART to reject attempts by the department to re-badge their regulatory activities, as activities that underpin property rights or resource security, these are an obvious mechanism employed by previous department head to give credibility to skewed cost sharing ratios. Further Namoi Water requested greater transparency regarding the cost structures and detailed information regarding water management charges.

The review of prudent and efficient and effective charges requires a level of transparency regarding the allocation of services and comparison to previous determination period cost categories. This is recognised by both IPART and DPI Water however in terms of the DPI Water's submission to IPART it is difficult to compare previous costings due to the change in coding and the lack of explanation for the variances to the previous determination. There are several errors throughout the submission and appendix which do not allow for reconciliation of cost allocation and coding. There is a need for improvement in the consultation process with stakeholders, and whilst DPI Water did undertake an engagement process this appeared to falter due to change in senior staffing resulting in a low level of engagement with water users on the final submission detail.

Ipарт's final decision in the previous determination stated :

NOW must increase the level of its information collection, analysis, and compliance and enforcement activities. Such additional effort will benefit irrigators and the environment, as it will result in a more reliable system of water allocation and improved monitoring of the available resource.

We are conscious that a number of stakeholders argued against IPART's draft decision to allow an increase in NOW's total efficient costs until there is evidence of improvements in NOW's outputs and performance. IPART's role is to set prices that reflect the efficient costs of NOW delivering forecast monopoly services. However, we agree with stakeholders that decisions to increase the allowed costs necessary to support increased activities must be matched by NOW's delivery of improved services and outputs. To that end, we have collated NOW's forecast monopoly service outputs, which underpinned analysis of its efficient costs, and have established a reporting framework against those outputs.

Water users have become a captive target for an ever widening range of costs incurred by monopoly service providers such as DPI Water. On the surface this submission appears to provide a level of stability in terms of pricing over the determination period, the accountability of service delivery in the reporting framework in our view is not provided despite the extensions provided. This is clearly evidenced by the lack of completion of the current work plan, on this basis there should be no additional allowance for these activities in the current determination period and water users expect these services to be carried out as planned.

The DPI Water customer survey produced some interesting results that we suggest do not provide a true representation of water user views on pricing. There are very few water users that understand the difference in service delivery and pricing between Water NSW and DPI water. In fact Namoi Water is often called upon to act as a broker for water users to liaise with the correct agency to achieve outcomes on trades, billing, compliance etc. Further there are limited water users that would agree with the results to suggest that the current pricing is acceptable based on services delivered. We would not place any level of confidence in the survey results.

Cost Shares :

Namoi Water supports the framework for cost sharing, however we do not support the current cost share proportions nor the justification provided for them. Namoi Water in reviewing historical records points IPART to the Centre for International Economics review of cost shares in 2005/06 determination period which includes clear direction on the issues of allocation that appear to have been subsequently ignored. CIE highlighted the inconsistencies in previous pricing rationale which are still current today; for example (CIE, p15) "There is no recognition that the WSPs respond to community demands, even though DNR has stressed that the Plans are a community-based development". This is further supported with many plans becoming "Ministers plans" completely removing the communities role in the development of resource sharing and therefore offsetting the view that WSP and WRP are primarily of benefit to the water user.

In addition CIE draws an important conclusion with regard to the department's (DNR) inconsistent application of cost sharing principles; (CIE, p24) "A recognition is needed (in cost sharing ratios) that change to property rights is two sided – explicit property rights for users have been established, but environmental shares and rules for river operations acknowledge the environmental right" (and this is not reflected in cost shares).

Recommendation : Namoi Water requests IPART review the cost sharing ratios following receipt of response from DPI Water to the issues paper. This is a critical component of the pricing determination and requires thorough analysis and greater transparency in reporting against cost shares.

Peel/Namoi Pricing

Namoi Water does not support merger of the Namoi and Peel pricing. Chaffey Dam is an inappropriate vehicle for cost recovery and IPART have not pursued this with government through previous SWC/NOW determinations. Chaffey was built at time when cost recovery was not a consideration and the recommendation to build a larger storage was ignored by the State government of the day. The issue of Chaffey's infrastructure and operational costs are part of legacy policy and investment decisions.

It appears the NSW Government is intent on pushing this issue onto the Namoi as a quick fix solution spreading costs across a broader water licence holder base. We reject this outright and suggest the inclusion of merged pricing for consideration in the DPI Water submission only delays the real issues and requirement for genuine effort to develop a solution. IPART's role in this should not go unaccounted, in previous determinations IPART reduced the entitlement charge on Chaffey in recognition of the diminishing reliability for irrigators as Tamworth's needs increase. This has in turn exacerbated the current pricing situation increasing the number of inactive licences.

Recommendation : Separate charges can and should be applied to each water source and valley to reflect the different cost structures for water management activities in these areas. We do not support cross valley subsidisation or between grouped water sources, management charges must reflect efficient DPI water costs.

Return on Asset Base :

To suggest that NSW DPI requires a return on asset is again reflective of IPART creating expectation of future requirement from the previous determination period. Funds delivered to Government through its own Department is effectively a tax and should not be considered as part of this determination process. This will be further exacerbated as the transfer of roles and function between NSW DPI Water and Water NSW is still under review. DPI Water is not the same type of organization as Water NSW and it is concerning to see what we suggest is an ambit claim for return on asset. Namoi Water agrees with NSWIC submission in particular the rate of return on “buildings”, “furniture and fittings” is a nonsense. As a government agency these are standard items that are provided as part of the expense of governing that should be paid for by public funds.

Trade/2 Part Tariff :

In relation to the suggestion that trade is a risk mechanism that could offset the 2 part tariff, IPART would do well to focus on what trade occurs not what trade is reportedly allowed. Under the current WSP in the Unregulated Upper and Lower Namoi trade rules are in place, however they effectively prohibit trade. Unregulated water users should benefit the most from the availability of a two part tariff due to the highly variable nature of this water source. We request IPART review the use of the 2 part tariff in particular by unregulated water users, further comment on this issue is made under key issues. In general trade occurs in most water sources when water is available, the 2 part tariff provides effective pricing reflecting water management services required based on water availability.

Recommendation : Maintain 2 Part tariff as an effective price mechanism.

Key issues:

1. Unregulated 2 Part Tariff

Appendix A is a copy of Namoi Water's correspondence to NSW DPI water DDG Gavin Hanlon in February this year regarding the historical application and communication of the 2 Part tariff. We reject the suggestion this has been appropriately communicated as being available to water users. The figures provided suggest that 65% of unregulated water is currently accessing a two part tariff, however in terms of licence holders this ratio is significantly less as reflected in the valley based tables. In terms of variability there are many unregulated licence holders in the Namoi that have pumped no water during the determination period yet have paid 1 part tariff.

Due to the complexity of the 2006 determination, the 06/07 bills were sent in 2008 some two years later to water users, included in this was a notice regarding the availability of the 2 Part tariff on **Unregulated Rivers**. The majority of unregulated take occurs from unregulated creeks in the Namoi and it is our assertion that this one hard copy notice does not sufficiently meet the requirement of informing stakeholders. Indeed this is evidenced by the extremely low number of water users that have availed themselves of the opportunity.

Since becoming aware of the 2 part tariff application form and its availability online Namoi Water contacted local staff to determine the process for validating measurement of take. The local licencing staff were unaware of any internal process and upon further inquiry it was revealed that the requirement for evidence of take remained undefined. In the last 6 months Namoi Water has met with unregulated water users and as a result has numerous applications for the 2 part tariff and are currently waiting on advice regarding acceptable measurement evidence which is now being addressed through the development of a Water Take Strategy.

In the applications collated by Namoi Water - unregulated water users can provide evidence through hour meters, pump capacity/work approval and gauging station records to determine their unregulated take. Individual licence holders with large unregulated licences in the Namoi have since installed meters and submitted application for 2 part tariff. This does not appear to be represented in the costings provided in the DPI Water submission.

Recommendation : IPART pursue with DPI Water the requirement for ongoing communication of the availability and take evidence required to obtain the 2 Part tariff. Further we suggest that unregulated water users that have been unable to access any unregulated water during the previous determination period have in effect been overcharged by the default position of 100% usage charge substantially as a result of the departments failure to communicate this change billing and should be credited on their

account the difference between 1 and 2 part tariff where they can provide evidence of nil take.

2. Namoi Costs Shares

In attempting to reconcile the costs associated with the Namoi for all water sources using the tables in Appendix F to contextualize the proposed cost shares and true costings we discovered a number of errors for example, cost code W04-04 does not exist but is included in the tables in appendix F. DPI Water has moved lower percentage cost share components to higher percentage cost share components. The rationale given is these were minor costs and the share change is not significant in the overall funding requirement to water users within the cost category. Namoi Water requests the detail of the amended (correct) tables is provided, we have separated the Namoi Groundwater from the Inland costs on the basis of current Namoi Groundwater shares and suggest this can be done for all groundwater sources.

3. Water source grouping costs

Namoi Water requests clear costings on the work performed for resource development reviews. At a regional level we have seen a significant increase in workload from the development of CSG and Mining activities on the local hydrogeological team which impacts greatly at a local service level. There is no clear audit trail in terms of return from water management charges from new controlled allocations and/or government contribution to DPI Water that aligns with this service burden. Table 4.2 shows a variance of \$2.855 million in groundwater database management and in Groundwater modelling of \$2.99 million variance. Further in table 5.31 there is an increase from Aquifer interference approval costs, is this being recouped from AI processing fees? There was \$2.291 million for special funding from NSW Government to increase groundwater monitoring network in the deeper systems, did this funding include other non capital costs such as hydrogeologist time commitments to this project?

The explanation of the 22 times the department reported that costs have been above forecast within the submission is not sufficient. We request DPI provide greater detail for water users to determine the appropriate separation of cost shares/costings and we suggest again the review by Centre for International Economics is an excellent historical document that would provide solid base for IPART to undertake a thorough review.

4. MDBA costs

It is reported on page 63 the requirements from the Basin Plan tasks, and as a result of costs moved from resource assessments that expenditure is more than double the forecast. It is understood that the Commonwealth will fund all costs associated with the Basin Plan, are these costs being recouped? Due to the development of WSP some 10 years ago and the assumption by the MDBA the understanding by NSW Office of Water that the WSP were to be used as the starting point, the review process for WSP

achievements in determining environmental outcomes appears to have been dropped from the last few years of funding.

Namoi Water notes there was considerable effort and funding provided in earlier planning process and implementation, however monitoring and evaluation has not been consistently undertaken impacting now on review processes. The DPI submission contains detail of the proposed River Condition Index, however we are uncertain the extrapolation using of remote sensing technology provides sufficient evidence the target for monitoring has been met, particularly as funding was for ecological monitoring that has not been delivered.

5. Compliance and Licencing

Namoi Water suggests there is a conflict of interest in the regional licencing team providing customer service function being combined with a compliance role. We would also query the increase in compliance expenditure in the last two years of the “extended” determination period. We understand a “Compliance Trial” has been undertaken using Commonwealth funds from the National Framework for compliance and enforcement systems . The trial has picked at the low hanging fruit of negative groundwater balances in the Namoi last water year. The previous process for management of negative balances rested with Water NSW meter readers, these are on the ground staff, intricately aware of the local issues and water users. We note that compliance now receives a report of all negative balances – this creates additional workload due to the lack of local knowledge. Namoi Water rejects the assertion there substantial improvements in effectiveness of the compliance program. Further there are several examples of poor compliance process in the previous water year and whilst we are supportive of compliance activities we are cynical of the increase in expenditure long term and shift of oversight external to the region.

6. Water consent transactions

Namoi Water notes the effort to process the back log of Part 8 and Part 2 applications is still ongoing, we do however note there are still licences that remain unconverted and a number of applications between 10-20 years old unprocessed.

7. Water take Strategy

Namoi Water and the northern valleys can rightly claim to be prophetic in relation to the Metering Business Case, we clearly stated that the burden on smaller users of the proposed metering would exceed the value of the licence. Further that the savings were in fact a redistribution amongst users and that the costing of data management and telemetry would result in significant cost increases levelled at water users to manage the information for no real benefit in terms of water management efficiencies. In moving past

this, the development of a future water take strategy will impact on future costs associated with water management services.

We suggest the separation of this activity needs to be clearly delineated particularly in relation to the change in roles between Water NSW and DPI Water across a range of services provided in this determination. Appendix B include the Namoi Water Submission to the proposed draft strategy. Namoi Water is still seeking greater detail on the category thresholds and until such time as this is clearly defined cannot support the draft strategy, for over 3 years we have requested the costings from the metering pilot program which to date have not been provided. The data on Page 77 on the three year of meter operation needs to be provided to water users to determine if the ACCC approved charges through the Water NSW Determination are efficient.

Namoi Water disagrees with Water NSW suggestion there is not more than a 7% saving from meter reading being entered by water user. The same pattern of assessment would occur it effectively halves the workload therefore the reduction of staff time and travel costs incurred would be substantially decreased. We request the evidence used to generate this assumption and request any proposed step change process in the determination must include transparency of costings provided by Water NSW.

8. Consultation and Reporting

Namoi Water notes that DPI Water have used the Water NSW Customer Service Committees as a default mechanism for consultation for activities that clearly should have been undertaken independently by DPI Water. Whilst the current restructure and future management may change the consultation processes, the previous 6 years have been underwhelming in engagement unless funded by Commonwealth process. Attached is a letter to DPI DDG Gavin Halon regarding the Water Sharing Plan process and need to consistency in engagement with water users regarding water resource planning.

The reporting of annual costs and performance activities in the 2010 report lacked any detail, we look forward to greater transparency under the new restructure however this was to be delivered in the past determination. How does IPART hold DPI Water to account in terms of reporting and detail of annual costings and performance activities? This element of IPART's role is unclear to water users and indeed there appears no incentive or disincentive for DPI Water moving forward. Sustaining prices without CPI increase we would suggest was countered with reduction in services, we would suggest there needs to be a clear mechanism to ensure reporting meets requirements and is in detail.

9. Minimum Charge Groundwater

IPART provided for a minimum groundwater management charge to be levied against WALs with small and zero charges. This charge has been levied against supplementary

groundwater licences issued under ASGE program. Namoi Water rejects the application of this charge to supplementary groundwater licences.

There is no requirement for additional metering or costs, the only service is the reduction of available balance based on ramp down figures and issuing of invoice. Previous billing issued these licences with a meter read charge in the 2013 billing which was corrected. Namoi Water contends this charge was not intended for supplementary groundwater licences and there is no evidence to support the application of the minimum charge for these licences.

10. Floodplain Harvesting inclusion

Namoi Water supports the user share being set at zero for the Floodplain management plan development. This process is currently being funded externally and is a community benefit process as well as a legacy issue. An administration charge for the processing the new licence fee is considered acceptable. However Namoi Water does not support a usage charge being levelled at Floodplain harvesting licence holders, this form of water is highly variable and remains uncertain in terms of current policy settings. We suggest the ongoing requirements are clearly articulated prior to pricing being finalised. At this time there is no evidence to support a usage charge and all the primary functions have been funded externally.

11. Water monitoring data management

It is concerning to see the advancement in data management is being utilised as suggested cost driver for water data management. Because data is available does not mean there is a requirement to use it to achieve an outcome. Namoi Water is supportive of DPI Water having in place systems to manage data, we are aware that many of the internal operational functions of the various programs used is outdated. We do not however support upgrades to management systems to utilise data just because it is being generated. The minimum standard of data generation every 5 minutes is a data standard, it does not result in DPI Water needing to extract the data and process it at this standard. Data extracted daily will still achieve the desired reporting outcomes, the transparency of the upgrade required is not contained on page 127 and Namoi Water suggests this also applies to all other water source data management.

Given iWas the platform used by Water NSW provides data management function already we seen no need for DPI water to incur additional costs as tabled on page 137 defined as supporting user meter readings. Having spoken with Water NSW staff it this is already functional and would come at a minimal costs. We seek greater explanation of Water DPI water requires funding for in terms of water allocation accounting systems. The online capacity exists for all ground and surface water users now.

E-source platform requires clear detail on the deliverability timeframes, costs and benefits as to date the consultation has been minimal. We would also seek the review undertaken last year of e-source to determine it's functionality for DPI Water into the future.

Conclusion

Namoi Water encourages IPART to consider it's consultation process, there are a significant number of issues contained in the pricing submission that require genuine, considered effort to achieve efficient and prudent cost sharing. Given the substantive restructure and the number of issues in flux due to Commonwealth processes we suggest the "normal" IPART practice is insufficient.

Whilst generally the review process will consider allocation efficiency, technical efficiency, operational and capital expenditure. There is a need for more detail regarding previous targets, reporting achievements and actual vs forecast expenditure. The DPI submission should provide clarity around the change on cost coding, whilst reporting on previous cost coding improved.

Namoi Water looks forward to IPART undertaking greater consultation during this determination process.