INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES FOR WATERNSW - RURAL BULK WATER SERVICES

Tribunal Members
Ms Catherine Jones, Chair

Members of the Secretariat
Mr Hugo Harmstorf, Mr Matthew Edgerton, Mr John Madden and Ms Elina Gilbourd

Coleambally Bowling Club, 3 Falcon Road, Coleambally

Monday, 14 November 2016 at 10.00am

OPENING REMARKS

THE CHAIR: Good morning. I would like to welcome you to this public forum. We are conducting a review to determine the maximum prices that WaterNSW can charge for its monopoly rural bulk water services from 1 July 2017.

I am Catherine Jones and I am a member of the Independent Pricing and Regulatory Tribunal. Assisting the tribunal today are members of the IPART secretariat, Hugo Harmstorf, who is IPART's chief executive officer, Matthew Edgerton, John Madden and Elina Gilbourd.

I would like to begin by acknowledging the Wiradjuri people as the traditional owners of the land we are meeting on today.

Also, I would like to thank those who have provided a written submission in response to our issues paper for this review which was released in September. Our issues paper set out the key issues that we have considered as part of this review.

WaterNSW's pricing proposal was submitted to IPART on 30 June 2016. WaterNSW's pricing proposal, our issues paper and submissions to our issues paper are available to the public on our website.

This public forum is an important part of our consultation process for this review. In addition to the views expressed in written submissions, we will consider the views you provide today in making our decisions on WaterNSW's prices for rural bulk water services.

We are holding four public forums for this review. Today's public forum is the third and final public forum this year. We recently had a hearing in Moree, in northern New South Wales, on 31 October, and a public forum in Sydney last week, on 8 November.

We will release a draft determination report for public comment in March 2017. People will then have about four weeks to make further written submissions for consideration by IPART before we make our final decision on WaterNSW's prices for rural bulk water services. We will also be holding a public hearing in Sydney on 4 April 2017 following the release of our draft report, which will provide an opportunity for further stakeholder consultation. A final report and determination will be released in June 2017, which will set the maximum prices to apply from 1 July 2017.

In general terms, our price review was set to determine:

What are WaterNSW's efficient costs of providing its rural bulk water services?
What was the user share of these costs?
How should the user share of costs be recovered through prices?

Before we commence proceedings today, I would like to say a few words about the process of the forum. As set out in the agenda, you will see that we will commence today with a presentation by WaterNSW on its pricing proposal. The day will then be divided into four sessions.

The first session will consider WaterNSW's expenditure including operating expenditure, capital expenditure, and its proposed approach to allocating costs between users and government, ie, the user share of costs.

The second session will address WaterNSW's proposed price structures and approach to managing revenue volatility - including water entitlement and sales forecasts.

The third session, which will occur after the break, will consider Border Rivers Commission - BRC - and Murray-Darling Basin Authority - MDBA - costs as well as irrigation corporations and districts - ICD - discounts.

Finally, the fourth session will address other prices and issues associated with the price review including meter service charges, other miscellaneous charges, the Yanco Creek levy and cost recovery.

Following the fourth session, there will also be an opportunity to hear your views on any other issues you wish to raise that are relevant to this review of WaterNSW's rural bulk water services prices.

Within each session we will discuss several topics. A member of the IPART secretariat will give a brief presentation introducing each topic. I will then invite participants at the table to provide comment on those topics. Following discussion by those around the table, I will invite comments from the general audience.

Today's forum will be recorded and transcribed. To assist the transcriber, I ask that on each occasion you speak, to please identify yourself and, where applicable, your organisation before speaking. I also ask that you please speak clearly and loudly.

A copy of the transcript will be made available on our website.

We will commence today with a presentation by WaterNSW of its pricing proposal. I ask David Harris, WaterNSW's chief executive officer, to please make the presentation on WaterNSW's pricing proposal.

WATERNSW'S PRICING PROPOSAL.

MR HARRIS: Thanks very much, Madam Chair, and good morning, one and all.

We have a brief presentation here to outline the key features of our pricing proposal, but, first of all, I want to say two things. We are proud to be here to speak to what is now our combined rural and coastal pricing proposal because we believe we have demonstrated some great outcomes for our customers and, equally, that we have demonstrated a much improved customer consultation process leading up to the involvement and the development of this proposal.

In that regard I would like to thank you, our customers, a number of whom are sitting in this room today, who, through our CSC Reference Group or through the individual valley CSCs, have put a tremendous amount of effort and investment of time into understanding the issues in reviewing and commenting on the large amount of information that was generated during that process. It has led to the pricing submission as it stands and we thank them very much for that effort.

We believe that our pricing proposal demonstrates that WaterNSW is refreshed, customer responsive and efficient.

In terms of great outcomes for our customers, our pricing policy reflects our clear commitment to meet customer requirements and continue to drive efficiency gains. We have demonstrated a reduced operating expenditure over the period of 20 per cent compared to the current regulatory allowance as at 30 June 2017.

That, in part, has driven a reduced revenue requirement over the four years of this pricing proposal or determination that is 11 per cent lower than the revenue requirement under the current determination. These things result in reduced bills for our customers. Those significant decreases have been achieved already in operating expenditure reductions, reflecting a lean and efficient organisation, and through our new management team, two of whom are sitting at either side of me today, implementing significant workplace organisational and operational efficiencies.

Just briefly - David Stockler will talk about this a bit later in the presentation - I want to talk about our improved customer engagement processes. We took a huge step up this time, and I believe this is a huge improvement in our consultation process over our previous efforts. We have provided far more comprehensive information to our customers to enable them to form the views and make the decisions that again we will refer to later on in this presentation.

We have provided detailed information and improved customer understanding of the so-called unders and overs mechanism, or UOM mechanism, its characteristics and impacts on tariff structure options and also increased transparency and understanding of billing pass-through charges for other agencies - BRC, MDBA - over which WaterNSW has no control but which have a material impact on the customer bills that are issued by WaterNSW.

Finally, before I hand over to David, going forward, WaterNSW will be operating under three separate pricing determinations. Effective 1 July 2016, IPART determined both our Greater Sydney determination, which is for our Greater Sydney customer base, and the WAMC - Water Administration Ministerial Corporation - determination, which is for the WAMC services provided by a combination of WaterNSW and DPI Water. Both those two determinations have been made and we are operating under those already.

What we are discussing here today is what will be our third pricing determination, which is a combined rural and coastal pricing determination for four years taking effect 1 July 2017.

It is worth noting perhaps that right at the moment as well, through the IPART secretariat, the licensing section of IPART is working through and developing a combined operating licence for WaterNSW. We currently operate under two operating licences - a Greater Sydney and a rural - and the intent is for us to operate under a single refreshed, if you like, operating licence from 1 July 2017.

With that, I will hand over to our executive manager retail, David Stockler.

MR STOCKLER: Thanks, David. Good morning, everyone.

I want to reiterate the words David mentioned. I would like to thank everyone for their effort over the past nine to 12 months. It has been an amazing effort between ourselves and our customers across the state and we are very appreciative of the time everyone has given towards the process.

Our proposed opex will be 20 per cent lower over the determination period compared to the current opex allowance and our total opex across the determination period will be $154.9 million. Most of you should be familiar with this graph. It illustrates by valley the reduction with the exception of the South and North Coast experiencing some small increases, and the dark blue series at the end of this particular graph is the overall reduction of $9.2 million or 20 per cent.

We are really pleased to say that general security customers will be seeing an average of 3 per cent reduction compared to their 2016-17 bill. Once again, this graph illustrates those at the valley level, with the dark blue series showing the 3 per cent overall reduction for general security.

On the other side - there is a typo on this, I am sorry - bill reduction for high security customers is an average of 9 per cent compared to the 2016-17 bill, again by valley.

To give you a little bit of a recap with respect to our customer consultation, you will hopefully recall that in November/December - almost a year ago - we embarked on agreeing some high level principles with the CSC Reference Group. Our CSC Reference Group comprises predominantly chairs from each CSC or key representatives. We also engaged with the NSW Irrigators' Corporation, our individual customer service committees and then one-on-one with key customers, including irrigation corporations and our environmental customers.

Earlier in the year, again with those same groups, we sat down and started to discuss draft prices by valley and the opex and capex and started to seek some more detailed feedback from our customers. We also expanded that engagement across a broad base, using our quarterly newsletters, which go to some 6,500 customers, and that happened on two occasions. We then come to April/May, where we responded to customer feedback. We finalised our submission and once again we invited feedback from all those groups.

It is worth noting that during that consultation process, WaterNSW ran an issues and insights register. We recorded some 100 issues or insights. A number of them we have worked through, and they are reflected in this particular submission, and I will touch on some key ones which we have agreed with customers to continue working on.

I have included here green arrows, but they are a little hard to see. They show where we are in the process at the moment, with obviously ongoing customer consultation. For us the process does not end. This is the last of the IPART public hearings, but our consultation actually happens every single day with our customers.

Then you can see that there is a detailed timeline at the very bottom with respect to this part of the process.

So some outcomes. We agreed with our customers to further consult with them on issues that they were concerned about, and that arose during the preparation of our pricing proposal. We agreed to address a few complex issues, not in this particular pricing determination process but rather prior to our 2020-21 submission. Those were four key issues with respect to legacy asset shares, government or user shares - and our colleagues from IPART will make some reference to that as there has been a bit of an update there - our levels of service framework, and our capital underspending or holding costs.

For these issues and some others that were identified in the issues and insights register detailed analysis has commenced and will continue to be undertaken during the 2017-21 period with the outcomes included in our 2020-21 submission.

. The consultation that we undertook with those groups of customers - key representatives - was really around the provision of information and it was heavily focused on tariff structure and, as David suggested before, the unders and overs - or UOM - mechanism.

We engaged in a number of detailed sessions with our customers in all valleys and we provided far greater detail on the regulatory process and framework. This included an in-depth explanation of the unders and overs mechanism introduced by the ACCC in 2014.

It is important to note that the UOM is a new mechanism in the scheme of things. We entered that process with very few people understanding the characteristics and the annual behaviour of that mechanism and I am proud to say that we know there are now hundreds of people across the state with a far better understanding of how that mechanism operates and its annual impacts.

We also ran a number of detailed scenarios, some at the request of customers and some just through the insights and issues register. We saw the opportunity to look at some things in consultation with customers. That included reducing the time frame over which the UOM operates. We looked at scenarios which may make the access to customers' money held in the UOM quicker or longer. Overall customers decided, as you will see in a moment, to retain the unders and overs in its current form.

We also looked at a range of fixed and variable pricing options. It is important to note we ran from 100 to zero back to 100 with regard to fixed to variable splits and gave a great deal of insight in terms of what that may mean in terms of pricing.

We are proud to say that our proposal does reflect customer choice. Customer groups in each valley nominated their preferences through formal customer service committee resolution for (a) retaining the unders and overs mechanism; and (b) each valley nominated its preferred tariff structure.

Our proposal - we are committed to delivering products and services that meet our customer preferences and their requirements. Customers have clearly indicated their preference for tariffs with a higher proportion of usage charges as they clearly value the correlation between their income and outgoings.

Subsequently we structured our proposal on the basis of this customer preference for continuation of the existing fixed to variable tariff structures with the exception, I must say, of Fish River, which has a rather exceptional circumstance with the closure of Wallerawang power station, and we are progressively delivering increased customer choice.

Customers response - we believe customers have responded positively to our refreshed and consultative approach, the overall efficiencies and the services being delivered by WaterNSW.

It is noteworthy that Lachlan CSC has continued to undertake its own analysis and is still very much considering a 80:20 fixed:variable split.

I might hand over to Elli Baker, our chief financial officer.

MS BAKER: Thanks, David. I am going to speak to a couple of slides which address particularly the revenue volatility and the UOM and the revenue risk transfer product that we have included in our proposal this year.

As the ratio of fixed to variable charges decreases, the revenue volatility to our business increases. Our aim is to be as financially stable as possible as a business so that we can focus our time and efforts on efficient delivery of services to customers and not have to manage financial risks.

We are a fixed cost business, so logically our preference is to recover as close as possible to our regulated revenue allowance. This year in our proposal, we have therefore included a revenue risk management product for tariffs greater than 20 per cent variable component. This insurance product is included in the ACCC pricing principles, and we have copied that statement directly there on the slide. Customers have, as David mentioned before, continued their preference for high variable tariffs and also have indicated that they do not support the risk transfer product.

This chart will be familiar to many of you. It is illustrative of the impact of the UOM on our revenue. The bars are an actual 20-year history of water sale volumes and the two lines are our revenue - one without the UOM and one with the UOM. What we have illustrated to customers through this analysis is that the UOM mechanism really has very little impact on the volatility of our revenues. As a business we continue with the UOM to have quite significant revenue volatility that we therefore then need to manage.

I'll pass back to David. Thank you.

MR STOCKLER: Thank you, Elli. We mentioned a couple of key issues and we would like to speak to some aspects of capital or capex. The first issue in that regard is the over-consumption of assets. We would like to note that there has been an under-investment in the maintenance and that has resulted in the running down of our assets. We must maintain our assets properly and must not push greater costs on to the next generation. Our solution has been using independently and universally recognised engineering methodologies to determine the right level of maintenance spend by asset category.

So the other side of that coin is delivery of capex projects. We absolutely recognise customer concerns around the issues of historical capex underspend and this must be addressed as holdings costs have been paid for by customers.

The solution is a more efficient way of delivering capex projects. We are significantly changing our approach and moving away from a project approach to a program approach, which seeks greater market efficiencies through strategic procurement. In backing ourselves, we have cut 10 per cent off our proposed delivery costs because we are confident this program approach, as opposed to one of individual projects, will deliver significant efficiencies. This approach, being one of programs as opposed to individual projects, provides the flexibility for us to reprioritise projects based on need and risk through the determination period.

With regard to consultation on capex, we have committed to engage with our customers and provide transparency regarding our proposed capex plan. To this point, we will discuss our capital plan with customers before we submit it to our board for final approval each financial year.

This graph goes to illustrate our current run rate from 2014 through to 2017. As you can see, the underspend is on the government share side. The top series on the graph indicates the user share of capex spend through to 30 June 2017. It is a little bit difficult to read on the chart and I apologise. If you go to the series, you will see the far value is green for the majority. There is yellow at the top. That yellow is forecast, whereas green is committed, and the blue series is the ACCC target for the period. So we are pretty much running to plan on the user share. The gap is on the government share side, which can be seen on the bottom series.

Quickly touching on ICD rebates, they are significant and their costs are socialised across all other water users. We have provided a table here to illustrate Murray, Murrumbidgee and Coleambally ICD rebates for the proposed determination period. It is important to note that our pricing proposal is comprised of significant opex reductions across customer billing, metering and compliance functions which has resulted in lower ICD rebates for the proposed period of 2014 through to 2017.

Ladies and gentlemen, in summary we are absolutely committed to being customer responsive and providing a range of choices to help meet the needs of our customers. We remain committed to maintaining very real relationships with our customers through regular engagement - that is every single day. We are proud to present operating expenditure reduced by 20 per cent over the period and a reduced revenue requirement from customers of 11 per cent. Overall our proposal provides customers with, on average, a bill reduction of 4 per cent for the period of 2017-21. Thanks very much for your time.

THE CHAIR: Thank you David, David and Elli for your presentation on your pricing proposal.

We will now move on to session one on today's agenda. In this session, we will discuss some key elements of WaterNSW's proposal. We will commence with a discussion on WaterNSW's operating costs followed by discussion on WaterNSW's capital costs and proposed capital maintenance allowance and the share of these costs to be recovered from users through prices.

In order to assist these discussions, the IPART secretariat will provide a brief introduction on each of these topics. I now call on John Madden from the IPART secretariat to introduce the discussion. Thanks, John.

SESSION 1: Water NSW's expenditure including proposed user shares

MR MADDEN: Thanks, Catherine.

This will be a quick overview from us because we do not want to double up too much. We actually are regulating WaterNSW's prices for bulk water services in 13 valleys across New South Wales - they are the Murray-Darling Basin valleys under one set of regulations and the coastal valleys under the IPART New South Wales regulations. We also regulate WaterNSW's meter servicing charges and other miscellaneous charges set on a fee for service basis.

On the regulatory environment, we have the inland or Murray-Darling Basin valley prices set under the Commonwealth Water Act and the Water Charge (Infrastructure) Rules and IPART acting on behalf of the ACCC - accredited by the ACCC - to set those prices and, as mentioned, the coastal valley prices, which were last set in 2010, are set and established under the IPART Act.

To give you a quick overview of our approach to setting prices, we look at the scope of services and monopoly services provided by WaterNSW. We establish the efficient costs of those services. We establish the user share - so that share that should be paid for by users - and we allocate that user share by valley. We then use estimates of entitlement and usage volumes to determine the prices given the established price structure in each valley. We also evaluate the impacts of the prices on WaterNSW and users as we determine those prices.

So a little bit of background about the term notional revenue requirement. We set prices to allow WaterNSW to recover the user share of its notional revenue requirement. We use a building block approach for different allowances to build up that notional revenue requirement.

In this case we have operating and maintenance expenditure, an allowance for taxation, an allowance for return on assets and a return of assets - so capital expenditure is not one of those building blocks - then costs and the return of and on assets. We also have an allowance for working capital. Specific to WaterNSW, there are also MDBA and BRC costs which are, in a sense, pass-throughs from WaterNSW's perspective. The other one not mentioned there is the Yanco Creek environmental levy.

The notional revenue requirement proposed by WaterNSW is decreasing when compared to the past three years since the 2014 ACCC decision, and since 2010 for the coastal valleys. There is a notional revenue requirement of $105 million per year. The user share of that averages $73 million per year.

As mentioned, once we determine that user share, we take the forecast volume of water take or usage and entitlements within each valley. Obviously the lower the forecast water take or usage, then the higher the price.

This graph shows, I guess, the trajectory or history of operating expenditure. David mentioned the reductions in operating expenditure. This just shows over the period since 2010-11 the actual opex split into user share and the government share. You can see opex is dominated by user share. Then the proposed from 2017-18 onwards is decreasing compared to the allowance, which is the line there. That is actually a combination of IPART and ACCC decisions so we can look over a longer period. We can see that drop in the proposed opex compared to allowed and actual.

There is a total opex of $154.9 million over the period - $38.7 million a year. The user share, as mentioned, by 2020-21 is 20 per cent lower than that used to set prices in 2016-17. WaterNSW identified savings from the restructure involving the State Water Corporation and Sydney Catchment Authority. There is also, if you look into the basis of the opex reduction, lower maintenance, hydrometric monitoring costs and planning costs. Those are some of the key drivers.

I will skip through this slide fairly quickly. It is representative in percentage terms of where the most reduction in opex occurs.

WaterNSW propose capex of $193.7 million over the period of 2017-2021. That is an increase of 34 per cent compared to the past four years. The user share is increased by 164 per cent compared to the past four years. Again we have the historic and proposed in the chart to allow some global comparison of the proposed versus the past. We actually have, as you see, a relatively low actual capex in terms of the user share compared to that proposed and we have had an actual capex that is lower than that allowed under the IPART and ACCC decisions.

A key feature of WaterNSW's proposed capex is a capital maintenance allowance, and that was mentioned by David, representing the annual expenditure required in the long run to renew or replace existing assets. This is greater than the building block allowance for depreciation of the RAB that I mentioned earlier in the building block approach that IPART takes.

Just a note too that the regulatory asset base, which is the value of the cap that we will allow a return on and of, is lower than the value of the physical assets that WaterNSW owns.

To comment on the user cost shares approach that we use, for different activities we allow a share of costs between 100 and zero per cent allocated to water users based on an impacter pays principle. For example, billing and activities which are directly servicing the requirements of users are 100 per cent allocated to users. There are other activities and uses of the dam such as flood mitigation, which is zero per cent allocated to users in terms of costs. There are others that are 50:50. Some of those, I think, are environmental works such as fish ladders and the like which are allocated 50:50 between users and government.

WaterNSW's proposal has the same user shares as applied in IPART's 2010 determination and those same user shares were applied by the ACCC in 2014.

This is an example of all the activities for both operating expenditure and capital expenditure and the associated user share that is applied to those.

We are looking at user share. We have engaged consultants as part of this review to look at past operating expenditure and capital expenditure and also the efficiency of WaterNSW's proposed operating expenditures and future capital expenditure. Then also a separate consultant is looking at the cost shares framework used to allocate this capital and operational expenditure between water users and the New South Wales government.

Some key questions for this session:

Are WaterNSW's proposed operating costs over the determination period efficient?
What scope is there for WaterNSW to achieve further efficiency gains?
Is WaterNSW's forecast capital expenditure prudent and efficient?
Is the proposal to have a capital maintenance allowance in addition to its building block allowance for depreciation reasonable?
Is WaterNSW's forecast user share of costs reasonable?

THE CHAIR: Thank you, John. We would really like to hear your thoughts on WaterNSW's expenditure and the user shares.

Just because we have the one microphone, if you do not mind starting, Karen, we might start at this side of the table and work our way back around and then get WaterNSW to respond to your comments, thanks.

MS HUTCHINSON: I am going to ask Jenny to start, if that's all right

MS McLEOD: Jenny McLeod, from Coleambally Irrigation. Are you looking for answers or comments on each question or just the first question?

MR MADDEN: They are a guide, so you can --

MS McLEOD: But you are wanting the comments to cover all of those aspects?

MR MADDEN: I think address the comments all at once rather than --

MS McLEOD: Thank you, yes. I should say thank you for coming to Coleambally. I think it is your first time here, so welcome.

In terms of operating costs, I appreciate that WaterNSW have looked like they have delivered significant efficiencies, but there is a key issue that we are looking for a greater clarity on. A lot of the focus is on the revenue allowance that is required through the determination process. We are looking for greater transparency about what your actual revenue and costs were through the process.

This comes up frequently in terms of the information that is presented on the revenue allowance and the deficits between that. We are interested in looking at what your actual costs have been and how they compare with what is proposed so we can have greater clarity around their efficiency or otherwise.

With regard to the forecast capital expenditure, WaterNSW is proposing a very different approach to capital. Whilst it is important that the assets are maintained in terms of their capability, we are not confident about that. We have had no line of sight to what is in the capital program. In the Murrumbidgee Valley, there is quite a significant capital program proposed. Our first concern relates to the quantum of it, the efficiency of that significant increase compared with historical expenditure and the process for justifying those costs.

In summary, in terms of the capital we believe it is very much a top-down approach as opposed to a approach driven from the bottom up; therefore, that makes it very difficult for water users to determine whether it is a prudent and efficient capital expenditure program.

In terms of the user share, the overriding way we approach this with the impacter pays approach means that it ultimately rests with water users essentially paying a very large proportion of the costs, particularly once you exclude the legacy capital component. I think it is underestimating the significant issues associated with free riders and other beneficiaries of the regulated river system. Thank you, I will stop now and hand over to Karen.

MS HUTCHINSON: Karen Hutchinson, Murrumbidgee Irrigation. Thank you, Jenny.

The comment I would like to make is about the capex proposal. I would like to reiterate what Jenny has said. What we see in the change to approach to capital is that WaterNSW is asking for a maximum allowance, maximum flexibility and a new transparency. It is a significant deviation from the past. Knowing that David has now indicated that some sort of business case will come back through the customer service committees, at the very least, we would expect major capital expenditure over a five-year period to be part of an ongoing proposal, as has been the case in the past.

There are a couple of other points which I think have been made in other hearings by the NSW Irrigators' Council, such as concerns about the justification being partly based on prior determinations, not actual spend, and also the concern that there may be some inadvertent cost shifting due to the renaming of certain categories, particularly the planning and dam safety.

With respect to the opex, we noticed a lot of savings efficiencies are also in the categories of jobs done by others, particularly in this valley, and we will talk more about that in the ICD discounts section. Effectively, the savings and efficiencies are on billing customers and in the Murrumbidgee, two irrigation corporations do three-quarters of that work.

MR PYLE: Graeme Pyle from Southern Riverina Irrigators. I represent 1,600 irrigation farms and, unfortunately, we actually have to pay for all of this.

I am perplexed. I have looked at the website to see what assets we are paying for. I do not see that. I do not know which ones we own. At one stage, we put a lot of money - this was from 1939 - into building Hume Weir. That was then resumed by WaterNSW in 1997 and now we pay rent on that. I am perplexed about that as to how that worked, who organised that and how fair that is.

Then we get down to we do not know what assets we own. We do not know how their cost is being correlated to us. We have huge worries that if money is being collected for the Hume Dam, could what happens be the same as for the Mount Cole power station where $4 billion or $5 billion was in account and Premier Carr told them that when they needed a power station, "Just come and see me and I'll give you one." That money went. There is no new power station at Mount Cole and we are shaping up to some diabolical problems in the electricity industry in the future. I know we are not here to talk about that, but I want to highlight the problems I have. If you are collecting moneys for asset refurbishment, what guarantee do we have that it will be there?

Then we get down to WaterNSW and you enunciated "consultation" repeatedly. We have serious reservations about the consultation process, so much so that I have had to go and meet with the Association for Public Participation because the consultation process that gets rolled out by WaterNSW is completely different to what is required for consultation. I just want to make that point.

There are problems there so then there is this massive logjam in WaterNSW and consultation. We can go to constraints - that is the latest one that I have been privy to see - and that was handled badly. Yet we are told that you are doing the best you can and things have never been so good. This is not just my opinion. Niall Blair, the Minister for Lands and Water, was down at Deniliquin the other day and he said as much.

I am just wondering how we get over this. I have thought about it for a while and I really would like a diagram of everybody in WaterNSW and what they do - so a nice picture of them as well, a phone number, an email so that we can get round this logjam. From where you sit, everything is great, but from where I and my members sit, it is terrible. I wanted to bring those points up. There are a heap more, but I don't think it would be fair for me to just sit here and sling off. I am hoping for some answers at some stage.

MS BURGE: Louise Burge representing Murray Valley Private Diverters.

In regard to cost shares, we have serious problems relating to the ever-reducing reliability of our irrigation assets and the increased share to non-irrigators, and yet we are paying the lion's share of the costs. The Basin Plan is one of those components, but there is also planned environmental water. Irrigators extract 42 per cent of the waters of the basin and yet are being required to pay almost 70 per cent of the costs.

Full cost recovery in cost shares has some boundaries, but those boundaries are unclear. Cost categories were mentioned before, but it is also about the non-transparency on some of those transactions. Importantly, in any project or capital expenditure, or indeed operating expenditure, we need to operate on a commercial basis, because we have to operate on a commercial basis. If governments are not forced to do the same, it is inequitable.

Also with cost shares, I have heard it said, and have seen in some of the submissions, that there needs to be a push of cost share on to other users, and we can look at some of the issues around riparian rights. For example, flood mitigation is seen as somebody benefiting but not paying. I would like to draw your attention to some of the issues about flooding. Flood mitigation is a 50:50 cost share.

As an irrigator, who has just been flooded, I find it extraordinary that I have to pay for the privilege. It is just not me though. Between Tocumwal and Moulamein or in Swan Hill, there has been over $1 billion worth of flood damage - $1 billion plus. Unfortunately, though, that is the second time our business has been impacted.

In relation to this latest catastrophic flooding, we have been told at the end of it that it is our problem and the risk will have to continue. Please be very careful when we talk about cost shifting on to other user groups because, as an irrigator, I am already paying the cost for irrigation and I am wearing the benefit of flood mitigation that does not work.

There are plenty of other issues in relation to cost sharing, and one is transparency, which we find really challenging.

In terms of consultation, I acknowledge the benefits of the customer service committee. However, please be aware that there are limitations in the effectiveness of consultation with the customer service committee. At the most recent one, we were advised very clearly that there are strong boundaries around what we can raise and what we are at liberty to discuss and, indeed, how we progress some of the issues of concern. If we do not do that through the customer service committee, how else are we meant to do it? I actually do not think that is the best forum for consultation, but I think it is one part of the forum. Consultation has to be meaningful and it has to result in some recognition of the concerns put forward.

I acknowledge that WaterNSW, indeed, has consulted on some of the issues. I am very appreciative of that, and Murray Valley Private Diverters acknowledges that, but there are also some serious issues, for example, with SDL projects and the consultation reliability impacts under prerequisite policy measures. All these things are diminishing the reliability of our resource, yet we have very limited capacity to address these things and our cost shares are increasing.

I will probably leave it at that at the moment, but I will make one other point and that relates to the commercial reality of going forward with capital expenditure. How do we make sure there are not budgetary blowouts in the next phase of asset refurbishment or new projects?

I will give you an example of what I think should be avoided at all costs and that is an example that relates to the Perricoota-Koondrook forest project under the Living Murray. I acknowledge it was under the Living Murray project, however, local knowledge was not included. The project blew out from $56 million to at least $120 million. We will see the same types of blowouts going forward unless we get a strong commercial focus and a strong local involvement. The costs can be reduced by including local knowledge, which could reduce perhaps some of the consultancy failures in the process. Thank you.

MS THOMPSON: Tanya Thompson from YACTAC, which is Yanco Creek and Tributaries Advisory Council.

The only thing I would like to add is that there has not been a very good track record with capital expenditure.

Everything that has been proposed to be spent on capital expenditure always seems to be in excess of what the requirements are. There is a lot of money that has been spent on consultants to say, "This is what we need." When they actually build what they perceive we need, they realise there has been an increase in expenditure far in excess of what irrigators required. It actually costs the irrigators every time there is a mistake like that. This is just a commonsense point, namely, that it is very important to get that balance right - not looking at what is perhaps perceived that irrigators will require in the future but looking at what irrigators are actually currently doing, and the projected input or changes in crops and usage, et cetera, will always impact on how much capital expenditure is required to be made.

THE CHAIR: We will get some questions from the audience in a minute but first I will give WaterNSW a chance to respond to some of those comments.

I think, in particular, stakeholders appear to be worried about the transparency and the changes in the capex program and also the customer service committee consultation. I wondered in your response if you could outline the changes in your capex program and how you will consult on those annually to allay some of their concerns. Thanks, David.

MR HARRIS: Thanks, Madam Chair. I am happy to sit here and be 100 per cent accountable for what my organisation is accountable for. I am not happy to sit here and be accountable for the accountabilities of other organisations.

A number of the issues that have been raised you know that relate to the Murray-Darling Basin Authority or DPI Water in general relate to WaterNSW.

Louise asked for a commercial organisation. We have done extremely well as a commercial organisation in massively reducing our costs and those costs pass directly through to you as customers. We are very proud of that. We do believe in our own consultation processes, and they principally revolve around the CSCs, not only because that is what IPART mandate us to do under the operating licence but because that is what our customers in our CSCs ask for as well. They do primarily revolve around the CSC. We will continue to have those good CSC interactions. Of course, we will try to build on those with other channels to market. However, where comments are made about the absence of processes that other organisations have, I am not going to answer those. I am not going to take accountability for them.

In respect of the capex, as David outlined in our presentation, we have two problems. One is that we are not properly maintaining our assets. Louise mentioned there is "ever-reducing reliability" of irrigation infrastructure. To date, we have been spending less than what engineering methodologies would say is a bandaid approach to our assets - ie, whack a bandaid on them and she'll be right. Our allowances have been less than that.

What we have done is take a number based on the MEERA methodology - it is not our methodology; it is a worldwide engineering methodology - that is roughly between, at the low side, the bandaid approach and, at the high side, renew and replace everything. We have said, "Righto, that's an appropriate level to be spending so that we are not over-consuming our assets in this generation and passing the reduced reliability of those assets on to the next generation."

A number of comments have been made about us getting through our capex program and those comments are valid. One of the reasons why largely we have not been able to get through our capex on the rural program is because previously this organisation has approached capex on a project-by-project basis. Every individual piece of capex was its own project. We went out to market. We went through customer consultation and so on. You cannot get through a capex program doing it that way.

As David indicated in the slides, we are taking a program approach to that now. We are going to market on a program approach to get through that capex spend. We have taken 10 per cent off our capex costs in our pricing proposal because we believe that we can save 10 per cent by going through that different process and we hope that, in that way, we will actually deliver on our capex plan. That is what our customers are asking us to do and that is what we in WaterNSW want to do as well.

Just on that, can I remind people that customers do not pay capex. They do not pay what we spend on capex. They pay the return on the regulated asset base or, in other words, the return on the capex that we spend, which is obviously a much lower amount. I think that has covered both CSC and capex.

MS BURGE: Could I respond?

THE CHAIR: Yes.

MS BURGE: Thank you very much. Just to clarify exactly what I said, I said that our reliability of entitlement was reducing, that our availability to the resource is reducing over time. I did not actually question the reliability of the assets --

MR HARRIS: Yes, they are reducing as well but --

MS BURGE: -- so I wanted to correct that.

MR HARRIS: Sure.

MS BURGE: In regard to my comments on an example, say, on the Perricoota-Koondrook, I did acknowledge that was part of the Living Murray program. I raised that to highlight the need, as we go forward with asset refurbishment and infrastructure investment, to incorporate stakeholder knowledge and work with communities because doing so can help drive down costs - that is, if you include local knowledge as stakeholder consultation. Thank you.

MR HARRIS: Louise, we have had this conversation at a couple of forums. It is for that very reason that we have committed to put those programs before our CSCs each year before we actually go to market on those so that people can see the exact works that are proposed on a year-by-year basis.

THE CHAIR: Thank you. Does anybody in the audience want to comment on the expenditure and proposed user shares?

MS BULLER: Yes, thank you. My question sort of goes back to something that David talked about --

THE CHAIR: Sorry, could you identify yourself, please?

MS BULLER: I am sorry. Debbie Buller from Murrumbidgee

Food and Fibre.

David talked about the fact that there are several different determinations operating, which makes it a little bit confusing for us. One of the things that has come up is that there has been a movement of staff between DPI Water and WaterNSW in between determinations. My question really is how will that be allowed for or recognised in this next determination? I think it is over 200 staff, if I remember correctly.

MR HARRIS: I am happy to have a go and I can be corrected by IPART if I get this wrong.

You are quite correct in most of what you say. 207 FTEs were transferred out of DPI Water to WaterNSW on 1 July, and I will take advice from IPART if I get any of this next part wrong. Those staff and the functions they carry out and, therefore, the costs that are incurred in carrying out those functions were the subject of a pricing determination by IPART - the WAMC pricing determination. In very round figures, my memory is that the user share of the entire WAMC services was roughly $41 million or $42 million - $45 million we have been allocated roughly $31 million of that $45 million. So none of those costs come through the determination that we are discussing today; they come through the WAMC determination.

I would highlight as well that, in that WAMC determination, IPART declared - I think that is the correct term - an efficiency dividend. Both ourselves and DPI Water therefore have a proportional obligation to achieve the efficiencies that IPART imposed through that WAMC determination over the next four years. I think that was in the order of a 1.5 per cent efficiency dividend of which we are roughly required to provide half.

MR EDGERTON: Matt Edgerton, from the IPART secretariat.

Last year we did a review of WAMC's prices for their water management activities. Leading into that review, DPI Water was largely undertaking those activities on behalf of WAMC. Our approach was to assess the efficient costs of those water management activities regardless of who undertakes them - so regardless of whether it is WaterNSW or DPI Water.

Going forward with this price determination, we are focused on looking at what the efficient costs of WaterNSW's prices are for these monopoly services regardless of who undertakes them, so there should be no double-up of costs or there should be no over-recovery.

While I have the microphone, I would like to clarify something David said before. He said that users do not pay the capital costs. They do not pay the full amount of capital costs over the next four years but users do pay for the user share of capital costs over the life of those assets. They receive a return on the assets through our methodology but WaterNSW also receives a return of the assets. So over the full life of the assets, water users do pay for those assets.

THE CHAIR: John?

MR MADDEN: I wanted to clarify that comment a little bit. In the past if there is an underspend, people do, for that determination period, pay on and of higher than they would otherwise because that proposed expenditure is there for that period. Obviously that does not translate into the long term. If there is underspend when we go to the determination, that actual expenditure is then included in the RAB.

Just to clarify on the WAMC review, there was a 5 per cent efficiency - DPI actually put a 1.5 per cent efficiency dividend. Our consultants did the assessment on DPI and its activities and suggested a further 5 per cent efficiency be achieved over the period and that was not linked to any transfer of functions between WaterNSW. We actually asked that question of DPI and WaterNSW and they said there were no further efficiencies that they could see for the period going forward that should be included.

The consultants that we employed did not take into account the transfer of functions and efficiencies that could be gained from that move. That was done on the activities that DPI were undertaking. That is what their recommendation related to, not the transfer of functions.

MR HARRIS: Sorry, could we clarify the last point on efficiencies?

THE CHAIR: Yes, I will hand the microphone over.

MR HARRIS: Thank you. To clarify that, we could not have given a view prior to 1 July of what efficiencies could be achieved in those WAMC functions. They were not ours, so --

MR MADDEN: I am saying neither side; I am not saying you. Neither DPI Water nor yourselves gave us an estimate of the efficiencies of that transfer of --

MR HARRIS: We would never have been able to do that. DPI Water would have been in a position to answer that question, but we clearly would not have. Again, in receiving the transfer of that number of FTEs, we are taking on our proportionate share, if you like, of achieving the efficiency dividend that IPART imposed on the WAMC functions as a whole.

MR MADDEN: I was just making sure that they are not combined with the transfer of functions because that decision on the 5 per cent was made separate to that whole process. That's all I am saying.

MR HARRIS: Yes, and I agree with that, and on the transfer of functions we committed to take our proportional share of achieving those efficiency savings.

THE CHAIR: Is everybody clear on that now? Basically we adopted the efficiency of the activity not who was doing it. Now that they have the activity, they will apply the same efficiencies as we have asked of DPI.

Are there any other questions?

MS DALTON: Helen Dalton from NSW Farmers. With the increase in WaterNSW staff, can you justify the reduction of compliance staff as compared with other administrative staff in WaterNSW? During the current flooding that we have experienced, there has been quite a lot of illegal activity going on around the state, and I should not need to tell you that. We are hearing different things, but I believe that compliance officers are not abundant. Can you comment on that, please?

MR HARRIS: Certainly, Helen. We are well aware of the compliance issues out there at the moment triggered by the different way in which flood waters flowed, in particular in one valley, but in several relative to their impact in 1990. So, yes, we are very well aware of that issue.

We were transferred a large number of compliance officers from DPI Water under the transfer we have been talking about. We have not changed the number of those positions at all from what we were given. We certainly do understand the importance of the compliance function.

We want to encourage compliance, starting with education, starting with incentives rather than just being seen as having a policeman come and whack you around the head with the Water Act or the Water Management Act. We are definitely looking at that sort of chain, if you like, through our new structure. We got the compliance officer positions we got and we have not reduced or removed any of them.

MS DALTON: How many, can I ask, please? How many positions do you have?

MR STOCKLER: It would be somewhere in the order of 30 to 45, something like that

MS DALTON: Thank you.

MS BURGE: I would like to perhaps seek a response to the concerns raised about the actual share of the resource that irrigators are looking at both now and in the future. How would WaterNSW look at any future review of cost share arrangements in regards to the greater weight given to environmental provisions in water access and water use? How would you see that in the future affecting fees and charges? Could you just give an explanation on what your thoughts are with the review?

MR HARRIS: Thanks, Louise. I think we have a pretty good understanding of the various concerns that our customers across the state have in relation to cost shares. Through both our CSC Reference Group, and also the NSW Irrigators' Council Reference Group, we came to a collective position that cost share reviews and the related legacy asset issues needed a pretty comprehensive review - they needed a comprehensive look at - to come to a view as to where the appropriate balance sat now, having regard, as you point out, Louise, to environmental and other changes.

That is why on our slide - and it was also supported in the NSW Irrigators' Council submission - we were proposing a substantive review of cost shares, legacy assets, and so on, to be undertaken around midway through our pricing determination.

Why did we propose that? One, because we felt it needed to be comprehensive, and we got that message loud and clear from our customers; two, because we do not have the resources on top of this pricing proposal, the operating licence review, and whatever, to do that review right at the moment; and, three, because our CSC Reference Group told us that the customers also do not have the time and resources right at the moment, given other priorities and given the time they have available on other priorities, no parties really had the time to do that process properly and thoroughly at this point.

I note that IPART are proposing to do a cost share review as part of this pricing determination and we welcome that to the extent that that review is as comprehensive and fundamental, if you like, as what we believe needs to be done and certainly what all our customers have told us needs to be done.

MR EVANS: Austin Evans, CICL. I would just note I was formerly the chair of the Murrumbidgee CSC so I was involved with WaterNSW in their Reference Group.

I am curious with regard to the MEERA comments. I was unaware that that had been done. Has that been done valley by valley or has there been a long-term - and I am talking 50 years - profile of the replacement costs? Has that been done and is that publicly available? I think that in part would answer some of the transparency questions that have been asked.

MR HARRIS: Thanks, Austin. No, it was not done on a valley by valley basis; it was done on an asset category by asset category basis. Secondly in terms of those numbers, we have been put through the wringer by IPART's engineering consultants - engineering sub-consultants I think is probably the best way to describe it - on this matter. Certainly all of that information has been provided. The calculations, the process and so on have been provided to them, and I would say that they have been very rigorous in going through all of that and they will come to whatever view they come to as to the appropriateness of those numbers using that methodology.

MR EVANS: This may be a question to IPART. Will that be made available?

MR EDGERTON: Yes, our consultants' report will be made publicly available

MR EVANS: And the timing?

MR EDGERTON: Is it early 2017 or probably March 2017?

MR MADDEN: We are generally aiming for a month or so before our draft report, so that's early February, depending on the iterations that have to go on in terms of discussions with WaterNSW back and forth.

THE CHAIR: Just to clarify, Austin, when we get the reports back from our consultants, they will make some recommendations to us and we will agree or not agree. We will make our judgment on what we think is the best way forward, in which case we will tell you why we have decided on that in the draft report so you can see why there are any differences.

MR EVANS: Thank you.

THE CHAIR: I'll just hand over to John.

MR MADDEN: With regard to the specific question you asked about whether there are profiles available publicly for 50 years. I do not know if our report will do that because the report is critiquing the approach. It does not actually replace the information that you might be seeking for that longer term by valley. I wanted to make the point that our report is maybe not a replacement of what information expectations you have for WaterNSW.

MR EVANS: The reason I asked that question is that a comment was made by WaterNSW earlier to the effect of "We do not want the costs of this to be put on the following generations and we want it to be over time." I very much agree with that approach, but without knowing what the likelihood is over time, it is a bit hard to judge whether what we are currently dealing with is a reasonable capital replacement program.

THE CHAIR: Thank you, Austin. We will keep that in mind when we see our consultant's report. One more comment from Jenny.

MS McLEOD: My question is actually for IPART. It relates to the cost sharing ratios and your approach to reviewing those. I agree with the comments Louise has made. We are in a different world now to when the cost shares were originally framed in terms of the shifting balance between the volume available for irrigated agriculture versus environmental benefits on behalf of the whole community. You have engaged consultants to look at the cost sharing ratios. I am interested in knowing what sort of process they will undertake and will there be opportunities, say, for a public hearing or a workshop in relation to their work?

MR MADDEN: We have appointed Frontier Economics to do that work. They have not yet provided us with a draft report. Where to from here depends on the results of their draft report and their first thinking. I guess really it is not going through numbers, et cetera, at this stage; it is going back to the impacter pays and taking various issues into account. They have obviously seen some of the previous transcripts - they will see the transcript of this hearing as well - and will take those issues into account. We have had meetings with them and raised a number of these issues to do with environmental flows, riparian rights, et cetera. A lot of this stuff has been around for a long time, as it was when we looked at cost shares in 2012 - at that stage, the rural water charging review of 2012.

Once we get that draft report, we will then make a decision on it. I would imagine there is a strong likelihood of a workshop-type iteration before the draft report. It is also likely that any results of that will be how do we go forward from here as opposed to a retrospective adjustment of RAB and processes like that, which would be a very difficult thing to do.

The phrase "comprehensive review" was mentioned by David. It was our feeling that putting things off does not help necessarily rather than starting that approach and if we require a more comprehensive review on elements of the cost shares framework, that is something we may do leading up to the next period, but there may be also elements that require addressing straight away.

MS McLEOD: Thank you.

THE CHAIR: We are going to move on to session 2 now.

MR MADDEN: Could I ask one last question? I apologise.

THE CHAIR: Yes.

MR MADDEN: David, a couple of times in these hearings you have mentioned how you want to change procurement and move to a program approach and have savings, which is a fair point. We have heard that there has been change in the consultation with people about five-year plans and having more of a project approach. I am just wondering what is stopping you from moving to procurement as a program and still having, I guess, the more traditional comment and discussion with stakeholders. I think you have tied the two together a few times, and I am just wondering what the nexus between those two is.

THE CHAIR: David?

MR EDGERTON: Just in passing the microphone to David, John has asked what is stopping you improving our procurement under the current project by project estimation approach. I have a similar question. You talked about under-investment. Again, what is stopping you from ensuring that you have an adequate amount of investment under the current project-based approach? So I think it is both procurement and under-investment.

MR HARRIS: I thank the gentlemen for their three questions, and I thank you for the opportunity to clarify all three points.

In relation to procurement, we are actually moving to that model right now. We had sought advice on how the market will best be able to digest those packaged-up programs and how we would put them to the market, and we will do that. We will actually be able to roll that out early in the next year.

The second question was around the capital plan and moving from the projects. Obviously this year - which comes to Matt's point - we are operating under the current determination and the project-on-project approach, which I will talk about in a second. What we are doing as well, though, is we are developing our FY18 capital plan and that will be then put through that procurement process. We do not have that at the moment. That is the capital plan based on the allowance approach - on the program approach, not the project approach - and that is the capital plan that we have committed to put through our CSCs in their February round of consultation next year. I can't put it on the table here today because we do not have it.

With the third question then in terms of the capital catch-up, you saw on the slide that David put up, particularly around the user share, that we have forecasted capex this year that will bring us in at the end of this determination more or less in line with our capital allowance.

We have done that by changing some of our processes, driving some of those projects, bringing them on faster than we otherwise would. So within a management sense, we have reacted to that and brought that capex into this current determination period. On the user side, anyway, we will more or less hit our capex target by the end of the determination.

THE CHAIR: Thanks, David. Now that you have mentioned that, could you please explain to me the significance of why you have underspent more on the government share side and not the user share? What does that actually mean?

MR HARRIS: John put up a slide in his introductory presentation, which is a good one. It is the table that goes through all of the cost shares. You saw towards the bottom where the government pays 50 per cent and upwards of those cost shares. Those cost shares tend to relate to things like fishways, dam safety compliance and so on.

Why we are a little bit behind in our government share capex under this determination is because for issues pending the new regulations under the new Dams Safety Act, we have not put forward some of our projects that we had put forward four years ago in relation to dam safety. We have held those to see if, in fact, under the new regulations, there may be alternative ways of addressing the current compliance deficiencies, administrative or other type actions. There has also been some non-expense of fishways type capital as well, and those types of programs hit the government share more so than the user share.

THE CHAIR: Louise would like to make a comment.

MS BURGE: It is just a quick question on fishways. In the past, for example, on the Murray system, the Stevens Weir fish ladder has taken an inordinate amount of time from its initial concept and I am not exactly sure where it is at the moment. How can we prevent long delay times between the initial concept to the reality and thus the price tripling or quadrupling from the early start? I think we are talking about, if I am right, 15 years - or certainly the 1990s was when it was first discussed. Is there some way we can bypass some of the more rigid requirements from perhaps OEH or is it inefficiency? What are the impediments to getting these things done on a commercially practical basis?

I acknowledge it is not necessarily WaterNSW - it may or it may not be. I do not know whether it is OEH. I do not know where the problems are, but if we are going to have to pay a cost share on fish ladders, how can we ensure that it is efficient and commercially relevant? Also do we need to look at a Rolls-Royce model or a Holden model? I think we do have to consider that in the user pays principles.

MR HARRIS: There has been some delay over the last couple of years in spending capex on fishways. The reason for that is because - as I understand it because I wasn't here at the time - at the behest largely of customers, the then Minister for Primary Industries, Minister Hodgkinson, ruled a line under the fishways program and spending and said she wanted to investigate a new way of doing that in a more effective and efficient way.

We have spent quite some time negotiating a different strategy or a new strategy with NSW Fisheries. You talked about Rolls-Royces versus Holden. I think it is fair to say that previously Fisheries and DPI were focused on getting fish ladders, fish lifts and all those sorts of things on our large structures. We have managed to negotiate a strategy with them where, instead of those large type of projects and large type of facilities, they are prepared to look at some smaller structures -

principally the removal of small structures, weir-type structures in rivers and streams that are relatively untouched by our assets. In other words, rather than trying to put a fish ladder on a large dam, they will look at, by way offset removing a weir from a tributary that is otherwise unregulated.

We submitted a supplementary submission to IPART on that after our original submission was put in and we have sought some project planning funding in the order of $2.5 million to develop that program.   Fisheries obviously believe that that program will deliver the right outcomes for them in an environmental sense. We believe that that program will certainly deliver the right outcome for our customers in terms of much lower costs for achieving those fish and other environmental benefits. That was the subject of our supplementary submission to IPART and, hopefully, that explains it.

Frankly, the delay that you have been talking about, I think has been a good thing for customers. We have come up with a good strategy with NSW Fisheries. We now need some time and some small amount of money to develop that program and implement it.

THE CHAIR: Thanks, David.

Now we move on to session two. Session two is price structures and managing volatility.

The purpose of this second session is to discuss WaterNSW's proposed price structures and approach to managing revenue volatility including water entitlement and sales forecasts.

I will now call on John Madden to introduce the discussion on price structures and managing volatility. Thanks, John.

SESSION 2: Price structures and managing volatility.

MR MADDEN: First, some price structures. WaterNSW currently levies a two-part tariff for each valley in most valleys. 40 per cent of revenue is recovered from the annual fixed charges and 60 per cent of revenue is recovered from variable charges. This obviously might change in terms of actuality depending on volumes, but that is how we set prices to achieve that given our estimate of forecast usage. We also have a high security premium which is based on the differential reliability in each valley.

WaterNSW's proposal generally maintains current price structures, except for the BRC and MDBA prices or cost pass-through, which we will come to a bit later, but moving from the 40:60 structure to the proposal to be 100 per cent fixed.

Turning to forecast volumes and entitlements, for each valley, forecast water sales are used to determine the variable charge and forecast entitlement volume is used to set the fixed entitlement charge.

WaterNSW's proposal retains the current methodology for estimating water usage which is a 20-year rolling average of actual water sales. In the MDBA valleys, that is updated each year, on the request of WaterNSW, with a new year of actual water sales data.

We have here a chart showing forecast volumes and entitlements. We see the actual forecast volumes since 2010-11. We see the variability. We also see that, obviously, the 20-year rolling average does not change by much as you drop one year and put another year in.

That chart flags managing volatility. The risk in revenue volatility results from the current 40:60 fixed to variable pricing structure for most valleys while costs for WaterNSW are largely fixed. In the 2010 IPART determination, we allowed a revenue volatility allowance. That was included in the annual building block as a cost item and that was around $2.6 million per year.

The 2014 ACCC decision introduced the unders and overs mechanism that was discussed earlier. In a departure or a different approach to IPART's typical approach, there is an annual adjustment to prices to factor in an unders and overs mechanism and incorporate updated sales forecasts.

WaterNSW propose to maintain the unders and overs mechanism as it currently operates. They also propose to introduce a risk mitigation allowance to incorporate costs of managing revenue volatility. They have had, I guess, a preliminary quote from a third party for what they call a risk transfer product, which is essentially a swap where they pay that third party to provide a set income which represents an estimate for 40 per cent of the usage revenue, and that third party then takes the actual revenue in any one year in exchange for that.

That volatility cost is included in WaterNSW's proposed prices and the allocation to the various valleys of that cost or that premium that it paid the third party has an impact on the notional revenue requirement.

As an illustration, obviously the higher the volatility, the higher the share of costs in each valley that that might entail. I think the Gwydir and the Lachlan in particular are up around 10 per cent of their notional revenue requirement, and that is actually the cost of this way of managing volatility. Then in the Murray, it is 2.3 percent and Murrumbidgee 4 per cent - obviously lower reflecting the reliability of the general security entitlement and, I guess, the mainly fixed revenue associated with high security licences also.

The Lowbidgee is zero simply because that is a fixed charge on entitlement at the moment and there is no usage competent.

As mentioned, customers canvassed choosing to move to 80:20. Discussions with the Lachlan are still going on with Mary Ewing and others. The customer service committee there are still entertaining that move to 80:20. There are issues that we will probably discuss and flag relating to how does a CSC make a choice on behalf of a valley and what authority might they have to be able to do that?

As our initial position, we recognise that there is a risk facing WaterNSW under a 40:60 fixed to variable price structure. In other jurisdictions such as Victoria, the price structure is around 90:10 in terms of fixed versus usage charges, but obviously we realise that New South Wales is different from Victoria in terms of reliability. We support in principle the concept of allowing the costs of managing risk if that cost is deemed efficient.

We will consider all elements of WaterNSW's proposal and their options to mitigate risk. We will look at the distribution of risk between WaterNSW and its customers and look at alternative options, including the pros and cons of alternative price structures.

Some questions arise:

What is the appropriate level of risk that WaterNSW should bear?
Should water users pay for the costs of managing volatility?
What implications, if any, should WaterNSW proposed RTP - that is, the risk transfer product - have for the unders and overs mechanism?
What rate should be applied to an unders and overs account?

I think we will skip the next one. I am not sure there is a representative of the Peel here, and the final question is:

Would water users be willing to move to an 80:20 fixed to variable price structure if they avoided the costs of an RTP or a similar allowance for managing that risk?

THE CHAIRMAN: Thank you, John. Do you want to start this time, Louise?

MS BURGE: Thank you. I suppose I would refer to a comment made earlier about the financial stability of WaterNSW. An equal component of the conversation is the financial stability and risk of irrigators and the irrigation businesses. I am not sure that I have the answer on where to go. I felt a bit uncomfortable in the either/or scenario of a risk transfer product. I acknowledge that was only one component, but I get the sense of unease that if we do not shift from a 40:60, we will have this sort of pressure upon us.

In assessing WaterNSW's risks, I think we have to have transparency from WaterNSW on what the risks are to our business from multiple issues. I do not think that is part of the assessment process, and I think it needs to be because there is a very clear message coming out of irrigation areas in the Murray Valley - we cannot continue to pay an ever-increasing cost on accessing or paying for our entitlements which, as I have said before, are continually reducing in reliability or availability.

Availability could be things like how allocation announcements are made. We have the situation in the

Murray Valley where we have had catastrophic flooding. At the time of the catastrophic flooding, irrigators were on 53 per cent of allocation - so half of their allocation. Then you ask the question: at what point do we actually get a full allocation? Does it have to be a level beyond catastrophic flooding? I am not quite sure what that terminology is, but seriously there is a major issue on how we are assessing the equality of risk and financial stability.

MS HUTCHINSON: We see the three levels of risk transfer products as belts, braces and buttons. We struggle to know why a state-owned agency requires risk protection equivalent to a stock market in order to secure payment for government dividends back to the government, and that is that same government that has had a growth agenda for industry and agriculture in New South Wales.

A state-owned authority with a guaranteed government cost share cannot possibly require three levels of risk protection when its customers are left to face the natural seasonal unpredictability of farming for the benefit of the state's gross domestic product.

To reiterate Louise's point, we were given the option of an 80:20 or did we want to remain with the 40:60? When we chose the 40:60, we seemed to be given the 80:20, anyway, through a mixture of other products. So the lack of choice appears to be there.

MS McLEOD: What are the implications on other valleys and the cost of the RTP if some valleys elect to go to an 80:20 mix so the RTP is actually being funded by a smaller set of irrigators?

MR PYLE: The notion of risk was very evident during the millennium drought. That caused huge devastation to many of our irrigators, yet we had to pay large fees for no water over a long time and WaterNSW survived that quite well. We are wondering how risk can be shared, particularly with the efficiencies of WaterNSW. I am not sure who does those efficiencies - whether it is Deloittes, in-house, IPART, I am not sure - but we need to get to the bottom of the risk factor. I would be absolutely appalled if we had to go through the next millennium drought and cop the same.

THE CHAIR: I will hand over to WaterNSW to respond to some of those comments. In particular, could you explain how the RTP might be administered if different valleys are choosing different options?

MS BAKER: The RTP is an insurance product that we are purchasing from the market. We are currently in negotiations or in discussions with them to receive a first sort of really firm price on that product. We have sought from the market a price on the basis that all valleys in their initial discussions from earlier this year did nominate to continue - or those valleys that do have the 40 per cent fixed did nominate to continue with the 40 per cent fixed and the 60 per cent variable.

There are a couple of things to note with that product. What it will mean for WaterNSW is that we essentially replicate an 80 per cent fixed 20 per cent variable price structure. We still are taking a significant amount of revenue risk. This is so particularly when you compare us to other water providers such as Goulburn-Murray, who have a 90 per cent fixed cost structure for many of their products. Actually the level of risk we are continuing to take in our business will definitely be not insignificant.

The RTP also is not a double-up with the UOM - and we have had this question a couple of times - it is based on the revenues that we receive after the UOM is already included and then replicating an 80:20 structure. One sits on top of the other; they are not side by side, if you like. If customers change their preference for continuing with the UOM, that then, we would anticipate, would have an impact on the premium that we will pay for the RTP product because, at the moment, the insurers are providing a price based on the UOM being in place.

At the moment, as we have said, because all valleys with the 40 per cent fixed did nominate to continue with the 40 per cent fixed, that is the basis upon which we have sought a price from the market. We will need to go back to the insurance providers to get an adjustment if a particular valley or more than one valley does opt out. At this point in time, we do not have a definitive answer for you on what impact that might have, but we will seek to get that answer before the year is out.

MR STOCKLER: To add to Elli's point, each valley contributes its portion to a risk profile across the entire operation, so it would really depend on which valley and what impact it would have on going back out for re-pricing.

MS BAKER: One of the comments that was made before related to the impacts to customers of the RTP. WaterNSW receives revenue from customers' bills on the basis of, in those valleys, 40 per cent fixed. That does not change. The RTP literally is a product between WaterNSW and the insurance market. The customer prices will be set according to the IPART determination. The RTP then is a product which will result in WaterNSW swapping revenues or payments, if you like, with a third party provider, but that does not then have an impact on customer bills other than the cost allowances that IPART sets.

I think it is important for you also probably to hear directly from us that it is very important to us that we are purchasing this product from a third party provider. As I said before, what we are trying to achieve here is to minimise the financial volatility in our business so that we can basically focus on providing services for customers and not spend management time and money on managing financial risks which come from that volatility. The whole point of this is around minimising the costs of what we spend on managing all those risks.

MR PYLE: Why do you have to go outside? There you would be doing it on a BBB rating, whereas you could do it internally on AAA. That is an increased cost to us. It looks terribly like a tax on productivity to me. The state benefits 20 per cent over and above all fees and charges; is that correct? In our worst year, we are still paying you 80 per cent,or something like that. You are looking for a method to keep your income stream at a much greater charge than it would be if it was done internally by the state. I wonder why that is.

MR HARRIS: Our customers have told us - it was on that chart that Elli put up - that they want the UOM product, the overs and under mechanism, so that in their view their costs are more aligned in a general sense to their revenues. That continues. The RTP product does not change that at all. If a valley elects to go 40:60, as all of them currently have done, the prices you pay WaterNSW reflect that.

What we are saying is, on the other hand, we are going to go to the market with a swap product and we will convert that income stream into, effectively, an 80:20 income stream. Our reason for doing that is because, like the other irrigation corporations in the room, we are a largely fixed cost business. We absolutely understand the pressures that your businesses are under with water reliability and other things. We are not in a position that we can cut costs one year and add them on the next. That is not possible for our business, so we obviously want our revenues to more reflect this fixed cost nature of our business.

We are looking, on the one hand, to highly variable revenues from our customers to give you the 40:60 that you desire and, on the other hand, through the RTP product with the market, converting or swapping that highly variable revenue out with a much more fixed revenue stream which better aligns to the costs of our business.

MS BAKER: The only thing I would add relates to the comment you made about self-insuring. There is really no self-insurance in that if we keep that cost ourselves and do not actually implement a swap product, then we still have the variability of our revenues and that is the thing we are trying to mitigate. From our perspective, we really are trying to lower the volatility of our revenues that we then have from the 40 per cent fixed and 60 per cent variable.

I make the point often that one of the lead actual parties who are offering us this product is icare, which is a New South Wales government insurance agency. We are absolutely looking for the cheapest cost of this product and it is a New South Wales government insurance agency that is supplying one of the prices on this.

THE CHAIR: Another way to ask Graeme's question is: have you considered other methods - you have chosen RTP as the most efficient - for instance, using debt or looking at what dividend you pay to the government?

MS BAKER: I would probably repeat what David said before. In running this business consistently, what we do across our debt portfolio and across other ways of running the business is we feel like we are here to provide the most efficient service to customers that we can and we are trying to do that in various innovative ways. We do not want to spend time as a management team actively managing debt portfolios and hiring teams internally to do that sort of thing. Therefore, from our perspective, really what we are trying to do is minimise the financial risks in the business to the extent that really are, across the globe, fairly sort of standard set industry benchmarks on what sorts of risks these businesses have and should take and what the risk share should be between the business and its customers. Everything about 80:20 is definitely in the ballpark. Goulburn-Murray have more than 90 per cent fixed tariffs, so 80 is in that ballpark.

THE CHAIR: Does that answer your question?

MR PYLE: Sort of. If my farm doesn't operate, I go into debt. Next year I have to work like hell to pay it back. In your case, if we cannot pay you because we do not have a water allocation, our debt rises and we have to pay you.

There is a loss when you get a third party in because they have to factor in getting paid back. They are factoring in that risk so it is higher than what you would do with debt. We are going to pay you. We have paid you every other year. It is not as if it is not going to happen. It is just a ledger shift. I do not know why you've got to use that method.

MR HARRIS: I think that actually very neatly encapsulates the choice that we have given customers. This is the essence, and there are one or two people who have been right through this journey with us. We have produced a large volume of material. On the basis of all of that analysis, customers have said, "We still see value for us" - for the customer - "in that 40 per cent fixed 60 per cent variable", and that is for the very reasons you have just spoken about. We are saying, "Okay, we will offer that." We are more than happy to offer that because we understand where you are coming from and the benefits that you, the customers as a whole, see from that higher variable product.

We are, in the most efficient way we can, then trying to minimise the cost of catering for that variability, that flexibility that our customer base wants through that RTP product so that you are paying on the 40:60, we are receiving on the 80:20. That is exactly what we are trying to do. What we have asked the CSC Reference Group and each of the CSC committees to think about over what is now coming on to 11 months is: is that variable worth it to you, having regard to what we believe is the most efficient cost we can get in terms of that RTP, or in fact is that tipping the scales for you and you'd rather then move from that 40:60 to a higher fixed percentage and not pay the RTP?

That is the exercise, to be blunt, that the Lachlan CSC have gone through. They are right on the edge at the moment. In light of the indicative cost to this date of the RTP, they are not sure that in fact the benefit of the UOM and the higher variability outweighs that. That is the choice that we are putting before customers.

THE CHAIR: Thanks, David. I think what WaterNSW is telling us is that this is their view of what the most efficient way of replicating 80:20 for them is if the customer should choose 40:60. IPART, of course, will also look at this RTP and make our judgment on whether we think it is most efficient and we will consider other options, as I am sure WaterNSW has already done. So we will look into this further for you.

Are there any other questions?

MS BULLER: The only thing I am struggling with is that we are talking about the risk transfer, but it sounds like it is still going to be us paying somehow or other.

MS DALTON: That's right

MS BULLER: They are asking IPART to include this, which means that it will be part of our user share anyway. That is what I am hearing. Then you put up, say, for instance, for our valley that it was 4 per cent. Does that mean a 4 per cent increase in our fixed to variable? I am struggling with this. It sounds like WaterNSW do not want any financial risk but somehow we are still going to have to pay for that. That is what I am hearing. I could be incorrect but that is what I am hearing.

MR MADDEN: It is a transfer of risk to a third party but users pay the cost.

MS BULLER: Right, that is what I thought.

MS BAKER: The cost that we are asking IPART to include in the revenue allowance is not the cost of the forgone revenue. It is the cost of us purchasing an insurance product but --

MS BULLER: But that's still us paying, isn't it? That's still us paying --

MS BAKER: Yes, correct

MS DALTON: You are transferring it to us

MS BULLER: Yes, that's what I am hearing; the risk is being transferred.

MR HARRIS: Yes, absolutely - I take Catherine's point; all of this is subject to IPART's decision - we are asking IPART to include in our operating expense allowance the cost of that product. So, yes, you are paying that price. You are paying that on a 40:60 basis like every other opex cost.

MS BULLER: But that means the charge goes up, doesn't it?

MR HARRIS: Yes, it does.

MS DALTON: There's no choice then.

THE CHAIR: Just let me have a go, Debbie. At the moment what they are asking for is that the charge is put into your prices. What we will do is we will look at whether that is worth your while. Is it better for you to pay that charge, which may save you in other areas, or a part of that charge or is there another way that it should be done altogether?

MS BULLER: Okay, thank you.

MR STOCKLER: I would like to say that it is actually customer choice that has led us to this point. Customers have been very loud and clear that they value the correlation and we want to provide, and are committed to provide, products and services that meet their wants.

If I can take the liberty of giving a very simple example that we have provided all CSCs - I apologise to those who have heard it before - with your NRMA insurance, you have the choice of paying your premiums up-front annually for $1,000 or by month. NRMA will very clearly show on its bill that if you choose by month, you will pay an extra $12.50 per annum. This is a very simple version of customer choice. You are choosing a product and there is a cost for that business in providing that product

MR PYLE: But you are a monopoly.

MS BAKER: But the point is that a monopoly business still has risks that it manages and a monopoly business is subject to --

MR HARRIS: Subject to oversight.

MS BAKER: -- an oversight for that reason, that we are not abusing our monopoly. However, the ACCC rules state absolutely very clearly that there is specifically an ability for the business to be able to seek an insurance product to manage its revenue volatility.

I do want to reiterate we are not asking for an insurance product which takes us to zero risk; we are seeking an insurance product which takes us to replicating 80:20, noting that 80:20 is a widely used fixed variable tariff structure out there in other places. As I said, probably two or three times already, Goulburn-Murray is 90:10. We are not seeking to reduce our risk to the level of what other utilities face. We are actually sticking our hand up to continue to take higher risk than that.

THE CHAIR: We will look at this carefully. We understand that there is quite a bit of confusion around this issue and how it relates to UOM. Obviously for us this is our third forum and we have discussed it at some length. I feel like, WaterNSW, you would be happy to hear that we understand it a bit better. We will do our best as we look at it and we prepare our next report to explain to stakeholders more clearly as well.

We will have a question from Tanya and then Louise.

MS THOMPSON: Could I make one point? A couple of times mention has been made that interstate organisations - Goulburn-Murray Water, for example - have a charge of

90:10. The difference between, I believe, what Victoria is able to charge and New South Wales charges is that Victoria always seems to get a much higher water allocation --

MS BULLER: Yes, it does.

MS THOMPSON: -- than what the New South Wales counterparts receive

MS BULLER: It is a little bit like comparing apples with oranges, I think, to say that because of the reliability of Victoria and --

MS THOMPSON: That's right, it is much more reliable. On my understanding, in Victoria, it is much more reliable, therefore, the 90:10 is appropriate for that state or Goulburn-Murray Water.

MS BURGE: I would agree with Tanya's and Debbie's comments in relation to Victoria. That brings me to the volatility for actual irrigators and the risk factors - the profile of risk that continues as we go forward, for example, in the access to water.

I am not sure whether WaterNSW has a policy on new developments downstream on the Murray, for example, downstream of the Barmah Choke. It is highly likely that in granting new water access licences - particularly for big developments such as almond plantations, and I understand there may be groups like State Super behind that or maybe other private developers - the risk for irrigators who have paid for existing assets and are continuing to pay fees and charges is that they may not be able to access their entitlements because of capacity constraints in the delivery of regulated supplies.

How do we address that? We seem to have a failure of planning with WaterNSW or DPI. I am not sure who's going to grant the access licence. It's DPI? Is it a responsibility for WaterNSW to perhaps raise these issues with DPI because somebody is going to miss out. They will put their water order on, but they will get the response, "Sorry, we can't deliver."

MS THOMPSON: Or it could just be increased lead times.

MS BURGE: Yes, it could be. We are facing all sorts of things - delayed allocations for whatever reason as I have raised before. We have the future risk on downstream developments.

I will give you an example of one particular unregulated licence holder in our valley. That person is the only licence holder on an unregulated supply which comes out of a regulated river, so I find that a little bit confusing. That person cannot access his water. He cannot trade his water. He cannot sell his water because it is an unregulated supply coming out of a regulated river and he now faces fees of over $8,000 - another component of somebody's business risk.

The other point is to question future prices for, say, the refurbishment of South Australian assets - locks, weirs, barrages. I am not sure whether that comes under a later discussion today, if at all, but I would like to raise that as an issue. I say that because we have an opportunity to get some of these refurbishment costs on the barrages under some of the environmental works and measures options under SDL offsets under the Basin Plan. However, because of the way the Basin Plan was drafted, South Australia is not required to put forward projects. Ultimately, that will mean that that lost opportunity in those project refurbishment costs will come back to irrigators through fees and charges at some future point, albeit coming through the MDBA costs. So perhaps it is an MDBA --

THE CHAIR: Yes, that is the next session.

MR HARRIS: I'll leave the second point to the next session.

Louise raises a very important point in the first matter that she talked about, and that is policy changes and developments that affect our operability, deliverability and so on.

WaterNSW is the system operator. We operate the river systems - the regulated and unregulated river systems. We take an active view of that. What does that mean? That means three things: first of all, we seek to optimise the operation of the river within the current rules. Secondly, we seek to optimise rule changes or changes to the rules that would allow for better outcomes for our customers. That is the part, Louise, that I think you are referring to.

So absolutely through our CSCs, and generally, as system operator we will consult our customers, get their thoughts and advice on proposed policy changes that affect the operation of our system. We will put those views to the policy maker - DPI Water or whatever they may be. That is what a responsible system operator does. We have advocated publicly for a formal rule change process under each of the water sharing plans so that we and our customers, either collectively or separately for that matter, have the ability to put up proposals to change the rules where demonstrable benefit can be shown.

Thirdly, we look with our customers to be delivering the outcomes that the community and, if you like, policy makers want through other means other than water buybacks or SDL projects or whatever - for example, complementary measures. We also look at those as well because they help our customers. They do not involve rule changes but they enable our customers to meet broader environmental and broader objectives without having to surrender water or any of those sorts of things.

It is a very important point, Louise, that you have raised and we certainly have the intent, and I think we have demonstrated that we are active in all of those regards.

MS BURGE: Could I respond to that, please? I find the consultation on the proposed PPMs or rule changes has been inadequate. We understand that a document went up to the federal government probably nearly 18 months ago with no consultation. That was subsequently advised back to customers that that was a preliminary thing that actually had not been approved by the minister.

As we move into this next phase of rule changes, we still have not been consulted. I am feeling particularly vulnerable in representing private diverters that private diverters will be at far greater risk than some of the major irrigation corporations. They will be seen as small fry by bigger fish that have far more political clout than we have, but we are the ones that have paid for the assets, along with other irrigators, and this is about our accessibility to water through changes to rules and capacity shares of rivers.

Actually we need to focus on two separate components of risk. There is the risk under the Basin Plan rule changes to deliver environmental water or changes to reliability of supply. The other risk is from new developments, which is not related to the Basin Plan, and that is a huge risk as well.

David, I am not comfortable that you can invite people to put up concepts about rule changes. How do we ensure that we do not just get sacrificed as we go forward, both in the Basin Plan and in the influence of new developments?

MR HARRIS: I indicated before I am more than happy to take accountability for my organisation's processes. I am not going to do that for others.

We have in the current round of CSCs - I don't think we have yet had the Murray Lower Darling meeting - encouraged the regulator to attend those meetings to discuss prerequisite policy measures, Louise, exactly as you have asked.

Those policy measures clearly impact our ability. We need to understand what they are to be able to understand how we then optimise system operation, so they are directly related to our role as system operator. We have sought the regulator to attend CSC meetings so that we can have the very discussion that you, and you are not alone, and many of our customers have asked for.

THE CHAIR: Do we want to move on because we have lots to cover today? There was one last question from Austin

MR EVANS: This is just to get some clarification. You put up some numbers - 4 per cent and 2.3 per cent. How do they actually impact on our charges? Are we talking 4 per cent of our fixed charges or 4 per cent of both lots of charges or 4 per cent on something else? Sorry, that is going back to the RTP.

Just as a way of illustrating that, I guess, did Lachlan Valley know what their percentage was before they started having their discussion and what was that percentage? Was it anything like ours or a lot higher?

This is to IPART - in us making that decision at a valley level about whether we look at going to 80:20 or stick with 60:40, we are really keen to hear what the impact of this RTP proposal is on our likely process. We can't really have that discussion at a valley level until we know what that impact is.

MR STOCKLER: Thanks, Austin. I can certainly speak in detail around the Lachlan CSC, having been there for those meetings. They did take it on board themselves to perform that analysis. They looked at their reliability. They established their own valley break-even point and they continued to flesh that out. They did that based on the preliminary pricing numbers and then revalidated that analysis based on the final submission prices.

They have done that all off their own bat with data provided by us. They have absolutely looked at their track record. They know their break-even point and they know whether it would or would not be the right move for them. There is no special information provided to Lachlan. It is the same information that we have provided to each valley

MS BULLER: So what was their risk? What was their percentage number?

MR STOCKLER: I haven't got it right in front of me. I suggest Mary would be more than happy to discuss that with you offline, but it is probably not appropriate for this hearing.

THE CHAIR: We will have one more question from a lady at the back there.

MS QUARISA: I am Iva Quarisa from Murrumbidgee Private Irrigators. You keep talking about choice and the choices for the irrigators. The way I see it is you want irrigators to choose how to pay for WaterNSW getting the 80:20 regime. That's how I see it. My question is: isn't the overs and unders mechanism a form of insurance?

MR STOCKLER: I am happy to take this up at morning tea or whenever. We feel pretty confident in the numbers we have put up to all the CSCs. We spent six months on the road discussing that and we have put up the same analysis today that showed the UOM in terms of revenue volatility. I am happy to talk some more about that offline.

THE CHAIR: We have another clarification of Austin's question and then we will have a break.

MR MADDEN: To clarify the actual question about prices. The price is added on to the general security entitlement, so that 4 per cent notional revenue is the uplift in total cost for a valley. That cost is then attributed to general security entitlements so the price change could be actually much higher in terms of the effect on entitlements.

MR EVANS: Does IPART have any --

MR MADDEN: We can actually calculate that number. We put as much of that detail as we could, to give people a sense of it, so you can easily do a with or without price impact. We have been told that that type of analysis was provided to the customer service committees prior.

MR HARRIS: Yes, we provided that to the CSCs.

MR MADDEN: That is done on a per valley basis. I assume if people want to find that out they should talk to WaterNSW --

MR HARRIS: Or to their CSC.

MR MADDEN: -- to get that price differential on general security entitlement.

MR STOCKLER: Austin, as you know, those price impacts were made available simultaneously to all valleys on the same day and to all CSC members and the Reference Group and NSW Irrigators.

MR EVANS: That's my ignorance for being out of the loop.

MR MADDEN: We have to assume other irrigators are too.

THE CHAIR: We are going to take a break now. Thanks for all your comments. We will resume at 12.50. We will then talk about BRC and MDBA.

LUNCHEON ADJOURNMENT

UPON RESUMPTION:

THE CHAIR: Welcome back to the public forum for IPART's review of prices for WaterNSW's rural bulk water.

In the first two sessions today we discussed WaterNSW's expenditure price structures and management of volatility. We will now consider Border Rivers Commission - BRC - and Murray-Darling Basin Authority - MDBA - costs and ICD discounts.

Similar to today's earlier sessions, IPART's secretariat will give a brief introduction to each of the topics we would like to discuss in the session. I will then invite participants at the table to comment on those issues. Following discussion around the table, I will then invite comments from those in the audience.

I remind you that today's forum is being recorded by our transcriber. Therefore, to assist the transcriber, please identify yourself and, where applicable, your organisation before speaking. I also ask you to speak clearly and loudly.

I now call on John Madden to introduce the discussion on the Murray-Darling Basin Authority costs. Thanks, John.

SESSION 3: Murray-Darling Basin Authority (MDBA) costs and irrigation corporations and districts discounts

MR MADDEN: Thank you, Catherine. We will obviously focus on MDBA given we are down south. These cost pass-throughs apply to three valleys - the Border, Murray and Murrumbidgee valleys. The MDBA is a cross-jurisdictional body that operates and maintains jointly owned infrastructure, and that is between the three states of South Australia, New South Wales and Victoria and also the Commonwealth.

As has been mentioned a couple of times, MDBA costs are viewed as uncontrollable costs from the point of view of WaterNSW - that is, they are advised the level of those costs that they should pass through in through charges by DPI Water and the New South Wales government.

We did actually invite the MDBA and DPI Water to these sessions. The MDBA were at the Sydney hearing last week and gave an overview of their processes and I will go through that. We also invited DPI Water. They came last week but did not speak and obviously they have not attended here today. We will give a bit of an overview of the process, but those numbers are actually decided by the New South Wales government.

In the 2014 ACCC decision, these costs were classed as a regulatory obligation for State Water by the ACCC. That is why they are passed through to customer as uncontrollable costs.

The user share of the MDBA cost is $59 million - this is the proposed user share over the 2017 determination period. That is an average of $14.7 million per year. This is an increase of 13 per cent when compared to the 2014 ACCC decision.

WaterNSW's proposal is that these costs be recouped through a fixed annual charge on an entitlement basis instead of the current 40:60 split between fixed and usage charges. They have also made some adjustments in that process of allocating those costs to the high security entitlement holders. That cost is adjusted downwards to avoid bill shocks. That comes through from WaterNSW - that is their proposal.

Similar to the chart before, this shows the MDBA allowed costs versus the actual and proposed - the actual revenue, I guess, collected under the current pricing structure. Then also going forward for the next four years, we see a spike in 2017-18 and then a decrease from that point forward. Just as a note - and this is something I will talk about - the first three years are based on the corporate plan. The last year is an estimate based on the last year of the corporate plan - this is the MDBA's corporate plan.

This is to give you an idea of the effect of the MDBA charges. We actually have prices there for the Murrumbidgee Valley and the proposed charges for the Murray Valley also. The MDBA charge you can see there for the high security going from 72 cents to $1.20 and general security going from 29 cents - this in the Murrumbidgee - to 86 cents. There is a large increase there but the usage price is dropping to zero, which is the price structure change. You get some sense of the share of final charges, which is the WaterNSW charge plus the MDBA charge, on the column on the right.

In the Murray Valley, we can see a similar exposition of the charges. High security charges - this is on the MDBA charge - increase by 105 per cent, the general security increases by 162 per cent and the usage charge drops from $4.17 to zero. That is the MDBA component.

Then we see the effect on final charges, with a large increase on entitlement but the usage charge is dropping to $1.97. We see there that the MDBA charges have a lot more impact on the Murray Valley than on the Murrumbidgee.

The letter outlining the costs outlined by DPI Water and provided to WaterNSW was an attachment to our issues paper. These costs are based on the MDBA joint venture costs and on the draft MDBA corporate plan at the point that that letter was provided to WaterNSW.

These are some points given to us by the MDBA about the corporate planning process. The actual costs thereof are established on an annual basis but there is a three-year indicative outlook. Capital investment is different to WaterNSW's approach; they do not have a regulatory asset base established for the MDBA. Their capital investment is funded in the year incurred. In essence, opex and capex is all treated as opex for the MDBA costs.

The program is developed with advice from the state constructing authorities and those authorities operate and maintain assets and deliver programs. The MDBA collates advice provided by the state constructing authorities. It reviews priorities and develops a consolidated program for consideration by governments. The total program scope and costs are then approved by governments through the MDB Ministerial Council.

Here you can see the allocation of costs of that program. The Commonwealth meets 25 per cent of capital costs. The balance is met by states as per an agreed cost share. This is based on a combination of the program mix, water entitlements held, five-year rolling average of water use, and what they call the local beneficiary principle.

The key point here from the MDBA's perspective is that how states recover costs from users is a matter for individual states. The MDBA does not influence that process. The total cost of the program and the share is provided to the New South Wales government and the New South Wales government decides what the user share of those costs should be, to be recovered through prices.

These are a couple of notes that the MDBA provided to us. They have actually been under pressure from IPART for a number of years, and there have been a number of submissions to the ACCC review of the Water Charge (Infrastructure) Rules and the like, so they have commissioned some efficiency programs of their River Murray operations and they are available on their website.

Those reviews have concluded that the program is prudent and efficient. They have also committed, through the process with IPART, to go through a process of interacting or being reviewed by the expenditure review consultant that we have employed. Aither is the organisation that is conducting the expenditure review of WaterNSW. They are also looking at the MDBA costs as part of our review.

It is a little different because this is them submitting themselves to be involved in a review. It is not under the same legislative approach or regulations that we have with WaterNSW where, in a sense, their prices are directly regulated as a result of that review. We have an opportunity to comment on the efficiency of the program and the allocation of those costs to users. It is then up to the New South Wales government to decide whether they take on board any advice from IPART in terms of its direction to WaterNSW.

At this stage, unlike in the 2014 ACCC review, WaterNSW is yet to receive a formal direction from the Treasurer to collect moneys. The level it should be has been indicated through the letter to WaterNSW. At this stage, the New South Wales government has indicated that they will hold off on that direction until they see IPART's draft report, but again, that could change. It is not a firm commitment; it is an indication provided to IPART.

We are going through a process of looking at the efficiency of those costs and also the application of user shares.

Here are some questions:

Is the proposed BRC/MDBA user share of costs efficient?

How should those costs be recovered from water users and how should charges be structured to recover these costs?

Is there any comment on WaterNSW's proposed adjustment to the high security premium?

THE CHAIR: Thank you, John

MS BULLER: Could I ask one clarification, please? Who are the state construction authorities?

MR MADDEN: WaterNSW is one of those.

MS BULLER: Oh, it is WaterNSW? I thought you called it --

MR MADDEN: There are others because there is Victoria as well.

MS BULLER: Okay, thank you.

THE CHAIR: It looks like Graeme wants to start this one.

MR PYLE: I always want to start. I was looking at the comparison between Murrumbidgee and Murray. I am thinking that we have similar dams and similar infrastructure, but Murray is paying nearly three times the fees to the MDBA.

Having studied the MDBA for some time, I do not know what they spent the money on or what they look like spending the money on in the future. We are therefore looking for clarification on that. I just want to know why there is this disparity. Is there something that is blindingly obvious there somewhere?

MS HUTCHINSON: It's for River Murray operations.

MS McLEOD: They are for River Murray operations. They have nothing to do with the Murrumbidgee dams.

MR PYLE: So for the purposes of the benefit of the nation for the Murray-Darling Basin fixing the environment for all and sundry, Murray bears the cost of the river flow. Do people think that it is fair that it is outside the Murray?

MR EVANS: No, that's not what it's for.

MS HUTCHINSON: It is for the operation.

MR PYLE: Sorry, the operations?

MR EVANS: The operation of the Murray River is done by the MDBA.

MR MADDEN: This is the River Murray operations not all their water management.

MR EVANS: Not all the MDBA activities.

MR PYLE: Okay, somebody else can talk about that.

MR MADDEN: I'll just clarify it. We are looking at the bulk water services and the infrastructure costs basically under this review. Actually last year in WAMC there were also MDBA costs included for water management charges. I guess there are also then a lot of other activities that they undertake which are not assumed that users should pay for. There are government grants, et cetera, to cover a lot of their operations.

Last year we set water management charges, which were almost $5 million a year, and they are recovered through WAMC charges. This is different. This is on the River Murray operations and the infrastructure costs only.

MS McLEOD: In answer to your first question, it is impossible because there is no information - there is just a single line item for the proposed costs to be transferred from DPI Water to WaterNSW and then passed on to irrigators.

We are obviously looking for clarity about what it is that we are paying for. We believe that anything we are paying for should be subject to external scrutiny in terms of whether there are efficient and transparent costs. We do not understand what services we are actually paying for and what are the major drivers of those costs.

In terms of the costs transferred to irrigators, you mentioned the user share. It is not clear whether or not DPI Water have actually reduced the contribution and said, "This is the user share that you need to collect", or whether they are actually passing on 100 per cent of New South Wales's share of River Murray water costs.

In terms of the high security premium, just looking at those slides, it looked like the general security entitlement was actually going up by a higher percentage than the higher security entitlements. It is unclear to me as to why WaterNSW have actually made the adjustment that way.

From the Murrumbidgee Valley's perspective, the River Murray water assets are not actually used to meet Murrumbidgee Valley water users' water supply. Obviously the Murrumbidgee storages and regulators are, but the River Murray water ones are not. We are interested to know the basis of the attribution of River Murray water costs to the Murrumbidgee Valley versus the Murray Valley.

I have another question and it is different from the one that is on the screen. If you look at the slide, John, that you put up previously, there is at least one year where the allowed revenue allowance versus the amount that was actually paid is less. My question relates to what happened with that extra money and should we have a refund?

MS HUTCHINSON: The Murrumbidgee has had a significant increase in MDBA pass-through costs and we are still unable to assess the validity and efficiency of these costs. That is unacceptable in a valley where these costs are not even used to deliver the water. That is exactly Jenny's point.

I note that WaterNSW's costs for our customers are pass-through costs. We take a very particular interest in the prudency and efficiency. We applaud IPART getting involved in looking at the efficiency and prudency of these costs and we encourage other levels of government to do the same. It is not acceptable to pass through just because the government thinks it is a nice idea to recover user share.

MS BURGE: In regard to the MDBA pass-through costs, I will reiterate what many submissions have said, and that is that there is no transparency - and there should be. In that respect, we do not know what cost shifting is occurring from general Basin Plan related issues through to bulk water charges that are supposedly more related to infrastructure.

I asked a question earlier on this morning about the refurbishment of South Australia's locks and weirs - sorry, it was the barrages. I did mention locks and weirs, but this is about the barrages. There is an opportunity under the SDL offset projects under the Basin Plan to make some modernisation to achieve some of the environmental outcomes outlined in the Basin Plan.

Unfortunately the MDBA, in developing the Basin Plan, put limits of change on any SDL project that is put up. So any state putting up a project that potentially can compromise the objectives of the Coorong, Lower Lakes and Murray Mouth can effectively be not included.

That then brings up this point: if the limits of change are not changed in the Basin Plan, then that clearly will leave any modernisation opportunities back under the normal asset renewal and upgrades which would be paid for by irrigators. I see that as an incredible lost opportunity because, one, you could tick the box to achieve environmental outcomes and provisions under the Basin Plan and, two, you could help offset any future fees to irrigators. I think that is something that needs to be looked at.

In regard to MDBA cost pass-throughs - I raised this briefly this morning - there is a 50:50 cost share on flood mitigation. As I said, there has been over $1 billion in lost crops, roads, infrastructure, et cetera, because of catastrophic flooding. We, as the irrigators in the Murray Darling Private Diverters, are actually paying for the privilege of getting flooded.

To give you an example, most businesses just between Tocumwal and Deniliquin have lost anywhere between $300,000, $400,000, $500,000, $600,000 up to $1 million. The competency of the MDBA comes into question on multiple fronts - its advice to government in developing the Basin Plan, its approach to risk in developing its operations and protocols on operating dams. What could they have done better and what did they fail to do?

I will give you an example of risk assessment and how they view future risk. At a meeting at Corowa, attended by over 200 people - and that was not even from our area - I asked the question, "What operating changes would you have made to the MDBA plan in the event that the Goulburn River in Victoria was in flood, Eildon Dam was full and Dartmouth and Hume were full? What would you have done differently?" The response was, "Not much - basically a bit of tinkering around the edges with some air space, but largely pretty much the same". I would say that is a frightening approach to risk on behalf of the MDBA.

Wherever we have seen MDBA pass-through charges while there is a component of the Basin Plan, there is also the component of regular running of assets. If they have not demonstrated a particular commercial standard in the development of the Basin Plan and risk and accuracy of reporting to government - and I'll give you an example on that - why would I then feel assured that their pass-through costs on maintaining and delivering projects, et cetera, would be any different?

I can't get those costs. I can't be a participant in ensuring those costs are commercially sound. In fact, everywhere I look, I see the same problem - it's a pattern. How can IPART help us get some commercial reality into the MDBA's decision and give us assurance that commercial involvement in asset renewal will be of sufficient standard that we think it is fair and reasonable to accept a percentage of those fees?

THE CHAIR: Does anyone in the audience want to comment on these costs?

MS BULLER: I hope this doesn't sound like a stupid comment or a stupid question. As an industry, the irrigation industry, especially in this valley - and for the New South Wales irrigators in the Murray Valley, I am quite sure it is the same - all of this has been foisted on us and on the New South Wales government as well and the Victorians.

I am not too sure why we are users of something that we didn't ask for in the first instance. It is very hard. There are no business cases. As Louise said, there is no assurance of any benefit being delivered, I know that is a weird thing to say, but I am not too sure how we can come up with a formula of any sort when we have nothing to judge it by and it is something that we did not ask for in the first place.

MR MADDEN: Disentangling the two things, with the Murray-Darling Basin Plan, essentially we have little to do with that and to comment on.

I take the point Louise made about the evidence of behaviours in one area reflecting on another. That has actually been IPART's position over a number of our determinations in putting pressure on the MDBA - the old MDBC - to actually provide additional information. There have been times in the past where we have cut out of prices significant amounts of costs that were proposed from MDBA charges. From memory, there was about $16 million over one determination that we just did not allow because of lack of information.

I think we have made a stepped improvement of engagement with the MDBA at this determination where, for the first time, they are engaging in a meaningful way with one of our expenditure consultants to look at their capital program in particular.

We have to make the clarification between the Basin Plan, et cetera, which I would say is foisted upon you, and the utilisation and upkeep of the assets to deliver water, which they just happen to be in charge of through an agreement from 1912, or whenever the original agreement between the states was established.

We will do our best to try to influence the MDBA to be actively engaged and also question their assumptions and efficiencies and also then those of DPI Water in applying a user share framework. I think we are at a step improvement, with the acknowledgment that it is not at the level that we have with WaterNSW in terms of oversight.

THE CHAIR: In addition to that, we will look at those costs.

I have a question for WaterNSW. Could you tell us a little bit about the proposed user share of the MDBA costs? There was a question about the difference between the high security and general security.

MR HARRIS: In general terms, the payment terms we are proposing replicate the payment terms the New South Wales government is putting on us. In other words, they have moved from a UOM basis to a full cost recovery, so we are simply replicating that in our pricing proposal.

In relation to high security, I will pass to Elli.

MS BAKER: With regards to the change in the high security premiums, we modelled for the new charges what the bills would be for customers under the 40:60, which was the old ratio, and then changed the high security premium under 100 per cent charge ratio so that the bills were as they would have been under the old tariff structure.

THE CHAIR: Would anybody else like to comment? Louise?

MS BURGE: No, sorry, not on that, but could I come back to my question on paying for a service - a 50:50 charge - and paying for a flood mitigation service when we are actually receiving a poor service? I accept flooding. I accept flooding is a natural part of the system. What I do not accept is the release of 20 per cent of the Hume Dam in one week combining with unregulated flows and the reasons why that happened. If I am paying for a service, why am I not getting a satisfactory service?

MR MADDEN: Not to avoid the question per se, but levels of service on a range of services provided is part of our assessment. Bluntly, our expenditure consultants do not have the expertise to look at a particular incident and say whether that is meeting a level of service or compliant with operational rules and legislation, et cetera. It is just not the appropriate place for our expenditure consultants who would have any expertise in this area to look at that. What they would look at is past performance over a range of different circumstances of an organisation.

Again, if there was a number of events - I am going from the WaterNSW perspective here - where that became an issue, then that is where the expenditure consultants would look at the appropriate level of resourcing and so on. I get the feeling this is WaterNSW centric and they might like to comment about this on their levels of standard and performance in recent floods.

If that became an ongoing issue for an organisation, that may be a touchpoint where our expenditure review consultants would look at that, particularly if there was additional expenditure proposed going forward for a certain activity in response to poor performance over time. I don't think it is possible for us to comment on a particular dam and flood instance.

MS BURGE: Yes, I appreciate that.

MR EDGERTON: Just a few follow-up points. First of all, as John mentioned, we have our expenditure consultants looking at WaterNSW's proposed expenditure and they will recommend what they consider are prudent and efficient levels of expenditure.

We also have a consultancy that is looking at user share. You have raised 50:50 user share. The consultant will be looking at what is an appropriate user share for different cost categories. In doing that, they are considering the impacter pays principle - that is, what party is incurring the need to incur the costs.

In some situations expenditure may be purely related to the activity of irrigators and other water users. In that case there is an argument for a 100 per cent user share. In other cases the costs may need to be incurred as a result of irrigators but also as a result of the general community. In some instances expenditure may be related to flood management and also servicing the irrigators. In that case there is an argument for more of the cost share. Regardless, we are looking at those cost shares as part of this review.

As a third point to note - David mentioned this right at the beginning - concurrent to this review IPART is also doing a review of WaterNSW's operating licence. That does consider issues such as appropriate levels of service, service requirements and service standards. We can certainly refer your comments and questions on to our licensing team. This hearing is being transcribed so we can pass those on to our licensing team. To the extent that they are relevant to their review, they will take them on board.

MR HARRIS: Could it be noted that we do not operate them. We operate the Murray under the direction of MDBA.

MR EDGERTON: As I said, to the extent they are relevant to WaterNSW and to the WaterNSW operating licence.

MR STOCKLER: I think we need to clarify that, Matt.

MR EDGERTON: I am happy to have that clarified but, as I said, our licensing team are also looking at that.

MR STOCKLER: Sorry, I feel compelled to comment. Louise's question was in regards to the performance of the MDBA, not WaterNSW.

MS BURGE: That's correct. But, with respect, my question comes back to the transparency of costs originally because, while there is no transparency, we actually do not know where the costs have been transferred from and to. We do not know what component, if any, of the Basin Plan issues are filtering through or being merged in different cost codes. We do know with the 50:50 flood mitigation it is there.

It comes back to my comments about the sort of commercialisation approach to delivering projects. For example, you may have a project that is a particular component that the MDBA may introduce in future. I will just use an example of constraints, even though this is not a base asset, but you never know, there could be something that comes in.

A community or group of stakeholders could deliver a project with less conflict probably cheaper and definitely quicker. So, in any future sort of discussions about cost shares, et cetera, do we need to look more holistically at how the MDBA can deliver services? It may be through WaterNSW or something else or some other commercial opportunity. I think we need to think outside the boxes in order to achieve the maximum efficiencies on any project delivery, whether it be WaterNSW, whether it be MDBA. Thank you.

THE CHAIR: Thanks for your comments, Louise. Graeme?

MR PYLE: We have an interesting case on the Murray River at the Mulwala Lake. The regulators in the river have to give air space for the Mulwala Canal offtake and also on the Victorian side deal with the surges that are required or not required from the Hume Dam. It takes about two days to get water from the Hume Dam to Mulwala Lake. That has been going since the Mulwala Canal was built in 1939 and that worked very well.

Now, the tourism industry has said, "No, we want the lake to be a set level", so the lake is at a set level and the real estate industry has burgeoned around there because the lake is a set level. We have the MDBA bringing charges. We do not know what is going on with the tourism industry. We do not know what is going on with the real estate industry but Murray water users have to pay the whole lot.

How do we fight or find out what is going on with our charges? That is why I asked for a simple ledger of everything and its cost and its repair state, its renewable time so we can get a handle on what is going on. We cannot argue with the MDBA because we do not know. We are not told from WaterNSW what the impacts of all that is. We are not told whether the tourism industry is putting money into the state's coffers. We have no idea what is going on with the real estate industry, but I can assure you that it is going flat out out there. I wonder how that works with the MDBA and what they say.

THE CHAIR: Thank you, Graeme. That is something we can look into. Debbie, do you want to say anything?

MS BULLER: I am going to raise a concern that I raised in an earlier session. What I am seeing here is so many different departments and so many different determinations, and we have the MDBA here as well, and everyone is trying to shift risk and costs around. I am wondering is there a body that has oversight about where that risk eventually lands? A lot of time I am hearing that, somehow or other, we will be the bunnies who end up paying because we cannot catch the shifting around between the different entities. I don't know if that makes sense to you, but someone has to decide where that risk and finance is shifting to.

THE CHAIR: When we do our reviews, we are quite often constrained by our terms of reference and the legislation that we use, but it does not stop us, from time to time, from making recommendations to government about other things that may overlap with what we are looking at. In those cases, and I am sure it is the same with WaterNSW, if they can see things that will help their customers, they can mention them. But, yes, it is government that makes its own decisions. It is not an easy thing to influence, but where we can, we do

MS BULLER: Do you have the capability of watching those risk factors move around and seeing where they do finally land?

THE CHAIR: As Matt has mentioned, we do a number of reviews in the water industry. So where they overlap, we do take that into account.

MS BULLER: Thank you.

MR EDGERTON: To confirm our focus right now for this review in looking at MDBA costs, in the absence of a direction from government to WaterNSW, which is not there at the moment, we are focused on the question: what is the efficient amount of costs of the MDBA and, of that, what should users pay?

THE CHAIR: Jenny?

MS McLEOD: Thank you. I have a comment and then a question. The MDBA have been at pains to point out that they have had a review which concluded that they were, I assume, efficient. I think it is important to note that that was an internal review and there were no opportunities for external stakeholders to provide input to that review.

It is excellent that IPART, at this point in time, have the door still open in terms of making a judgment on the efficiency of the MDBA costs and also the pass-through of the user share.

In looking at the user shares, from what I can work out, the MDBA costs include salt interception schemes and environmental works. I think there is an opportunity to look at the current cost sharing codes during the cost share review and see whether we have adequate separation of the range of functions that the MDBA do within that basket of operating a river, and whether there should actually be further differentiation and subsequently a different allocation of costs between users and government.

MR MADDEN: Those salt interception schemes and the Living Murray are in the WAMC charges. In any review of the cost shares we do this time, obviously there are principles and they will then be applied at the next WAMC review - so things like salt interception schemes and the like. They were separated out as costs last year in the WAMC review.

THE CHAIR: We are going to move on to the next section. Elina Gilbourd, from the IPART secretariat, will deal with a discussion on irrigation corporations and district discounts.

MS GILBOURD: Thank you, Catherine. These have already been alluded to today, so I will cover off on them very briefly. Irrigation corporations and districts - or ICDs - provide services to a large group of customers in the Murray-Darling Basin. ICDs undertake activities like billing, metering and compliance which lower WaterNSW's costs.

Historically ICD discounts have been calculated as WaterNSW's avoided costs of these activities and have been paid directly to each ICD. The value of these discounts is collected from other WaterNSW users. WaterNSW has proposed a sizeable reduction in these discounts in 2017-18 - over about 50 per cent on average across the ICDs.

They report the decrease is largely driven by a reduction in operating expenditure on metering compliance and customer billing as compared to the 2014 ACCC decision, as well as a reduction in the proposed weighted average cost of capital which has contributed to a reduction in telemetry installation avoided costs and, finally, a reduction in entitlements held by some ICDs, particularly Eagle Creek.

Our preliminary view is that we support ICD discounts as they reflect the cost savings from the aggregation of many customers into a single WaterNSW customer. We have not, however, formed a preliminary view on the scale of the proposed discounts and we will look at the calculation of the ICD discounts including the activity cost assumptions.

We are interested in your views on whether ICDs should receive rebates to reflect the avoided costs for WaterNSW and whether the levels of the discounts proposed by WaterNSW are reasonable. Thank you.

THE CHAIR: Thank you, Elina. Karen, would you like to start this one?

MS HUTCHINSON: Thank you, I would be happy to.

With regard to ICD rebates, customer billing, metering and compliance are customer-related costs; they are not entitlement-related costs. We note that the formula attempts a universal translation of one farm - one customer with about 1800 megalitres, I think, from the spreadsheet. That is not how things work particularly in the Murrumbidgee Irrigation Area.

About a third of our customer base fits that description. Two-thirds of them are nowhere near that description. About a third of our customers have less than 250 megalitres entitlement and another third have less than 50 litres. They are still customers with meters and bills that require the level of services that other customers with large megalitres require. We have over 2,500 customers, over 3,000 landholdings with meters, and over 4,000 meters in our area of operations.

The formula is fundamentally flawed in the way that this rebate is being calculated. We pointed this out last time to the ACCC and we seek an adjustment. It appears the same formula is being used again, which does not account for the actual avoided costs in an organisation like ours. The risk is that customers in the Murrumbidgee Irrigation Area particularly are paying twice - once for the service delivered by MI - us - for the meter and compliance and once to subsidise WaterNSW's operational costs.

David Stockler made this point earlier on. The implication is that other customers are funding the ICD rebate through the way that this has been calculated and is refunded in the charges. I want to highlight that these are avoided costs to WaterNSW. Our customers pay MI for this service. We are the service provider for those avoided costs. The way that this works is that everyone pays the costs and then we get our bit back because we have already charged our customers for providing that service.

I made the point earlier that nearly three-quarters of the entitlement in the Murrumbidgee Irrigation Area, or thereabouts, is held within two irrigation corporations. That is a lot of avoided costs. We do not see the justification for such a large increase.

With respect to the step change in the actual operational costs we note that this is a marked and theoretical step change - it just goes "chunk". Unreasonably we are expected to believe that the costs will magically drop in the next couple of years. We would like to know how and why.

I note also that there is now a separate metering charge. It is not clear how or where that is incorporated into a spreadsheet that calculates these avoided costs. We would like to know more about the separation of the metering charge and where that relates back to the avoided costs.

MS McLEOD: I think Karen has articulated very well the issues that Coleambally wishes to raise on this issue. I would emphasise that the two ICs in the Murrumbidgee Valley collectively represent a large proportion of the entitlements and use and the proposed discounts really do not reflect the advantages and the economies of scale that these two businesses operate to WaterNSW.

MS HUTCHINSON: I would like to add that all the irrigation corporations have detailed information about the number of meters and assets and things. We would be more than happy to have that used as the basis for calculating these avoided costs rather than using a formula that just does not fit our business.

MR PYLE: I commend Karen Hutchinson's grasp of the situation there for Southern Riverina Irrigators. I am a bit confounded as to why that the ACCC haven't taken notice of her and done the right thing.

THE CHAIR: Karen, were you saying they did correct it last time --

MS HUTCHINSON: They did.

THE CHAIR: -- but now the old formula is being used? I think that was Karen's point.

MR PYLE: Did they? I am sorry.

THE CHAIR: Anyone from the audience want to comment? No? WaterNSW?

MR HARRIS: Yes, there are two points in relation to what Karen said. Karen described these as avoided costs to WaterNSW. The fact is that with the cost efficiencies we have achieved, the avoided cost is going down. That is why those rebate numbers are going down.

Can I quite emphatically say these are not theoretical costs reductions - we have achieved them. That was the point raised earlier where we were referencing about 20 per cent against our current allowance. We have actually achieved those savings. They are there already, so there is nothing theoretical about them.

THE CHAIR: We are going to move on to session 4 now, which is other issues. The purpose of this fourth session is to discuss other issues related to this price review and other prices we set for WaterNSW such as meter service charges, the Yanco Creek levy and cost recovery.

This session also provides us the opportunity to hear your views on any other issues that are relevant to WaterNSW's prices for rural bulk water services.

Our issues papers identified a range of questions that we are seeking views on. We cannot cover all these issues today. However, we have identified some issues for discussion and welcome discussion of any other issues relevant.

I now call on Elina Gilbourd to introduce the discussion on WaterNSW's other prices and issues. Thank you, Elina.

SESSION 4: Other issues (eg, meter service and miscellaneous charges, Yanco Creek levy, cost recovery)

MS GILBOURD: Firstly, the meter service charge. The meter service charge generally applies to new meters installed under the WaterNSW metering scheme. WaterNSW proposes to continue to levy these charges to cover its maintenance and administration costs. They propose introducing the same fees for both telemetered and non-telemetered meters with prices varying by meter size only. This is a departure from previous years where prices differed both between telemetered and non-telemetered meters and by meter size.

Under this new approach, prices would generally increase within the four-year determination period by up to 35 per cent, except for channel meters where the charge would decrease.

We have engaged consultants to assess and market test WaterNSW's proposed meter services charges. We are also interested in your views about whether the proposed charges are reasonable.

In terms of other miscellaneous charges, WaterNSW currently does not levy a separate charge for meter reading and water use assessment costs as these costs are recovered through bulk water charges. They intend to restructure their approach to meter reading over the determination period and they will consider options, including whether to apply a fixed minimum charge for small customers and a separate meter charge for larger customers.

We will consider that approach over the course of our review as well and we are interested in your views on whether meter reading costs should be recovered through a separate charge.

WaterNSW have also proposed other charges for non-routine services. These include the trade processing charge, the environmental gauging station charge, a refundable meter accuracy deposit for verification and testing, and the Fish River connection and disconnection charge.

The largest proposed change to these miscellaneous charges is an increase in the environmental gauging station charges of about 112 per cent for 2017-18. This charge is set to recover the incremental costs of the 21 gauging stations operated under a service agreement with DPI Water. WaterNSW argues that the increase is necessary because the current charge is insufficient to recover the costs of upgrading the stations to achieve the level of accuracy required under the Commonwealth national measurement standards.

We will consider the proposed charge and examine whether it reflects efficient costs as part of our review. Again, we are interested in your views on whether the charge proposed by WaterNSW is reasonable.

WaterNSW has also proposed to introduce credit card payments as a new payment option. They propose passing on costs for credit card payment fees through to customers based on the normal cost of merchant interchange fees, which is currently 0.44 per cent for Visa or Mastercard and 1.54 per cent for American Express cards.

Our initial position on this is not to regulate credit card payment fees levied by WaterNSW because customers can avoid these fees by choosing a different payment method.

I'll talk about the Yanco Creek levy next. The Yanco Creek levy applies to customers in the Yanco Creek system. It was initiated by users in the system. The plan was proposed and developed by the Yanco Creek Tributaries Advisory Council - YACTAC. The levy is intended to fund the rehabilitation of the Yanco-Colombo system to improve flows and provide significant water efficiencies for the system and the Murrumbidgee Valley.

WaterNSW has proposed to continue to apply the Yanco Creek levy holding it constant at 90 cents per megalitre of entitlement. Our initial position is to accept the proposal provided there is evidence that Yanco Creek customers are willing to pay. We are interested in your views on the continuation of the levy and whether it should be levied per megalitre of water entitlement or per megalitre of water usage.

Finally, I will touch on cost recovery, which affects valleys other than those represented here, but you may have some views on how cost recovery should be applied. While we typically aim to set prices that fully recover the user share of WaterNSW's efficient costs in each valley, two of those valleys - the North Coast and South Coast - are well below full cost recovery.

In our 2010 determination and also in the ACCC 2014 decision, price increases were capped on these valleys at 10 per cent per annum. Because of that, the government has borne the shortfall in those costs. WaterNSW has proposed maintaining this approach for the next determination. We have engaged consultants to establish some principles on which we can set prices in valleys where full cost recovery is either unattainable or very difficult to envisage and we are interested in your views about the best ways of assessing efficient costs and setting prices in valleys that are below full cost recovery. Thank you.

THE CHAIR: Thank you, Elina. Tanya, would you like to start?

MS THOMPSON: Ten years ago there was a move to have a levy put on to the users of the Yanco Creek and tributaries systems to enable the system to function more efficiently. Essentially there are approximately 250 licensed water users within the system over an 800 kilometre length of creek system, so it is quite a long system. It also services the towns of Morundah, Urana, Oaklands, Jerilderie, Conargo, Wanganella and Moulamein.

There were four key issues:

One, maintaining and improving a system of reliable water delivery;
Two, the stream flow impediments to be reduced;
Three, maintaining Yanco Creek and system to enhance the riparian and ecological health of the system;
Four, developing community ownership and participation and empowerment for managing the system's natural resources.

It was a 10-year plan when it was first proposed and it is the end of that 10-year cycle. There was a natural resource management plan drawn up 10 years ago. The types of things that they have been able to achieve during that time frame are willow eradication, environmental flow studies, fish studies, aquatic weed control, noxious weed control, weir reviews, riparian vegetation studies and funding leverage, as well as numerous other small studies and projects that were undertaken.

They want to continue the levy so they can continue the work they started, as there is no government funding to eradicate any of the weeds that come down the system and have the reports needed, et cetera.

At the moment we are undertaking dissolved oxygen readings within the systems. We are giving that information to WaterNSW as part of a community project to ensure that we have as healthy a creek system as we can possibly have.

An agenda was put out for the AGM. On the agenda, it said that this levy was going to be discussed. There are nine delegates, three within each section - upper, middle and lower. It was the responsibility of each of those delegates to go out to their farmers and seek information from them as to whether they wanted the levy to continue or not and whether they could see any benefit in the levy itself.

Overwhelmingly, those delegates came to the AGM with the view that the majority - the vast majority with maybe one or two landholders against the levy continuing - wanted their levy to continue. They have not undertaken a new study for the next 10 or five-year cycle, but what they are looking at doing - that is, the people that have been currently working on it - is to have the Yanco Creek system have a new 10-year natural resource management plan and another willow eradication program.

Whilst they have made huge inroads, they do not want to stop that work. They want to continue that work so they can continue to keep those willows under control, with willow follow-up controls. Aquatic weeds also need following up because obviously with floods, and all of that sort of thing, you continue to get the weeds. The riparian weeds program is the same as the aquatic weeds. They want a riparian corridor management to educate and co-fund programs for corridors within the creek system.

There is also wetland monitoring and field days. A lot of the work they do is 50:50 co-funded, so they will work with local land services. Local land services will provide 50 per cent of the funding and YACTAC provide the other 50 per cent funding under this levy system so that they can have field days to educate the irrigators. For example, there was a field day last week on boxthorn eradication and galvanised burr.

There was talk at the AGM about changing the actual base from which that 90 per cent actual levy was structured. At the moment the base of the levy is structured on water entitlements at a flat rate, so if you have 250 water entitlements, you are paying a 90 cent fee. A lot of water entitlements have been sold back to the government under the government buyback schemes. Those people who are still on that land still do irrigate but they irrigate on the temporary market, so they buy water on the temporary market. There is a bit of a loophole there where those irrigators are not actually paying the 90 cent levy.

All that I have read, and I have spoken to people at WaterNSW, says that because WaterNSW actually send out the account, it will be a lot more difficult for them to do that on the basis of the amount of water that is used within the system as opposed to the stock standard water entitlements that do not change year to year from farmer to farmer.

In order to keep the costs down - I know WaterNSW is in fee for service mode as most businesses would like to be, but not all businesses can be - what happens is they charge the 90 cent levy out in the third quarter of every year, so in the last quarter of the year it is sent out and the irrigators receive those bills early August. They start paying the money to WaterNSW and WaterNSW actually capture that money. This money is not transferred into YACTAC until quite some time after they have potentially received that money and then YACTAC receive two payments. I presume the first payment is the major payment and then if there are any debtors, they pay after that.

YACTAC are not receiving any interest - all the interest is being paid to WaterNSW so WaterNSW can generate interest on the money that is sitting in their bank account before they can pass that on. My point is that that could be part of the user pays system. While we do not have a fee that YACTAC pay, essentially we are not getting interest on the money that is sitting in the bank account before we get paid.

Overwhelmingly, all of the delegates said that they wanted to pass the levy at the current rate - so not increase it from 90 cents but to keep it at 90 cents and to keep it on water entitlements.

THE CHAIR: Louise, would you like to comment?

MS BURGE: Not on YACTAC but on meter reading.

THE CHAIR: That's fine. Go ahead.

MS BURGE: I raised the issue of ongoing concerns about the proposed metering costs from WaterNSW. The metering costs in the southern valley was a non-voluntary process, and the effect on many of the private diverters, both on bores and also on river pumps, was to replace already efficient functioning meters with a new form of telemetric meters. However it is not a uniform approach across the basin. The southern valleys, in particular, are having to meet a new meter standard which is not applicable or not yet enforceable across other parts of the Basin.

When these meters were first put on, the meter charge was about $280. Already we are seeing, as was indicated, a 35 per cent increase. These are on meters with no moving parts that are meant to be remotely read, and I am presuming that the telemetry service would actually be linked to a computerised recording device, so I would assume that there is not a lot of manual operations involved.

To give an idea of what the metering costs cost to our business, many, many people have questioned the accuracy of the meters. In order to question accuracy, you have to pay a $7,000 process, in some cases a 20 per cent loss, so you could be looking at a $220,000 loss, which is not usual. Those affected irrigators are in a pretty unenviable position with an imposed process and an inability to counteract any discrepancies between old meters and these new standardised meters meaning we have an inequitable system across the Basin.

When we look at the proposed fee charges, how can we justify the fee increase? I can't see any evidence in the WaterNSW applications to give me confidence that it is a charge worthwhile paying.

I have one other point. With the environmental gauging stations, I think it was said before that it was a 112 per cent increase. I am struggling again to keep paying for a service that we are not asking for. We are already committing to the environment. Every drop of water that goes down that river, whether it has an environmental tag or whether it has an irrigation tag, is still delivering environmental outcomes. Why do irrigators have to keep paying for a service over and above what they are already paying? I would be very interested in your comments about the meter readings. I think that is about it. Thank you.

MR PYLE: On the WaterNSW website there is the shallow bore water in the Lower Murray and in our Southern Riverina irrigation district - 55,000 megalitres approximately of shallow bore allocation. Sometime ago when it was wet - in the 1990s, even in the 1980s - we had the water table rising, we were all going to drown and salt was going to ruin the nation. Farmers, being the inventive chaps they are - and their wives - went to some trouble putting in spear points left, right and centre and that was to the benefit of the district and the nation.

Then the New South Wales government, at that stage, whichever division it was, decided that these shallow bore spear point licences must be regulated, so how much water did every farmer want? What was their idea of what sort of an allocation they needed on their spear point? With farmers, being the greedy little devils they are, some thought maybe if they wanted 200, they might ask for 300 - some asked for quite a lot. However, at that stage, there was a clear notification that at no stage would there be a charge affixed to the shallow bore licence. Then, 18 months later, there was a $5 fee fixed to the shallow bore licence and we have not been able to resolve that.

The problem is that the water table has dropped and about 50,000 megalitres of water is unobtainable in any way, shape or form, yet these farmers have had to pay - or in nearly all cases they have not paid because they feel that it is something that they can't be charged for because simply it is not there.

This is causing a huge amount of duress. I have had two farmers break down talking about this to me. I do not think that I should have to put up with that and I am certain that they should not have to put up with that. We have to bring this to a head one way or another.

The other day I had people ringing me saying that they were going to be pursued for the $25,000 which they had accrued in their shallow bore licence. I am looking to IPART for direction here because we are not getting it from the water instruments in New South Wales. How can people have to pay for something that clearly is not there?

THE CHAIR: WaterNSW, do you want to respond to some of those comments?

MR HARRIS: I can't answer that, but we would be more than happy to take that on notice for Graeme.

MR PYLE: Thank you, David.

THE CHAIR: Are there any questions from the audience on any of these other charges?

MS BURGE: Could I get a response on my question?

THE CHAIR: Which one in particular?

MS BURGE: The justification for the metering charge.

THE CHAIR: WaterNSW? .

MR STOCKLER: Thank you, Louise, for the question. There were a couple of aspects to your question. We mentioned a program approach earlier in the day. We have taken a program approach to the maintenance of meters, which is a statewide arrangement. In that contract, there is no difference between the telemetered and non-telemetered meters. There is still a burden or a responsibility that all meters function correctly. The fact that the new meters have moving parts and are a different beast, I acknowledge that, but there is still an obligation to make sure those meters are maintained adequately.

You raised the question - we have tackled this at the CSC, I believe - with regard to a $7,000 fee. For the sake of clarity, that is at the end of a four or five-step process which does include a number of different testing points along the way. It is not the first point of resolution or first point faced by customers. We have discussed this at length at the CSC and we have not, to my knowledge, actually received a formal customer complaint regarding the meters. We remain open and we will activate, but it is the end of a four-stage or five-stage process which includes removing the meter and sending it away for laboratory testing.

With respect to Tanya's question on YACTAC, can I be clear, Tanya, when you mentioned "they", you are making reference to YACTAC and the activities they undertake?

MS THOMPSON: Yes, definitely.

MR STOCKLER: Thank you. I just wanted to be clear on that.

MS THOMPSON: Essentially the levy was so that YACTAC could undertake the works on the creek system.

MR STOCKLER: It was just a context thing that when you referred to "they", you were referring to YACTAC not WaterNSW.

MS THOMPSON: No, not at all.

MR STOCKLER: I actually think that is a great example of engagement and customer choice and customers coming together to self-determine. You guys wrote to us and proposed to continue with the 90 cents charge and we have proposed that. We were happy to enter discussions around the commercial arrangements. There is still a cost to provide that service collection. I am more than happy to take that offline. I don't really think it is for today at all.

MS THOMPSON: No, it's not appropriate.

MR ENGLISH: Peter English, WaterNSW. The question about environmental gauging stations is the cost of upgrading those gauging stations. That would be a cost borne by the environmental customer and is not a cost that is passed on to irrigators or other water users.

MR BARRY: Brendan Barry, Webster's Ltd, and I am also chair of Murrumbidgee Irrigators. Thanks for the opportunity to be here today.

With the metering service charge, I think this will be an ongoing issue for WaterNSW partly due to where this project evolved from and how it was rolled out. There are significant charges in there for what irrigators view as a straight-out impost. Most irrigators had meters that were operating. Some meters potentially needed attention, but the majority had meters that were operating and working just fine.

I find it interesting that there is no difference in the cost between telemetered and non-telemetered meters and I am intrigued by that. That then suggests that the telemetry either comes at no cost or the non-telemetered equipment has no additional cost, and there must be. With the reading of meters that is required, that is not done remotely.

On a positive, we now can see these meters in our iWAS interface on the internet. That is most helpful and I commend WaterNSW for doing that. Seeing as the data has been collected for some time now, it is most helpful to be able to see that.

The final positive that I did have here was a little more of a dynamic approach to the meter reading assessment charge, potentially by allowing people to read meters depending on the amount of use. I do think the issue that comes in there is how that use is going to be determined and whether there is potential for the horse to have bolted in a usage sense.

MR STOCKLER: Thanks, Brendan. We have discussed this at a number of CSCs, and it is an emerging issue. DPI Water, the regulator, is moving or proposing to move towards a more risk-based approach. WaterNSW supports that and would encourage that. We need to continue working with the regulator and our customers to move towards that.

You are quite right - we need to set those thresholds correctly in consultation with our customers. We provided some indicative thresholds in our proposal and a meter-read schedule that relates to risk at each level, so a very small user may be twice a year.

It also goes to a point that was raised earlier on in the day, which I think was raised by Debbie. The question earlier in the day was with respect to the cutting of resources in that space which also leads into the reduced ICD rebates. It is also a refocus of resources moving from lower value activities, like four reads per annum on a low-value or low-usage situation, and redirecting those activities on more high value activity, which is surveillance across the entire valley for all users. So it is a rebalancing as well.

THE CHAIR: Thank you for all your comments. Before we close the session for the day, does anybody else have any other issues that they feel have not been raised and which they really want to raise today? Of course, you can send us more submissions in writing.

MR PYLE: When is the next meeting like this?

THE CHAIR: 4 April. I will tell you all that right now. Sorry, one more from Jenny.

MS McLEOD: Could I make one comment in relation to the regulatory asset base and the capital investment that is being proposed to maintain capability and the funding that is provided through our water charges for depreciation. I think it is really important that IPART, through their deliberations, ensure that irrigators are not effectively paying a contribution to capital through the return of capital to maintain capability of the assets. Whilst they already have a depreciation contribution, it is important to ensure that there is not double-dipping occurring. I am sure WaterNSW would have a view on that, but I think it is important that IPART delve --

MR HARRIS: There is not any --

MS McLEOD: -- into that issue.

From a wider perspective, if you look at what is actually going to happen with water pricing under the current model, we won't ever get to full cost recovery - I will rephrase that. Our costs will continue to go up. Because of the pricing structure around a notional revenue requirement and the return of and return on capital, we will see a constant increase cycle in terms of what water users are paying. Whilst it might not be a significant issue today, I am flagging that perhaps it is timely to think about the cost share ratios and where we are actually going with water pricing in the longer term in terms of what irrigators are being asked to pay.

THE CHAIR: Thank you, Jenny.

MR EDGERTON: Back to meter service charges for a moment, I have a question to WaterNSW. You mentioned your cost estimates were based on a contract. Could you tell us a bit more about your process for seeking that contract? For example, to what extent did you ask the market? To what extent was it a competitive process?

MR HARRIS: The meter service charge is an ACCC allowed charge. They allowed that under their 2013-14 price determination. We went to the market, so we had an open tender for the provision of the installation of the particular meters we are talking about, together with a service charge for those meters. That service charge actually has come in below the allowance. In fact, the charge we are proposing is below the ACCC allowance.

Just to be clear, and I think everyone in the room is clear, that is on the fleet of government owned meters. Obviously there are privately owned meters.

THE CHAIR: One more from Louise.

MS BURGE: Thank you. I want to ask a question in relation to the southern basin metering project. I understand WaterNSW or the New South Wales government received a program allowance, or whatever the correct terminology is, to have the meters installed. Was there any service charge built in to that original contract with the federal government and, if so, when did it run out? It was under a program announced federally, so I am trying to clarify. I am still struggling to find the justification for the rate of fee rise.

I think it is also important to point out that often it is not a case of a single meter. Somebody could look at the relevant page in the documentation and say, "Oh, that's only gone from $280", and in 2021 it will have gone up to, say, $650. What happens when people have multiple meters and multiple pump sites? You are not talking about a single amount of $600; you are talking $3,000, $4,000 $5,000. That is the level we are talking about.

When again user pays full cost recovery, it is very important that we feel confident in the process of full cost recovery and I am still struggling with the justification for that rate of rise. If you could perhaps clarify what was the original program allowance that was provided by the federal government and how is that related? Could I just get this justification which I am not clear on, thank you.

MR HARRIS: Sure, Louise, to clarify all those questions, we have no contract with the Commonwealth government. The installation of the southern meters was funded by the Commonwealth government to DPI Water under the metering, or whatever it was called, SDL project. That project funded the installation of meters and the groundwater and surface water meters in the southern valleys.

Just to repeat, we tendered that work separately for installation and the meter service charge. The reason why the meter service charge has increased substantially is because, as I think probably most of you are aware, originally that project was on the scale of around about $200 million and the original meter service charge was denominated on that basis. Through a series of decisions that SDL project was substantially reduced in scope down to, off the top of my head, $21 million or thereabouts. Obviously with economies of scale, with that smaller amount of meters, the meter service charge increased.

MS BAKER: I will give you the numbers on the meters. The program originally was 9,000 and it ended up with 2,000 meters, but David can give you more of an idea of the scale of the dollars.

Jenny, I think you had the question about renewal. The renewal proposal I know has caused a few issues. It uses the word "allowance" against those capital numbers. It is not an allowance that customers pay; it is an allowance of dollars, if you like, that gets added to the RAB. The only way we recover that money is through the depreciation, as you said. We do not recover it through any kind of operating expenditure allowance.

MS McLEOD: No, that wasn't my question. My question was that we are funding depreciation on a RAB or an allowance for it and there is also a capital investment, that over time the RAB will increase. So the return of and return on will increase and, over time, prices will go up. My question is directed just purely to IPART and people who have more expertise to ensure that there is actually no double-dipping. That is what it relates to.

MS BAKER: IPART will confirm this, but for every dollar of depreciation that we pay, the RAB is reduced. You do not pay a depreciation amount and then pay the same depreciation amount the next year. If the RAB is $750 million and in one year you pay $10 million of depreciation, the RAB will go from $750 million to $740 million, so there is no double up.

MS McLEOD: When you read the user share of the RAB that is forecast here, in the Murrumbidgee the opening RAB is

$33.5 million, say, and the closing RAB in 2020-21 will be $72 million, so it is increasing the user share by just over $38.5 million.

MS BAKER: From a framework perspective, every year the RAB increases by the amount of capital that is added to the RAB in that valley and decreases by the amount of depreciation allowance that we are paid. This gets very technical and I am happy to talk about it offline to anyone, but there is a concept of RAB indexation - every year it increases the RAB as well.

Over time there is no double-dipping, but it is a concept used globally by price regulators to keep prices stable over time. Again it is very technical and I am happy to take it offline.

MS McLEOD: Okay, so over time, is our pricing going to be stable or will it continue to go up because of the increase in capital expenditure?

MS BAKER: The answer to that is purely a question of what the depreciation allowance is versus the capital being spent. In a general context one of the difficulties of a business like ours that has a much lower RAB than the MEERA valuation of our assets is that the RABs tend to go up over time for the same service provision because, essentially, the RAB is artificially low and it costs us more than the RAB indexation to maintain the same level of service. Again I am happy to take it offline. It gets a bit technical.

The RAB is round about, on our calculations, 20 per cent of the MEERA valuation of the assets. Again this is history but the RAB was an artificial number set sometime ago by back solving prices to a RAB number rather than the RAB actually reflecting what the asset value was at that point in time, but it gets a bit technical and I can go through the history of it later.

MR MADDEN: Could I add to that? Just to sum that up, you are both right.

MS McLEOD: Are you an economist?

MR MADDEN: Elli is exactly right in how it works, and fundamentally then over the longer period that has implications for prices which, all other things being equal, will rise.

MR HARRIS: But there is no double-dipping.

MS BAKER: There's no double-dipping

MR MADDEN: That's a separate issue.

MS BAKER: Well, there isn't, John. Can we be clear that there is no double-dipping.

MR HARRIS: Yes, can we be really clear about that?

MR MADDEN: Okay, we can get our consultants to look at it.

MR EDGERTON: Just to clarify, IPART assesses what capital expenditure is prudent and efficient. Effectively, prudent and efficient capital expenditure goes into the RAB - the regulatory asset base. WaterNSW, through prices, earns a return on and a return of that capital expenditure. The return of that capital expenditure basically means that over the life of the asset, WaterNSW gets the full value back.

From my understanding, as a means of forecasting what new capital expenditure should be going into the RAB, WaterNSW has put this new methodology on the table which is based on a MEERA approach. IPART will review that methodology with a view to determining what goes into the RAB and should earn a return on and of going forward.

MS McLEOD: Thank you.

CLOSING REMARKS.

THE CHAIR: We are going to close up now. On behalf of IPART, I would like to thank you all very much for your participation in today's proceedings. It has been a great benefit for us to hear all your views. We really appreciate the efforts and contributions made by everyone here today especially those who have travelled here.

A transcript of today's proceeding will be available on our website in a few days.

We will consider all that has been said today when we make our decisions on WaterNSW prices for rural bulk water services to apply from 1 July 2017.

As previously mentioned, we plan to release a draft report for public comment in March 2017. People will then have about four weeks to make further written submissions for consideration by IPART before we make our final decisions on WaterNSW's prices for rural bulk water services.

A final report and determination will be released in June 2017 and the maximum prices that we will set will apply from 1 July 2017.

I encourage you to monitor IPART's website for updates and further information on our timetable including the release date for the draft report.

Finally, I note we will be holding a public hearing in Sydney, on 4 April 2017, following the release of our draft report which will provide an opportunity for further stakeholder consultation.

This brings to a close today's public forum. Once again, I thank you for participating and for having us here.

AT 2.30PM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY