INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF PRICES FOR WATERNSW - RURAL BULK WATER SERVICES

Tribunal Members
Ms Catherine Jones
Mr Ed Willett

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

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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. I am a tribunal member of the Independent Pricing and Regulatory Tribunal - IPART. I am joined today by my fellow tribunal member, Ed Willett. Assisting the tribunal today are members of the IPART secretariat - Hugo Harmstorf, who is IPART's Chief Executive Officer, Matthew Edgerton, John Madden, Scott Chapman, and Elina Gilbourd and Chris Ihm, who are in the audience.

I would like to begin by acknowledging that we are meeting on the land of the Gadigal people of the Eora Nation and wish to pay my respects to the traditional landholders, both past and present.

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 will be considered as part of the 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 the written submissions, we will consider the views that you provide today in making our decision on WaterNSW's prices for rural bulk water services.

We are holding four public forums for this review. Today's public forum is the second of three public forums this year. We had a hearing in Moree, in northern New South Wales, last week on Monday, 31 October, and we will hold a further forum next week in Coleambally, in southern New South Wales, on 14 November.

We will release a draft determination and 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 will be seeking to determine:

What are WaterNSW's efficient costs of providing its rural bulk water services?
What is 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 this forum. As set out in the agenda, we will commence today with a presentation by WaterNSW on its pricing proposal. The forum 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, 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 and Murray-Darling Basin Authority costs as well as the issue of cost recovery.

Finally, the fourth session will address other prices and issues associated with the price review including meter service charges, other miscellaneous charges and irrigation corporation discounts.

Following this fourth session, there will also be an opportunity to hear your views on any other issues you wish to raise that are relevant to the review of WaterNSW's rural bulk water service 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 then invite comments from those in 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 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 make the presentation on WaterNSW's pricing proposal. Thanks, David.

WATERNSW'S PRICING PROPOSAL

MR HARRIS: Thank you very much, Madam Chair, and good morning, everyone.

We just have a brief presentation. I don't want to take up too much of your time, but we wanted to give an overview of our pricing proposal and the issues that we have discussed with our customers during the consultation process in the development of our pricing proposal.

I have to say WaterNSW is very proud to be here today to speak to our pricing proposal. We are proud because of the great outcomes that we have been able to deliver or to recommend in our pricing proposal, and also particularly because of the much improved customer consultation process that we went through during the development of that proposal.

There are a number of people around the room here today who are on our CSC Reference Group panel and also on our CSC committees across the valleys. I would like to recognise the tremendous investment in time and effort that our customers, as well as us, have put into contributing to the development of this four-year pricing submission. We think that that pricing submission reflects a business that is refreshed, customer responsive and efficient.

Also by way of background, this particular forum is in relation to our combined rural and coastal pricing determinations. Post 1 July next year, WaterNSW will actually operate under three pricing determinations - the one we are discussing today; the Greater Sydney pricing determination that was made by IPART as at 1 July last year; and the Water Administration Ministerial Corporation - or WAMC - pricing determination that was also made by IPART on 1 July this year. Our costs and our functions are regulated by those three pricing determinations.

In terms of the outcomes for our customers, we have been able to achieve reduced operating expenditure over the four-year determination period of 20 per cent compared with the current regulatory allowance as at 30 June 2017. Over those four years, this has enabled us to seek a reduced revenue requirement from our rural customers that is 11 per cent lower than the revenue requirement under the current determination, resulting in reduced bills for our WaterNSW rural customers, and we are particularly proud of that achievement.

Our pricing proposal reflects our clear commitment to the customer requirements, and we are continuing to drive efficiency gains. That is a significant decrease. It has been achieved already in terms of our operating expenditure, reflecting a lean and efficient organisation, and it has been delivered through our new management team implementing significant workplace, organisational and operational efficiencies.

I have mentioned - this is right at the top on that slide - as well the customer engagement and information process that we went through in developing our submission. That was a huge improvement on our previous consultation process. In particular, we provided far more comprehensive information to our customers, and, shortly, David Stockler will go into some detail of what that information was.

We provided detailed information on the so-called overs and unders mechanism and also the characteristics and impacts of tariff structure options, which was the main centrepiece of the consultation with our customers.

We also provided increased transparency and education. As our billing includes pass-through charges for MDBA, the Border Rivers Commission and for other agencies, we have no control over those pass-through charges but, as many of you in the room know, those pass-through charges do have a material impact on customer bills that go out under our letterhead.

I will now hand over to David to quickly step through a number of those issues

MR STOCKLER: Thank you, David, and good morning, everyone. My name is David Stockler. I am the executive manager for retail at WaterNSW.

I would like to also echo David's sentiments that it is fantastic to see so many of our customers here today. We have spent many hours with a number of people in this room over a number of months and I would like to thank you for your continued efforts in coming along today.

First off, David touched on our proposed operational expenditure being reduced by about 20 per cent over the determination period and this slide illustrates that. A number of our key stakeholders and customers will have seen this slide previously. It indicates the impact at a valley level. Our total opex for the period is $154.9 million.

There are great outcomes for customers. General security customers will see an average bill reduction of 3 per cent compared to their 2016-17 bill. That is, once again, illustrated by valley.

On the other side, we have high security customers seeing an average 9 per cent reduction compared to their 2016-17 bill. As you can see, the dark blue series in the centre illustrates that average with 9 per cent.

I wanted to take the opportunity to recap on our customer consultation approach, because it has been lengthy and it has been involved. It started late last year in November/December where we agreed some key principles with what we call the CSC Reference Group, which is a panel representing broadly a chair or a key representative from each of our customer service committees across the state. We also had in-depth discussions with the NSW Irrigators' Council and our customer service committees. We then met with key customers, including irrigation corporations and our environmental customers.

We then move through into February and March where we reconvened all those groups, as well as communicating to our broader customer base through our quarterly billing newsletter, which covers some 6,500 customers with each publication.

We continued to not only engage but also grab customer feedback, leading up to the finalisation of our submission, with all those groups. Where we are today is indicated by the green arrow where customer consultation does continue - and will continue forever and a day - and we are now here at the IPART hearings. I have included at the bottom there a detailed graph of what the next steps are over this very short period coming forward.

So some key outcomes. We agreed with our customers that there were a number of key issues on which we would continue to engaging with them. These arose during the preparation of this submission.

In particular, we agreed to address a few complex issues that will not necessarily be dealt with in this determination process but absolutely leading into our 2020-21 submission. These key issues, as agreed with our customers, are: legacy asset shares; government or user share, which I believe IPART will provide an update on later in the session; our levels of service framework; and the issue of holding costs with relation to any capital underspend.

Just to recap, for these issues and others identified throughout that process, we ran an issues and insights register. We captured over 100 unique issues and insights and we are progressively working through those. A great number of them are included in this submission and these are the four that we will continue to work on leading into the 2020-21 submission.

David also touched on the provision of information and far greater consultation, particularly on tariff structure and the unders and overs mechanism as introduced by the ACCC back in 2014. We had a number of detailed sessions on these two particular issues. They included an in-depth explanation of the unders and overs mechanism.

The UOM is a relatively new mechanism, so it is still finding its way. I am proud to say that we have probably moved from that point where, late last year, perhaps a dozen people understood the unders and overs mechanism and we would now be confident to say there are hundreds of people who have a better understanding of how that mechanism works and what are the impacts on an annual basis as a result of that mechanism.

We also ran some detailed scenario analysis at the request of our customers looking at what would happen if we were to shorten the period that the UOM runs over - so what would happen if we ran that over a 10-year theoretical period rather than, say, a 20-year, and what was the upside for customers in terms of potentially being able to get access to those moneys in the UOM quicker? We then looked at the flipside of that. We had a number of sessions - and this is something I will touch on - customers elected to maintain the UOM.

We also looked at a diverse range of fixed and variable pricing structures. We ran from 100 through to zero and zero to 100 with respect to fixed to variable splits. Obviously there came a choice of continuation with or without the UOM and we ran extensive scenarios to show either impact.

We are proud to say that our proposal reflects customer choice. Customers groups in each valley, through our formal consultation at the customer service committees, did resolve formally to nominate their preferences for retaining the unders and overs mechanism in relation to variable tariff components and a nomination by each valley group of the preferred tariff structure, and we are committed to delivering products and services that meet the preferences and requirements of our customers. Customers clearly indicated their preference for tariffs with a higher proportion of usage charges as they clearly value the correlation between income and outgoings.

We structured our pricing proposal on the basis of this customer preference and continuation of the existing fixed and variable structures with the exception of Fish River, due to some rather exceptional circumstances with the closure of the Wallerawang power station, and we are continuing to progressively deliver greater choice and flexibility for our customers.

Overall, the customer response has been positive too, particularly, our refreshed consultative approach. We continue to drive operational efficiencies and improve the services being delivered.

Noteworthy, Lachlan CSC has continued to undertake its own analysis and it is still considering the impacts of an 80:20 fixed:variable tariff and what that might mean.

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

MS BAKER: Thanks, David. David asked if I could just talk in a little bit more detail to a couple of slides on both the UOM and our risk transfer product.

As I am sure you are all aware, the revenue volatility for us increases as the ratio of fixed to variable charges decreases and that puts financial risk on our business.

As a business, we aim to be as financially stable as possible so that we can focus on delivering efficient services to customers and minimise both the time and the money that we spend managing financial risks.

We are predominantly a fixed cost business and it is our aim to recover as close to possible as the revenue requirement, again in line with managing our financial risks or minimising our financial volatility.

In order to achieve this, to manage the risk of revenue volatility for tariffs with greater than 20 per cent variable component, we have included in our price submission the purchase of a risk transfer product, and the cost of purchasing this insurance is included in the ACCC pricing principles.

This RTP is new for WaterNSW, and whilst customers have continued to indicate a preference for the higher variable tariff structure, they have indicated that they are not supporting the cost of the RTP product.

This chart goes a way to explaining the impact of the UOM and the volatility on WaterNSW's revenues. Essentially, the bars on that chart show the 20-year historical water sales. The two lines are our revenue - one without the UOM green line and one with the UOM. What this illustrates is that the UOM has very little impact on the volatility of revenues for WaterNSW; it does not mitigate that risk for us. What the UOM does do is adjust prices year to year so that, over the longer term, WaterNSW recovers the notional revenue requirement and broadly no more, no less over the longer term due to prices being adjusted down if we over-recover in the year or up if we under-recover.

As mentioned before, for us, the UOM does not really address our revenue volatility. The risk transfer product for WaterNSW is an important tool in reducing our revenue volatility so that we can minimise the time and effort that we spend managing financial risks in the business and focus on customer products and services.

MR STOCKLER: Thanks, Elli.

There are a couple of key issues that have come up that are certainly worth discussing. The first one is the over-consumption of assets. There has been an under-investment in maintaining our assets and that has resulted in the running down of our assets. We absolutely must maintain our assets properly and we should not be pushing any greater costs onto the next generation. In this regard, the solution we have proposed is to use a robust engineering methodology to determine the right level of spend by asset category.

The other issue related to capex is the delivery of such. We recognise customer concerns around the issue of historical capital underspend, and this must absolutely be addressed as holding costs have been incurred by customers.

Our solution is a more efficient way of delivering these capex projects. It is a significant change. We are moving from an approach which was a project-by-project approach to one of a program approach seeking greater market efficiencies through strategic procurement. This approach also provides the flexibility to reprioritise projects based on the need and risk during the determination period. This is something we do not currently have.

We have committed to engage with our customers and provide transparency regarding our proposed capital plan. I must stress, as part of this approach, we will be presenting that plan to customers each year prior to submission to our board for final approval. We are currently working on the capital plan for the next financial year and that will be presented to key customer groups around March, prior to submission to our own board.

These charts go to illustrate our run rate with respect to capex. The top series, you can see, but I will just run through it. Blue is the target; green is committed; and yellow is the forecast.

As you can see on the top graph, being user share, we are largely on track to meet the capex spend leading up to the end of the financial year. Any uncommitted, or not forecasted as yet, sits in the government share, which is illustrated in the bottom series. We are quite proud - and we do take strength in this - that our revised and refreshed approach to managing these issues is having effect and will continue to have effect.

So, ladies and gentlemen, in summary, we are absolutely committed to being customer responsive and to providing a range of choice to help meet the varied needs and wants of our customers. We remain absolutely committed to real relationships. I cannot stress how much effort we have put and will continue to put into establishing and maintaining those very real relationships with our customers.

We are proud to show that our reduced operating expenditure over the period is 20 per cent. Our reduced revenue requirement for that same period from customers is 11 per cent. Overall, our proposal provides customers on average a bill reduction of 4 per cent.

Thank you for your time and I'll hand back to the Chair.

THE CHAIR: Thank you, David, David and Elli, for your presentation on the 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 to each of these topics. I now call on Scott Chapman from the IPART secretariat to introduce the discussion. Thanks, Scott.

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

MR CHAPMAN: Thanks, Catherine. My name is Scott Chapman. I am part of IPART's secretariat. The secretariat's role is to undertake all of the analysis required to assist and advise the tribunal in making its final decisions on prices to apply from 1 July next year.

WaterNSW's role is essentially to deliver bulk water to irrigators and other licence holders in regulated rivers across New South Wales. Its role, as outlined under the Water Act - the Water NSW Act 2014 - is:

To capture, store and release water in an efficient, effective, safe and financially responsible manner;
To supply water in compliance with appropriate quality standards;
To ensure catchment areas and water management works are managed and protected to promote water quality and the protection of public health and safety and the environment;
To provide planning, design, modelling and construction of water storages and other water management works; and
To maintain and operate works efficiently and economically.

IPART regulates WaterNSW's bulk water prices in 13 valleys across New South Wales. Nine of those valleys are in the Murray-Darling Basin west of the ranges; three of them are in coastal valleys; and there is also the Fish

River water supply. We also regulate WaterNSW's meter servicing charges and other miscellaneous charges set on a fee for service basis.

We last reviewed and made a determination on the then State Water's prices which applied from 1 July 2010. Since that time, the ACCC made its own determination in the Murray-Darling Basin valleys which applied from 1 July 2014 and which expires on 30 June 2017. We have not reviewed the coastal valleys' prices since that time - that is, since 2010. Prices in the coastal valleys have essentially remained constant in nominal terms since the 2013-14 financial year. This review sets prices from 1 July 2017 for all valleys in New South Wales.

How do we set prices? A broad approach is essentially we define the scope - the scope of the monopoly services provided by WaterNSW. We then seek to establish the efficient costs of those monopoly services - the costs of WaterNSW undertaking its responsibilities.

Broadly, our next step is to establish what share of those costs should be borne by water users and what should be borne by the community at large. We allocate the user share of those efficient costs across each of WaterNSW's 13 valleys. We then determine the prices to recover user share of those efficient costs in each valley and we evaluate the impacts of those pricing decisions on WaterNSW and on licence holders and users.

In setting the efficient costs, we typically evaluate the notional revenue requirement, which essentially is the efficient economic costs that WaterNSW should incur in delivering its monopoly services. We have used the building-block approach typically, which is made up of five or six separate blocks which builds up the efficient costs each year for WaterNSW's activities.

Those building blocks are: Operating expenditure, which covers essentially operating and maintenance and is generally the largest cost block. We give an allowance for tax obligations. We have a return on assets, which is an efficient return on WaterNSW's regulatory asset base or the investment that it has in the business. We have an allowance for return of assets, which is essentially a depreciation allowance. We have a return on working capital, which is a return on the cash that WaterNSW essentially needs to hold for its day-to-day activities. Also, in this case, there is an allowance for MDBA - the Murray-Darling Basin Authority - and Border Rivers Commission charges.

I will now to talk a little bit about the WaterNSW proposal. WaterNSW have proposed a lower notional revenue requirement across the coming determination period, compared to the average annual expenditure or the notional revenue requirement it has from 2014-17.

The user share of those costs has also decreased. For most valleys, as you can see on the chart, WaterNSW has proposed a reduction in the notional revenue requirement, which is its assessment of efficient costs. There are some valleys in which those costs are slightly higher, but on average across the business, they have proposed a lower level of notional revenue requirement.

The prices are determined by a number of factors including the user share of the notional revenue requirement, which is essentially what proportion of those efficient costs should be paid for by licence holders and the users of water. The level of price is also determined by forecast volume of water-take or usage and the number of entitlements in each valley.

For a given level of cost, for instance, if there was a forecast of much lower extractions than the current prices are based upon, that would lead to higher extraction charges, holding everything else constant; and, vice versa, if the forecast for extractions is higher than the prices at which current prices are set, that will inevitably lead to lower prices, all other things remaining constant.

The largest cost block, as I mentioned, is typically operating expenditure. WaterNSW's proposal and information shows that annual operating costs have declined since 2010 to the current year quite significantly. Over the historical period of six or seven years, the total opex is down by $3 million a year, or 6.8 per cent lower, and the user share of those costs percentage-wise is down by more than that - by 7.5 per cent - across that period.

The proposed operating expenditure over the coming determination period - that is, from 2017 to the proposed 2020-21 timeframe - is about $38.7 million a year. That represents a reduction by 2020-21 of about $8.5 million a year in operating expenditure. That is a 20 per cent reduction in total opex over that period compared to now.

Many of those savings come from the integration and restructure of the former State Water Corporation and the Sydney Catchment Authority and lower maintenance, hydrometric monitoring and planning costs.

This chart shows by valley the proposed user share of operating expenditure and the change between the current year upon which prices are set and the proposed 2020-21 level. As you can see, most valleys are declining, some significantly, with the exception of the North Coast and South Coast. On average across the business, there is a 20 per cent reduction.

WaterNSW's proposed total capital expenditure program is actually $194 million over the four years to 2020-21, which is about $48 million a year. That is an increase in total capital expenditure of about 34 per cent, compared to the previous four years, and an increase of 164 per cent in user share of that capital expenditure - coming off a low base.

WaterNSW, in its proposal to us, has essentially proposed a capital maintenance allowance in framing its renewals expenditure or its expenditure on existing assets to maintain their quality and their standards. This represents the annual expenditure required in the long run to renew and replace existing assets without having an unsatisfactory decline in the standard of safety of those assets.

This is not our regulatory allowance for depreciation. It is essentially the expenditure on that physical asset base that is required to be maintained. It is a large amount of depreciation allowance that has been set in our building blocks that I showed you earlier because the value of WaterNSW's physical assets is greater than the regulatory asset base upon which we determine that depreciation rate. It essentially aims to avoid growing infrastructure debts where more and more of the assets are degrading.

In terms of the cost shares, the share of costs for operating and capital expenditure areas is allocated to customers based on the impactor pays principle. WaterNSW has proposed to maintain those cost share ratios for all of the activities that it undertakes in both operating and capital expenditure at the same percentage level that we set in 2010 and the ACCC maintained in 2014.

WaterNSW has not proposed any change to those cost share ratios and it intends to use the current framework to allocate cost based on the impactor pays principle between water users, or licence holders, and the government and the broader community.

This is just a chart to show the range of cost share ratios for varying activities that WaterNSW undertakes and allocates its costs to. They range from 100 per cent for some activities in both capital and operating expenditure - so users bear essentially 100 per cent of the costs undertaken in those activities - down to 0 per cent where users bear none of the costs, and there are some activities in between those two values.

Our preliminary position, as set out in our Issues Paper, is that we have engaged consultants to review the prudence of past operating expenditure and capital expenditure; the prudence and efficiency of the proposed operating expenditure and future capital expenditure to 2020-21; and the cost share framework used to allocate capital and operating expenditure between water users and the New South Wales Government. We are actively looking at those issues.

To kick off the discussion, here are some guiding questions:

Are WaterNSW's proposed operating costs over the 2017 determination period efficient?
What scope is there for WaterNSW to achieve further efficiency gains over the 2017 determination period?
Is the forecast capital expenditure over the 2017 determination prudent and efficient?
Is WaterNSW's 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?

I now hand back to the Chair.

THE CHAIR: Thank you, Scott. Would you like to start, Stefanie?

MS SCHULTE: Sure. Thank you, Catherine. I think before starting off on addressing some of those questions, we would like to reiterate what WaterNSW has been speaking about in terms of consultation.

THE CHAIR: Can you introduce yourself, please.

MS SCHULTE: I am sorry. I am Stefanie Schulte from the NSW Irrigators' Council.

We would like to acknowledge that WaterNSW has taken the initiative to engage with irrigators and peak bodies like the NSW Irrigators' Council throughout the review and has provided us with an opportunity to have robust discussions about WaterNSW's pricing proposal. We believe this is a positive step and we encourage WaterNSW to continue this engagement throughout this pricing review and afterwards.

In terms of some of the questions that are on the slides here, we have done a bit of analysis around WaterNSW's revenue allowance - back then it was State Water - under the ACCC over the entirety of the ACCC Determination as well as what WaterNSW has proposed in the 2017-2021 period.

If the figures are correct, we are talking about a $350 million notional revenue proposal by WaterNSW with a user share of about $227 million. If we look over the ACCC's last determination in 2014, as far as we understand, it was an overall revenue allowance of $257 million with a user share of $159 million. Comparing those two total determinations, while we are not working in the same three-year determination and four-year determination, provided an average of $53 million of the user share last time, and we are looking at a $56 million user share this time around.

I guess we would like to raise the point that despite the fact that we have seen an amalgamation of the Sydney Catchment Authority and State Water as well as the functions that are transferred between DPI Water and WaterNSW, overall the amount that has been recovered or is proposed to be recovered from users, including those irrigation members who are here at the table with me today, has actually not decreased.

We acknowledge that the operating expenditure decreased by about $3 million per year. However, what we are really concerned with is the significant increase in capital expenditure coming forward with WaterNSW. In terms of those two determinations, last time the ACCC allowed, in total, $132 million in capital expenditure for State Water, and now we are looking at a user share of just that capex of $149 million. So even the user share is bigger than what WaterNSW was allowed in its last determination.

What we have raised over multiple determinations is our concerns that despite the capital expenditure allowance provided to State Water, State Water did not spend all of its capital. We are a bit concerned that we have the argument now around maintaining capabilities having run down the assets, and we feel there was an opportunity for State Water to use some of that capital expenditure allowance in the last and the previous determination to undertake some of this work.

We believe that the ACCC last time, and IPART before that, provided State Water with an opportunity to undertake the necessary work. There was a process in place to ensure that State Water had sufficient capital available to maintain its assets. So that is one of the concerns we have.

The second concern about capex is around the interaction between WaterNSW's proposal for capex and opex in light of the recently introduced Dams Safety Act. We are seeing proposed increases in capital expenditures while we are seeing proposed decreases in operating expenditure around corrective maintenance, routine maintenance and otherwise.

We would like to understand the difference there because it was our understanding that the Dams Safety Act was to allow WaterNSW really to have a look at something else than pure capital expenditure. We would have thought that, in light of that, there would be an increase in operating expenditure falling out of that.

Finally, the Irrigators' Council has had serious concerns about WaterNSW's proposed new approach to capital management and its use of MEERA. Our concerns are really around that we believe it will lead to less transparency over future capital expenditure. In particular, we think it will make it very difficult, if not impossible, for IPART, and also stakeholders, to assess the efficiency of WaterNSW's capex and it will also prevent any form of cross-subsidisation between valleys.

With WaterNSW's growing asset base, this will be a significant and ongoing cost burden that will be imposed on New South Wales irrigators in light of at least the current Water Charge Infrastructure Rules that do not, as far as we understand, allow IPART to review past capex expenditure for its prudency and efficiency. Thank you.

THE CHAIR: Thank you, Stefanie. Mary?

MS EWING: Thank you. Mary Ewing, Lachlan Valley Water. I would like to briefly comment on the opex and then endorse some of the comments that Stefanie made about capex.

In terms of opex, we acknowledge the savings that WaterNSW has made. We would be concerned if the savings were achieved as a result of reductions in level of service. We understand there was a trade-off there. We think there needs to be good, informed consultation with customers about level of service, and I understand there is an interaction with the review of the operating licence that is currently underway.

In terms of capex, our concerns are similar to those outlined by Stefanie. We generally disagree that the under-investment in maintaining assets has been either as a result of pricing decisions by the ACCC or IPART in the past. It appears to us that it is largely due to decisions by State Water in terms of the capital programs that they put up. If this has led to a significant deficit in asset maintenance, it appears to us that WaterNSW is saying that the previous approach followed by State Water was not an appropriate one for maintaining capital.

Similarly to Stefanie, we are concerned about the proposal to have a capital maintenance allowance rather than a capex program.   We are concerned because of the lack of transparency and the difficulty that that provides for both customers and IPART in terms of being able to identify whether or not a capital program is prudent.

For WaterNSW, certainly we understand that there needs to be a bit of flexibility, particularly for smaller projects, and the ability to reprioritise is important. However, we believe that for larger projects, WaterNSW would actually have a good understanding of which projects they were going to carry out in the next four years in order to project plan them and carry them out - so they should be able to identify those.

Our concern is that, with the previous history under State Water with regard to capex - either achieving it late or not achieving it at all - the capital allowance program approach would only allow that to continue further.

On user share of costs, I do have a comment on the costs, particularly in opex, of WaterNSW's services and customers who actually currently don't pay - in other words, people who receive water as a basic landholder right or environmental allowances, for example, delivering environmental contingency allowances. Currently those users do not pay, yet they require WaterNSW to undertake services. Particularly in a drought situation, such as the Lachlan experienced in 2003 to 2010, a significant proportion of State Water's effort was in simply basic running of the river, delivering water to basic landholder rights.

I am aware that IPART reviewed this in 2012 and made a decision that there was no contractual arrangement, so no ability to bill basic landholder rights directly. However, if there is a community expectation that those services will be delivered, we suggest that that requires a review of the government user shares in that particular aspect.

I will stop there. Thank you.

THE CHAIR: Thanks, Mary. Bob, would you like to comment on this?

MR DOYLE: Thanks, Catherine, yes, just briefly. My name is Bob Doyle. I am president of the Paterson River Water Users Association. I am chair of the Coastal Valleys CSC. I was a member of the CSC Reference Group.

Just in case some of the Hunter people could not get here, I was asked specifically to represent them today, but Shane Gee is here on behalf of Hunter River.

The process for the Hunter has been quite good. In the Hunter, as chair, I represent the power stations, the coal mines, Hunter Water and irrigators.

The CSC Reference Group process worked very well. The customers are basically pleased with the current operating and capital expenditure process. Historically, I can say that the CSC/IPART process has worked very well for the Hunter in terms of capital, but also in terms of operating and the ability to address levels of service and operating expenditure and there has been significant reduction in operating expenditure over time.

The actual position for the Hunter is that there are no great dramas in the whole process, just some tightening up. As chair of the CSC, I also represent - and they are better represented today by the customers from the North Coast and the South Coast - I would like to summarise a little bit about the process for the North and South Coast.

It is the complete other end of the spectrum when dealing with issues for the North and South Coast to what it has been for the Hunter. The most fundamental change that the IPART process and the CSC process brought about was our ability to change the fixed usage price base, and I know that is for discussion in session two. That enabled the Hunter to close the gap from being one of the poorer performing valleys in the whole state to now doing a lot better than cost recovery.

On the North and South Coast, the process has failed. The CSC process has failed the North and South Coast. The IPART process has also failed the North and South Coast. When we look at operating expenditure and capital expenditure, the current process is just not working.

While we do need to deal with levels of service and we do need to deal with some of the actual costs associated with running these dams, there is a much more fundamental issue in how this process needs to deal with the North and South Coast. If we concentrate within the framework of this IPART process of dealing with the nitty-gritty of operating expenditure and capital expenditure, we will be missing the fundamental flaw in the process.

The current submission by WaterNSW for the North and South Coast basically dooms the irrigation industries of the North and South Coast. There has to be a fundamental change. We cannot go another determination on the existing methods of calculating the price, which is the next step, but based on the operating and capital expenditure of those two dams. There has to be a completely different approach to how that is looked at.

If we really want to nail down on some of the fundamentals of, say, capital expenditure, there has been a fundamental change over time on the way capital expenditure is addressed on these dams in the North and South Coast, because we just have to lower the costs.

It is good to hear David Stockler say, "Let's present these plans to customers in advance - customers to review." That used to be the case. I would say now that it is not the case currently, and some of these capital expenditure programs that are put up are not aiming at the levels of service that are required by either North or South Coast customers. They are just putting on a cost burden which is impossible for those customers to pay.

We have to have a major look at this process. I am more than happy with what is proposed about presenting these plans to customers. I would say that over this current determination, we have not had that opportunity to have that input. We should look at how effective the process has been for the Hunter, where we have been able to go from one of the poorer performing valleys. The Hunter would have rated behind North Coast, Peel and South Coast in terms of performance, but we are doing okay now. The process can work, but it is just not working in its current format for those two valleys. Thank you.

THE CHAIR: Thank you very much, Bob. Steve, would you like to comment?

MR GUTHREY: Steve Guthrey, Bega Valley Water Users Association. I basically support what Bob has said. The whole situation with the pricing on, say, both the North Coast and the South Coast valleys has got out of control really. We are finding that there is less water being used - especially on the North Coast there is a lot less water being used - than what is actually allocated each year.

It is really the things that are driving those costs that we need to have examined. At the present time, we are recommending that there is a price freeze on those valleys so that we can actually go and determine the cost structures and how we can go about making it more economical for the users to actually use the water.

THE CHAIR: Thanks very much, Steve.

Just a reminder that in session two, we will talk a little bit more about price structures, and also cost recovery in session 3, so you can comment further then, if you like.

Richard, did you want to discuss opex and capex?

MR PARBERY: Thank you, Madam Chair. My name is Richard Parbery. I am a board member of Bega Cheese. I have been on the board for 25 years. When I joined the board we had 67 employees and now we have over 700 just in the Bega area. It is the highest employer in the area and the town is dependent on Bega Cheese.

I am also a practising tax accountant. I have been a tax accountant for 40 years and I specialise in rural clients.

Just quickly, David Harris referred to "great outcomes for our customers." He must have not meant North and South Coast.

First of all, following on from what Bob said, our dam has an allocation of 14,000 megalitres. It is a 9,000 megalitre dam and we have approximately 2,000 megalitres locked in for the three towns of Bermagui, Cobargo and Quaama. We have 18 farms that give 40 per cent of our milk to Bega Cheese, which is critical for growing in the valley. You cannot ever get full cost recovery ever on this dam.

As most of you rural people would know, from 12 May 2015, the Federal Government made very big and fundamental changes for depreciation. First of all - this is very attractive - water used to be written off over three years for the majority of the farmers, but now you get a 100 per cent tax deduction for your water costs. That is very attractive if you have water. If you want to put money back in infrastructure and you have water, we have 7,000 megs.

The thing that is affecting our valley is hay storage, which before was over 40 years, 2.5 per cent depreciation. What happens now is you get a three-year direct write-off when you put up storage sheds, hay sheds or anything else.

What I am starting to see down home, and I have spoken to the consultants, is that it is now becoming cheaper to buy our input feed in and put up several hay sheds because of the very generous depreciation allowance from the Federal Government, than put feed into your silage pits.

Steve made the comment that we are getting less water usage. We will see considerably less water usage. As Steve said, we are requesting IPART to lower the 10 per cent and let's go back to fundamentals and have a look at the alternatives.

We would like to have a look at the costs of running that dam through WaterNSW and obviously their capital requirements, but that is only one small side of it. You cannot get cost recovery on a dam where you have, effectively, 7,000 megalitres. It can't happen. Many of our farmers have run-down irrigation plants. This attractive 100 per cent deduction should be used, but why don't they? The answer is because they are so insecure and unsure about what WaterNSW will do. If they continue on at this rate, I think we have here that by 2021, it will be $96 a megalitre and by 2025 it will be $139 a megalitre. Close the dam now. It will just be for the towns. If it is just for the towns, it will be all community service obligations.

The dam itself is very attractive. It is used by a lot of people beside using the water for the towns. We need to go back to the fundamentals, because even cutting costs, if we can, through WaterNSW, is a different fundamental. Thank you.

THE CHAIR: Thank you very much, Richard. Chris or Fleur would you like to comment on opex or capex?.

MR MAGNER: Thank you. My name is Chris Magner. I am the chairman of the Richmond and Wilson Combined Water Users Association, which is basically an umbrella group over about 10 different water user groups working on the Richmond River, one of which is the Toonumbar Water Users Association.

We have put together the submission that we have presented to you. There are a couple of issues there that really are highlighting our concern. The biggest one, of course, is the sheer cost of the water to Toonumbar.

We are concerned that with the formulas that are used to develop the pricing, there is a fundamental flaw in the North Coast and probably the South Coast. The fundamental flaw is basically the weighting that has been given to the licence holders as opposed to the weighting that has been given to the environment and other users.

The North Coast is completely different from west of the range. Most of the water that does fall west of the range actually gets used in some form or other, whereas, on the North Coast, about 3 per cent of the water that falls is actually allocated as a licence. Of that, at the moment, we would not be using 10 per cent, and that is in the regulated and unregulated together. We have very small usage of the sheer volume of water. The rest of it is going back to the environment.

The amount of weighting that this formula is using against the users goes against what we believe is impactor weighting. We put more emphasis on the impactor, being the environment. We live in the biggest growth centre of environmentalists in the North Coast of New South Wales - it is the biggest area in the state, or even in the country - and the demand from those people who expect a pristine environment has a tremendous effect back on to us as agriculturalists and, in the end, back on the water demand. Therefore, pressure then comes back on.

Ever since the last IPART review in 2010, I have been saying that Toonumbar will close and will stop being used if we continue on this price drive that we are on at the moment. We are seeing now as the spiral goes up for pricing, the spiral is going down for usage, and it is happening at a rapid rate of knots. Therefore, I am concerned that the user share component of this process is completely out of balance for the North Coast and that is where we are driving from with the need to reassess it. We need to look at a way of driving this through.

I believe that the New South Wales water process - the pilot program that is currently being developed - has the ability to achieve that in the long term. However, we need to achieve this now. We need to make the decisions today on how we change the way that we charge water on the North Coast. Otherwise, before the end of this next four-year determination, if we continue on this process and wait until the end of that, we will end up with no users on the North Coast. We will have a stranded asset, and I don't think that is in the interests of anybody.

I think we need to address this now and drive this forward. I believe that IPART has the ability to do that - to make these decisions, to look into this process with a clear view of trying to resolve some of the issues. A lot of those are very hard issues to address, however, they need addressing.

All of that, I think, relates to that last question on the slide. That is really where we are sitting at the moment because we are looking down the barrel of an unviable situation where nobody will use the water.

I will let Fleur continue with more of the details.

THE CHAIR: Thanks, Chris. Fleur?

MS TONGE: Thank you. I am Fleur Tonge. I am from the Toonumbar Dam Water Users Association, on the North Coast. I would say that not a lot of people have heard about the Toonumbar Dam. I was listening to David and David give their reports and the glowing reports, I am afraid, don't extend to Toonumbar Dam. We were the ones in those bar graphs that had the bits going up, where everybody else, apart from South Coast, had the bits going down. I think our operating expenditure is expected to go up by 17.8 per cent.

I would like to address specifically the efficiency of operating costs, firstly, and then the user share. I don't have enough of these handouts for everyone, but I will pass around some with figures. I know it is very hard to talk to figures without having them to look at, so perhaps you can share a few between you.

Our group would like to look at a few different indicators to look at efficiency - specifically the ratio of megalitres allocated to megalitres released; the ratio of megalitres released to megalitres sold; the cost per megalitre sold and the cost per megalitre released.

We thought looking at these different performance indicators would give you some idea of what is actually happening at the dam. To give you an example of a few of the figures, if you can look at the figures there, these are figures that I have been able to put in; namely, 2011-2012, 2012-2013, 2013-2014 and 2016-2017. Some of those later figures are not yet available.

To give you the examples, looking at the 2013 figures allocated water was 10,133 megalitres. It is an 11,000 megalitre dam. Released, in that particular year, was 13,800 megalitres.

Back in 2011, the allocation was the same, with 10,133 megalitres out of the 11,000, and released was 58,000 megalitres - obviously a wet year.

To go down to what was sold in those years, in the year 2013, out of the 13,800 released, 835 megalitres were sold. In year 2011, out of the 58,000 released, 99 megalitres were sold.

What you can see when you bring those figures down and work out costs is that, in 2013, the cost per megalitre sold - and this is working on the notional revenue requirement - is $927, and that is in the year 2013. Back in the year 2011 when they only sold 99 megalitres, the cost per megalitre sold was $8,100. That is not efficient. However, if we look at the cost of megalitres released, in 2013, it was $55 cost per megalitre release. In 2011, because there was more released, it was $13.

The clear picture in this is that there was an awful lot of water released that costs money to control and release that is going somewhere else apart from going to the users who are charged.

That brings us down to the next question. When we are judging efficiency, we can't separate out of who is sharing those costs. If we are judging efficiency simply on those licence holders, there is no way we can call efficient costs where we are looking at thousands and thousands of dollars per megalitre sold. However, if we could review the entire share of those megalitres - who is actually the user, who is the impactor in this situation - we could actually bring the efficiency down to what is a reasonably efficient dam. It is all about deciding who is the real impactor in this situation.

As a few other speakers have already said, the coastal dams are quite different from their western counterparts because of the importance of the environmental water that goes down the systems. Thank you.

THE CHAIR: Thank you, Fleur. That was very useful. Perin, would you like to comment?

MS DAVEY: Yes, thank you. Perin Davey from Murray Irrigation. I think I'll be brief. A lot of what we believe has been covered. Particularly on the capital expenditure proposal put forward, I think NSW Irrigators' Council have covered that effectively.

On the user share arrangements, I would actually agree with the Richmond and Wilson Combined Water Users Association. This is an issue that is not just limited to coastal areas. It is an issue that we strongly believe needs to be reviewed, particularly in light of the changes in water management since the user shares were first implemented.

I commend IPART on its commitment to reviewing the user shares this time around and not waiting for 2021 as proposed by WaterNSW. The priorities for water management have changed. With the introduction of our water-sharing plan in the New South Wales Murray in 2004, the priority was clearly on the delivery of rules-based environmental water for which there is no charge.

The delivery and management of environmental water is having a significant impact on the river - that is, on the systems as well as the infrastructure and the ongoing administration of maintenance of said infrastructure. We are asking for IPART to have a close look at those impacts and, where there is no identifiable impactor, to apply a community service obligation or an increased government share.

We also want an assurance in the New South Wales Murray, in particular, that irrigators are not now paying for capital expenditure or operating costs that are related to river infrastructure that was built for environmental purposes.

The fact that we have the MDBA component of our costs makes this increasingly difficult for end users to be able to evaluate. I will cover that a lot more in session three when we talk about MDBA charges, but there is infrastructure that has been constructed in our valley that is now operated and managed by the river operators that is purely for environmental purposes.

An example of that is the Koondrook-Perricoota forest project, which was conducted under the Living Murray program. The up-front capital for the construction was funded by the Living Murray program. We do not have a problem with that, but there is no transparency as to the ongoing maintenance and depreciation costs and where that is now being attributed. There is concern in our valley that it is being recovered through irrigator charges.

I think I will leave it there, other than to say that the proposal for a capital maintenance allowance as well as depreciation would appear in our minds to be overkill.

We commend the commitment to further consultation on capex annually through developing programs and providing them to customers and allowing us to view it annually. It is commendable, but it is also a drag on our own resources. Many of the customers of WaterNSW are limited in resources. To have to front up annually and be able to have the capacity and the skills involved to adequately review those, without a process whereby we can actually respond and argue for or against the proposals, is just adding to the burden on water users. Thank you.

THE CHAIR: Thanks, Perin. Grant, did you want to comment on this issue?

MR BUCKLEY: Yes, thank you. Grant Buckley, from Macquarie River Food and Fibre. I guess largely the comments I would make have been covered a lot by Stefanie and Mary in regards to capital expenditure, the transparency that has been provided, and also in regards to the move away from the capital works plan and more to the maintenance allowance. We understand the need for flexibility, particularly for those minor things, but the major capital works is something that we believe is missing.

With cost shares, similar again to what Mary and Perin have commented on, we need to ensure that there is an adequate customer base and everyone needs to be paying for what it is that they are receiving through the operations.

One particular example for the Macquarie is in regards to the Burrendong Dam. When it was constructed back in the 1960s, its primary role was to be used for flood mitigation. With the dam being a large contributor to our infrastructure storage and delivery costs in the Macquarie, there is $1.1 million megalitres, approximately, for storage capacity and then 490,000 megalitres for flood mitigation. Approximately a third of the dam's capacity is set aside for flood mitigation and we would want that to be looked at as part of the cost shares, and we would appreciate IPART looking at that as part of its determination. Thank you.

THE CHAIR: Thank you very much, Grant.

We will now give WaterNSW a chance to respond to some of those comments and I also have a question. It appears from stakeholder views that the new way of delivering the capex program is not clear and I wondered myself how is this an improvement on the previous practice where you select a range of projects?

As noted by Grant, you have your major capex and then you have some other ones that you may move around and, at the end of the determination, you would explain why you have changed it and what is prudent and not prudent. How will that be improved by the less transparent way of just having a program? Can you elaborate on that a little bit?

MR HARRIS: Sure, thank you. There are quite a few points to respond to across all of the speakers.

First of all, with capex, I think actually Scott summed it up pretty well. We are coming off a pretty low base. If you look at the diagram that IPART put up, actually our capital allowance is less than what was under the previous determination.

There has been a very low capex spend over the last ACCC Determination and we are proposing a larger capital spend. We are proposing that on the basis that these are not numbers that we have pulled out of the air. We have used a universally accepted and independent, if you like, engineering methodology. That is the same methodology, I would point out, that is used, for example, by the irrigation corporations who are members of the Irrigators' Council. We are proposing to use that exact same methodology, and that methodology provides you with a number based on civil assets, mechanical assets, electrical assets, and so on.

As we have explained to the CSC Reference Group and also to IPART's consultants, we did not take the upper bound of that number. We actually took a number that was roughly halfway in each asset category - halfway between our current spend and what dropped out of that MEERA analysis.

The bottom line to that is we and our board are absolutely determined to properly maintain what are intergenerational assets and to not be pushing costs off to the next generation. So that is the first point about the change in our capex methodology.

The second part, as David indicated at the start, is that, fairly enough, our customers pay a holding charge on capex. Our customers - and I dare say the regulators, both ACCC last time, and IPART last time in our Greater Sydney Determination, and I have no doubt IPART this time as well - in terms of our government share of the spend will be saying to WaterNSW, "Why is it that you are not spending your capital allowance?"

In the case of the rural valleys a large part of the reason - to come to your question Catherine - why we have been unable to do that is because we have structured our maintenance capital on the basis of an individual-by-individual project. In many cases, these projects are in the single or tens of thousands of dollars. There are a couple in the couple of hundred thousand dollars, but very few of those projects are over the million dollar mark.

Perin talked about customers having to spend time getting their head around our capital program. That built in also internally for us a hell of a lot of what you might call constipation in terms of, "Righto, we have had a determination for these 100 projects. We have to plug and play and swap those around, and whatever, depending on circumstances" - priorities, flooding, or whatever it might happen to be.

In relation to trying to push through our capex spend and not have our customers unhappy that they have prepaid the capex allowance, what we propose to do is move to a program basis for that. We are actually going to go to the market and tender whole programs, not individual projects. We believe, first of all, that will be more efficient in terms of costs. We also believe, secondly, that that will enable us to meet our capex target spend over the determination period where, to date, we have been unable to do that.

There is something sitting behind that change as well, and this in part comes to Stefanie's point about the dam safety regulations. The thing that is sitting behind that maintenance allowance is that, obviously, the composition of our entire capex spend is changing from broadly new assets and regulatory requirements which are not entirely but largely funded through government share to maintenance spend which has a higher user share component. Because the nature of that capex portfolio is changing, you are, therefore, seeing changes in prices that users are paying versus prices that the government would meet.

In relation to the Dams Safety Act, we are in exactly the same situation as our customers and others in the state. We are waiting for any detail around that new dam safety regulatory regime. We have none. There is nothing on the table post the passage of what can only be described as skeletal legislation. When we see that, we are very hopeful, given the minister's second reading speech, that our dam safety costs - surveillance and other things - will be reduced, but the Government has not put that information on the table. We are not able to factor that in at the moment into our capex program.

In terms of transparency of our capital program, Mary's comments are exactly the same as have been made previously in our CSC Reference Group, so I acknowledge that consistency.

We only have one large program in our four-year capital plan and that is the Keepit post-tensioning project. Everything else in our capex plan is, if you like, below the line in the maintenance program space that I have talked about.

We have made a commitment at the CSC Reference Group - we repeated that in Moree last week and I repeat it here this morning - that we will consult on our draft capital plan annually through our CSCs to give our customers the opportunity to have a look at it and say, "Actually we think that's a bit silly", or whatever - changing priorities, or whatever. So we have given a commitment there to have transparency with our customers on an annual basis.

Can I say, for the benefit of those who may have misunderstood some of the comments, that customers do not pay the capex. Customers pay an allowance on the capex. That is important when we come down to some of the other issues raised particularly in the North and South Coast.

I will move on to those because Bob, Steve and Chris all talked about the issues on the North and the South Coast. I think it is fair to say the only difference between us and our customers in this regard is that, as a commercial entity, we felt it was proper for us to propose a cap on customer price increases, which we did, at 10 per cent. I think the only difference between us and our customers is our customers are saying that price increase should be zero, and we leave it up to IPART to consider that matter.

I think, though, what we all have to acknowledge is that our problem - and it is a joint problem in the North and South Coast - is a fundamental one. In those two valleys, it is not the case that there is, to pick a number, a 1 per cent, 5 per cent, or something like that, difference between us and our customers as to what our customers think is efficient pricing or anything else. We are actually proposing to reduce our opex in the North and South Coast over the determination period. I want to make that point very clear.

I also point out that 90 per cent of the user share is paid by government subsidy. We are not in that marginal zone. We are miles apart in terms of where our customers are at, but that is a shared problem for us all. I have spoken about why we have recommended that 10 per cent price cap. We felt that was responsible for us to do.

Can I say, though, even at a zero per cent price increase, government subsidies in those two valleys would still increase. They would still go up even if no price increase was recommended for our customers.

What do we do about all of that? A RAB write-down will not solve the problem. 96 per cent of the regulatory asset base in those two valleys is government share. Writing that RAB value down will not solve the problem for customers. We, if I may say in conjunction with NSW Irrigators' Council, have recommended to IPART in the pricing determination - and it is also in NSW Irrigators' Council submission - that collectively we and our customers need more time to sit back and try to address the very fundamental problems that exists in those two valleys. We recommend that that approach be taken.

We also recommended in our pricing proposal that IPART recommend continuation of the government subsidy. As I say, the only gap I think between us is whether there is a zero per cent user increase or a 10 per cent user increase. However, all of us need time to sit down and properly work that out through our levels of service process that we have already commenced on the North Coast and we will need to go through on the South Coast.

Madam Chair, I have two other quick comments. Perin and a number of others mentioned the review of user share - government share. Quite frankly, in the absence of a review, before submission of our pricing proposal, we had to submit on the basis of the current user share, and we did so.

I would also add that our CSC Reference Group and WaterNSW wanted an in-depth review of user versus government share. That is what we are proposing in our determination and we have recommended that that be done roughly midway during this next determination when, apart from other things, potential cost savings through the WAMC pricing determination would be better understood.

If IPART can do that in-depth review during this determination process, we would support that. I do have to say, though, that we remain concerned that that process would not be as comprehensive as our customers expect.

Finally, just in relation to the capital allowance and depreciation, the capital allowance is not on top of depreciation. The capital allowance is an allowance. We are not paid that. We are only paid depreciation.

THE CHAIR: Thank you very much, David.

Does anyone in the audience want to comment on this session? We have roving microphones. Could you introduce yourself, thanks.

MS BALAS: My name is Melissa Balas. I represent Bega Cheese on the far South Coast. I have a question with regard to the capex. We don't really know the detail. There is a huge increase in capex and operational expenditure.

I guess one of the problems we have in trying to identify opportunities to improve the management of the coastal valleys is understanding what the actual costs of running those systems are. In order for us to identify what opportunities we have to improve, we need to understand exactly what those costs are and I don't think we have that information to be able to make a determination or any reasonable assessment of whether it is prudent or efficient.

Until we see that level of detail, it is difficult for us to make comment on that and also to identify what opportunities we have to actually look at those coastal valleys and to identify what opportunities do we have to improve the utilisation of that water and the management of that water down the track.

THE CHAIR: Thank you very much, Melissa. Anybody else? We will move on to session 2.

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 now call on Chris Ihm from IPART's secretariat to introduce the discussion on price structures and managing volatility. Thank you, Chris.

SESSION 2: Price structures and managing volatility

MR IHM: Thanks, Catherine.

When it comes to price structures WaterNSW mostly levies a two-part tariff for each valley. In most valleys, 40 per cent of the revenue is recovered from annual fixed charges and the remaining 60 per cent is recovered from variable charges.

Also within the fixed charges, there are high security and general security entitlement charges. The high security charges incorporate a premium which varies between valleys and it reflects the greater reliability of water supplied to that category of general security entitlement holders.

Under WaterNSW's proposal, these price structures are largely maintained. One of the main differences is the costs associated with BRC and the MDBA, so WaterNSW has proposed to move to a 100 per cent fixed charge from the current 40:60 fixed to variable split.

In terms of forecast volumes and entitlements, once the price structure is determined, the forecast volumes are then used to calculate the variable usage charges and the forecast entitlements, along with the high security premiums, are used to calculate the entitlement charges. Currently the 20-year rolling average of actual water sales is used to estimate water usage and WaterNSW has proposed to retain this approach.

We have here some historical information comparing actual and forecast volumes. There has been quite a fair bit of variability. In 2010-11 there was a bit over 3,000 gigalitres, and three years later we see up to about 7,000 gigalitres, so it is something that is quite difficult to actually forecast.

On to managing revenue volatility. WaterNSW's risk in revenue volatility is mainly due to having that 40:60 pricing structure for most valleys and having the associated difficulties in accurately forecasting water sales. This is despite its costs being largely fixed.

In our 2010 Determination, we allowed WaterNSW in its revenue requirements a volatility allowance of about $2.6 million per year. This was based on the calculations on variability in water sales and it provided WaterNSW with holding costs for taking on a level of volatility risk on behalf of customers.

In 2014, the ACCC introduced the unders and overs mechanism. The process also allowed for annual updates in prices to factor in the holding costs arising from the balance in that unders and overs account and to incorporate updated sales forecasts.

WaterNSW has proposed to maintain the unders and overs mechanism - or the UOM - and to also introduce a risk mitigation allowance to cover the costs of purchasing a risk transfer product - or RTP - from a third party.

The RTP is proposed to apply to valleys where there is full cost recovery and where the proportion of fixed charges is proposed to be less than 80 per cent. So WaterNSW, we will be paying an annual premium to a third party who will take on the revenue risk of having volatile revenues and it would mean an 80:20 fixed to variable price structure.

The cost of the annual premium is proposed to be recovered from general security users across valleys and is based on an estimate of the relative contribution to WaterNSW's revenue risk.

In regards to the actual costs of the RTP, WaterNSW has suggested that it will provide it to us later in the review period.

In our Issues Paper we showed a preliminary estimate of the RTP as provided in WaterNSW's proposal as a percentage of the user share notional revenue requirement for the valleys it is proposed to apply to. We note that this is a preliminary estimate and the actual costs may well be different. However, for context, the preliminary estimate of the RTP, for example, represents 11.6 per cent for the Lachlan Valley and 10.1 per cent for the Macquarie.

WaterNSW also suggests that customers may choose to move to an 80:20 fixed to variable tariff structure to avoid the initial costs of the RTP.

We recognise the risk facing WaterNSW under its current tariff structure. As mentioned previously, we have made an allowance for this in our 2010 Determination with the volatility allowance, and so did the ACCC in its 2014 decision through the introduction of the UOM.

We support in principle the concept of allowing for the costs of managing risk, if deemed efficient. However we will consider whether all elements of WaterNSW's proposal to mitigate risk are appropriate.

Here are some questions that we have in our Issues Paper:

What is the appropriate level of risk WaterNSW should bear?
Should water users pay for WaterNSW's costs of managing volatility?
What implications, if any, should WaterNSW's proposed RTP have for the UOM?
Would water users be willing to move to an 80:20 fixed to variable price structure if they were to save on the costs of an RTP?

Thank you.

THE CHAIR: Thank you, Chris.

Mary, I wonder if you would start on this one, given we have heard some talk that Lachlan is looking to make a changes. Could you comment on that?

MS EWING: Yes, thank you. I would, first of all, comment on the appropriate level of risk. We actually dispute that WaterNSW should be facing no level of risk at all, which is what their proposed pricing structure suggests. As a monopoly business, we do not believe it is reasonable that their pricing should be set to provide a dividend to owners every year, regardless of the level of service that is provided to customers.

Having said that, I think that the next step is actually for WaterNSW to quantify the level of risk that they face. I think the approach that they have taken with

80:20 pricing does not actually do that accurately. An unders and overs mechanism recovers the total revenue over a period of time.

WaterNSW has identified correctly that there are potentially costs to them, either because they have to borrow money to manage working capital so they may have to pay a higher rate of interest than the WACC, or, alternatively, if there is an overs balance, they may actually have to borrow money to effectively provide the return to users.

I don't think WaterNSW has actually quantified the cost of the risk that they face as a result of unrecovered revenue through the unders and overs mechanism. Therefore, my understanding is that the revenue risk mechanism that they have chosen - the risk transfer product - is a very expensive way to manage that risk. We don't think it is appropriate, because you are a monopoly business where your customers have no option but to use your services, to simply transfer all that (a) to choose an expensive method of managing your risk and then (b) to simply transfer all of that to your customers.

Having said that, however, you asked about the Lachlan's reaction. Looking at the prices and 80:20 versus 40:60, while the Lachlan has traditionally supported 40:60 prices because it aligns better with water availability, when we looked at those prices, we analysed where the break-even point is in terms of usage rate. We provided that information to the customer service committee and then later to the Lachlan Valley Water committee. We had extensive discussions in both those forums and decided to support 80:20 because the break-even point was so low - it was 17 per cent. To me that is quite extraordinary in terms of how much the cost of the risk transfer product added to prices in the Lachlan and the 11.6 per cent, I guess, highlights that.

Having said that, though, I do accept that the customer service committee generally tends to represent larger users, more active users, and probably the Lachlan Valley Water executive as well, so it is difficult for those bodies to say, "Everyone has been consulted." We did put the analysis in our newsletter and sent that out. Admittedly we didn't get a lot of response, possibly because people were dealing with flooding at the time so it wasn't their highest priority, and we also discussed it at our AGM.

If that risk transfer product survives at the levels that WaterNSW has included in their pricing submission, the Lachlan would support 80:20. If it doesn't, we would want to review our position.

THE CHAIR: Thank you very much for explaining that, Mary. Grant, would you like to comment on this issue?

MR BUCKLEY: In the Macquarie, we are opposed to the inclusion of the RTP as well, for the same reasons that Mary has outlined. WaterNSW needs to quantify risk and we do not agree with transferring that risk to customers. So largely we agree with what was said.

THE CHAIR: Thank you, Grant. Stefanie?

MS SCHULTE: The Irrigators' Council in broad has supported the 40:60 fixed to variable tariff structure for quite a number of determination periods. Effectively, we have done so because of the variability and reliability in various different valleys across the state, recognising really that the supply side risk is on customers and the fixed charge component is what has to be paid by customers regardless of whether or not water is available and allocated in the individual valleys.

If I look at the pricing proposal put forward by WaterNSW, and again the last ACCC Determination, I see an increase in the general security entitlement charges as well as a number of high security charges. That does not even include the MDBA pass-through. In that sense, we are faced with irrigators having to potentially pay a significant amount of money despite the fact they might not necessarily have water available. That could have been a possible scenario earlier on this year. It is looking quite different right across the state now, recognising, of course, also that variable charges have gone down in the pricing proposals.

As customers, we don't have access to any guaranteed revenue for any of the production that takes place with the water that is delivered. However, if we look at the business of WaterNSW, we have the current fixed to variable tariff structure, the 40 per cent, guaranteed through the fixed or the entitlement charges, whilst we have the government user cost share ratios and we also have the overs and unders mechanism that recovers a proportion of any over or under-recovered revenue from the previous years.

Altogether with those three mechanisms, WaterNSW, as far as we understand, has 61 per cent of its revenue guaranteed regardless of whether or not a megalitre is delivered to customers. The same does not apply to WaterNSW's customers. In a sense therefore, we feel that the additional risk protection mechanism is unjustified.

We would really like to see WaterNSW providing much more transparency around its actual costs and expenditures over the previous determination periods versus the actual revenue it has received so that, from a customer's perspective, we can actually assess the risk that the business is facing.

What we seem to have done a lot over the previous determination is compare allowed revenue with actual revenue. However, we feel that is not really representative of what we should be talking about, which is actual costs and revenue. If could we have access to that sort of information, we would be in a much better position to understand WaterNSW's risk, in light also of the guaranteed revenue that is already provided to WaterNSW under the current structure that we have with the tariff structure that is in place with the government cost shares and the overs and unders mechanism. Thank you.

THE CHAIR: Thank you, Stefanie. Perin?

MS DAVEY: I agree with what Stefanie has just said. Wouldn't it be fantastic if we all had a guarantee against risk? Certainly there are many farmers in my region - and I am sure in Mary's region - this very year who are sitting there looking at their decimated crops wishing that there was an insurance product that adequately covered for flood and excesses and the volatility of water availability, be it through natural flows or through allocations.

Farmers have to adjust their businesses each year to manage the water that is available and conduct their business accordingly. In good years, they make a large profit, and if they are good farmers, they put some aside that will see them through the harsh years. That is certainly how Murray Irrigation has to operate our business. We don't have a risk product that we apply to our farmers' costs. We manage our business recognising that it is volatile and that we have had the boom and bust cycles.

We had grown accustomed to WaterNSW - formerly State Water - having a form of a risk mitigation through IPART's volatility allowance and then the ACCC's unders and overs mechanism, but we certainly do not see the need for two risk mitigation products.

The unders and overs mechanism provides a level of security to users in that when there is a good year, some of that can come back by way of the mechanism and reduce prices in the following year. I don't feel that there is enough information as yet regarding the risk transfer product to be able to make an informed statement on that. Suffice to say that I believe that IPART should choose one or the other and not both. Thank you.

THE CHAIR: Thanks, Perin. Chris?

MR MAGNER: With the North Coast, we have been given a nil issue on allowance. However, in principle, I have a fundamental problem with having those charges across anywhere, purely because I don't know that they warrant even being considered when the organisation already has a fallback position - if they have a shortfall, they go back to the shareholder. Therefore, why have those costs imposed unless it is being driven by the shareholder?

With regard to the 80:20, the Toonumbar people, when we put it to them, wanted to stay on the 60:40 that they have been on for a number of years, which is different to the 40:60 that most of the rest of the state is on.

I would not chuck the 80:20 out of the toolbox that we may need that to resolve some of the issues with the North and South Coast. That is nothing to do with volatility allowance; it is to do with is it going to be something that we can utilise to get a better outcome? Therefore, I would leave 80:20 in the discussions as we go through trying to resolve the issues of Toonumbar, notwithstanding that the Toonumbar people have stuck their hands up and said, "No, we want to have 60:40."

I understand where they are coming from and support them in that; however, I am concerned that we have to address a lot of issues in trying to resolve the Toonumbar and Brogo problems, so I would keep it in the discussions.

THE CHAIR: Thank you, Chris. Fleur, would you like to add to that?

MS TONGE: Yes, just very briefly, because I agree with what all the other speakers have said.

From the Toonumbar Dam perspective, it smacks to us of a lack of understanding or willingness to work with the customers. I know both Davids spoke this morning of working much more closely with customers, but it is very easy just to bring in something that will mitigate their own risk and put the costs straight back to the customers. In this situation, with them being a monopoly, it is even easier to do so.

Thinking of what has happened with Toonumbar, State Water, in the 2010 Determination, actually put forward that we should have had a 2,000 per cent increase in our cost of water at that particular time. That still rings loud in our ears when we think of this idea of being customer focused. Even now, with the sort of levels which it has been suggested we should be looking at, we think that comes from a base of a lack of customer focus. So this whole idea of mitigating their risk through putting more expenses on to the customers just says to us that there is still this lack of actual customer focus.

THE CHAIR: Thank you, Fleur. Steve?

MR GUTHREY: I missed part of the discussion and I apologise, but I agree with Fleur really. I think this idea of volatility risk management stuff is a pretty important thing to be looked at and discussed --

THE CHAIRMAN: Can you just turn your microphone on.

MR GUTHREY: I am sorry. I missed part of the conversation, so I will just make a small comment about the volatility stuff. For a dam like the Brogo Dam, it doesn't really apply at this stage. It is only when you have full cost recovery that it probably comes into account. To transfer all the risk onto customers, as Fleur says, that just doesn't happen in other businesses. That is my comment.

THE CHAIR: Thank you, Steve. Richard, would you like to comment on that?

MR PARBERY: Thanks, Catherine. I find it ridiculous. We are all in business. We are representing farmers. We live in risk. My accounting business lives in risk. If I don't perform, I go broke. To take most of the risk out of this organisation and put that straight back onto the farming community makes absolutely no sense. Notwithstanding what Chris said, in terms of the dams, it is an open book. We don't know where to go at the moment except we know we can't get full cost recovery, but with regards to everyone else and expecting people pick that up, I find that absolutely amazing.

THE CHAIR: Thank you, Richard. Bob?

MR DOYLE: Thank you for that. With the Hunter, we elected quite a few years ago to go to 60:40. We did it from a customer perspective for a few reasons. The first one was so we could achieve cost recovery sooner. The 40:60 was sending the wrong water use signals to customers. The 60:40 better reflected the fact that we had a lot of sleepers in our system and it was seen to be fairer.

We have had a chance to completely review that again, and we’ve just done that. I will just summarise the state of the different players.

We have elected to stay with 60:40. The power stations' preference is significantly 60:40. We actually thought they would go 80:20. The reason for them staying with 60:40 is that it actually improved their water security as opposed to going to 80:20, and I can go into more detail on that if you want.

The coal mines are quite significant water holders. There are two levels to that - they have a significant amount of water that is in agriculture, but then they also have water that is used for mining. Their preference was 40:60. That is primarily because, with the coal mines, they only really use water for a very short number of years when it is quite dry. In most years, they have very low water use.

The irrigators is a bit of a mixed view, but their overall position was 60:40 was the best. Obviously the higher the water user, the more this was going to be beneficial, but across the board there has been a very clear position that we stay on 60:40.

Hunter Water - not really much of an impact. They just went with the flow and were happy with 60:40. One of the reasons why it works on the Hunter is because we have a very high level of security. There is only really one year in 20 that would be less than 100 per cent allocation. The Paterson River has always been 100 per cent allocation, so it does give it a good balance.

For the North and South Coast, I think part of the problem in assessing this is there is a great misunderstanding on what it actually means - what a fixed ratio of 60 to usage of 40 means. On the North Coast, they are 60 per cent fixed, 40 per cent usage, and the price is $9 to $45. At the superficial level it just does not add up.

There is a very poor understanding of how the ratios that are elected are converted into the dollars. I think that is part of the problem as to why people come to this position of electing a number. South Coast guys have said to stay with 40:60, the North Coast have said to stay with 60:40. I think there needs to be a fair bit of time spent understanding how the actual calculator works.

I am not sure whether it is appropriate to say this here now, but I think there actually needs to be another level of pricing built into it on the North and South Coast in particular where you have a minimum charge because there is a significant number of licence holders with very low entitlements, and they are part of the costs. When you look at the overall costs of metering and reporting, they lead to a significant amount of operational costs.

The outcome of the current arrangement with all those sleepers, effectively, is a very high usage price which is sending the wrong signal. We have dams that are completely under-utilised. We need to sell more water and the current pricing mechanism is reducing water usage and the signals are all the wrong way.

THE CHAIR: Chris, did you want to say something to follow on?

MR MAGNER: Yes, thanks, just a quick comment to follow up on Bob, who made a very good point there.

With the 40 per cent that is currently deemed to be the usage component, when you take the averaging over the 20 years, it gets down to an average of 9 per cent that is being used, so all of that 40 per cent is weighted over 9 per cent of the allocation. That is what pushes the price up, so it is the formula that they use and then we go from that average. If we did happen to have a usage year where everything was used, which is very unlikely at the moment, the extra income out of it would be absolutely phenomenal.

The formula that is currently used is the problem because of the weighting. That is why I said earlier don't chuck out the 80:20 because we may need to look at it. Thank you.

THE CHAIR: Thanks, Chris.

WaterNSW, can you respond to some of those comments? In particular we would also like to understand if, going forward, customer engagement and customer choice is one of your aims, how would you go about managing different requirements in different valleys as far as the split that they want?

MR HARRIS: Thanks, Madam Chair. In relation to the risk transfer product, right from the get-go, with this issue, we have been apart with our customers from the very first CSC Reference Group meeting back in November. I think, from our perspective, we set out quite clearly in our pricing proposal the reasons why we have sought that revenue volatility product. I do not propose to ventilate all of those arguments again.

There are a couple of things, though, that are more in the nature of factual comments that I would make, given the comments that have just been made.

First of all, the RTP is not taking all risk out of our revenues. The RTP is set to bring us to an 80:20

fixed:variable. We are still subject to variability of about 20 per cent.

Secondly, Stefanie, amongst others, asked for more transparency of the actual costs and actual revenues. There is no better indicator of that than to say that the current UOM balance is negative $19 million and that has accrued only over the last two years. So two years of our regulated revenue that we were entitled to under the current determination, we have not received, and that is the current balance of that UOM account.

Perin and a number of other speakers have said that they don't see the need for two products. The graph that we showed here today - which, by the way, is a graph that we have used on more than one occasion in our CSC Reference Group - demonstrates unequivocally that the UOM and the RTP do not overlap.

In relation to Perin's suggestion that IPART should decide either the UOM or the RTP, I would also say that WaterNSW does not support that position. The UOM is a matter of customer choice and we respect that. We don't see that as an either/or. The RTP should stand on its own and either get up or fall on its own. Customers have chosen the UOM for benefits that they believe it delivers and we would not support an either/or approach to those two.

Can I also say too, to be very clear about it, the price for the risk transfer product that we have included in our pricing determination assumes that the UOM is in place. Obviously if that UOM were not to be replaced, the price of that risk transfer product would go up.

I have two other comments. We absolutely agree there is a continuing educative function in terms of tariff structures and actually, to be really honest, water regulation generally. We respect the choice that our customers have made in this particular round, but we agree absolutely to continue that educative process, and we will.

I think, possibly more for completeness than anything else, there was one point in Chris's slide that has not been raised in this forum but was raised in the Moree forum. I would like to refer to that and to restate the response that we gave at Moree. That was a move to forecast water sales.

I think it is fair to say both us and our customers would like to move to a mechanism where prices are set based on some sort of forecast of water sales rather than looking back over a 20-year period of record.

We need to consult with our customers over the next while to work out how that forecast would be done and how we might do it. The suggestion in a couple of submissions in this regard was that those forecasts would be based on the IQQM model. WaterNSW does not have access to that model, so we are not able to refer to that or use that to set forecast water sales. However, that is a matter that we will be taking up with our customers over the next determination of the UOM.

Finally, Madam Chair, in relation to your question, one of the things again - and you were there - that came out strongly in the Moree session, and it came out generally in our customer consultation through the CSCs and their reference group, was that customers do want us to move to individual choice. They do want us to move to individual products, customer contract-based products, so that, on an individual basis, they can get a product that best meets their needs and is not necessarily, if you like, a socialised sort of outcome based on valley or large user or small users or whatever.

We have consistently said two things about that. Unfortunately, our IT systems do not allow that at the moment but we are working to be ready for that by the time of our 2020-21 pricing determination. Clearly the second thing - and we will need to spend time with our customers getting to that point - is to ensure, if we have a series of individually tailored products that we offer to our customers, that those products do not introduce third-party impacts to other customers.

I think that is a very clear goal. I think it is very strongly supported by our customers in a number of submissions, and it was also raised at Moree. We just need again some time to work through that properly so we can do that properly without unintended consequences.

THE CHAIR: Thanks, David. Matt, from the secretariat, has a question.

MR EDGERTON: Matt Edgerton, from the IPART secretariat. I have a question for WaterNSW. Under your current 40:60 price structure, the UOM applies to the 60 per cent of revenue that is at risk. Yet with an RTP only 20 per cent will effectively be at risk. Can you tell us a little bit more about how you see both interacting and is there a potential for over-recovery or double counting?

MS BAKER: Thanks Matt. As David mentioned before, the way that we sought a product from the market with regards to RTP is based on the assumption as elected by customers that the UOM is in place. So the RTP product takes the post-UOM revenues received to WaterNSW and essentially swaps them out to replicate an 80:20 structure. In that way one sits on top of the other; they don't overlap.

We, in seeking that quote from the market, will pay the actual revenues received by us and receive the 80 per cent equivalent of the notional revenue that you set, so, in the way that the product is structured, there is no ability to double-dip or over-recover from that product being in place.

I suppose, as a matter of clarity, the RTP is a financial product, if you like, that reduces our revenue volatility so that we can essentially not have to spend as much management time managing our financial risk as well as all the other sorts of costs that arise from increased financial volatility. However, other than the premium, it doesn't affect what customers pay. Customers will continue to pay either bills with or without the RTP price adjustment depending on what customers elect.

The RTP does not then affect what customers pay. It is a financial instrument between WaterNSW and a third-party provider essentially which mitigates our financial risk - not entirely, as David said before, but to replicate an 80:20 price structure.

At the moment, yes, we have sought in the market for that product to be based on post-UOM revenue. If we take the UOM away, if customers elect for that, then that product price and negotiation will change to reflect that.

THE CHAIR: Thanks, Elli. So does that mean that if a user chooses 70:30, they will have a smaller premium because it is less risk? Is that right?

MS BAKER: Yes, but the complication is until we get the pricing from the market, if a particular valley does elect to come out, we don't know how that risk will be reallocated and what price impact that will have until we get some firm prices from the market.

The allowance for the cost of that product in our determination was based on the fixed variable tariffs as per the submission - ie, all of the valleys have chosen less than 80:20, being on whatever those ratios are. If the Lachlan should decide to move to 80:20, and that then means we do not have an RTP product over that valley's revenues, until we get the pricing from the market, we are yet to really understand how that will then impact the remaining RTP price for the other valleys. I think it was mentioned in Moree as well that you do get some diversification of the revenues across the greater spread of valleys.

THE CHAIR: Does that mean that there is a cut-off time for when the valleys have to let you know what they would like for this determination?

MS BAKER: Yes, we have not given valleys - sorry, I am looking at David for his consultation with customers. We have not given them a firm cut-off --

MR STOCKLER: As part of the consultation process leading into our formal submission, customers made a nomination that, at this point, this process does not necessarily allow. We remain open to customers feeding back whatever they might want that we are able to offer at any time.

THE CHAIR: We might have to discuss this further offline just to make sure that if there is going to be some sort of time in that, we can consider it when we are looking at the pricing.

MS BAKER: I think that, from our perspective, there is time yet, but as we get towards probably the beginning of next year, we will need to start to firm things up probably in time for the Draft Determination.

MR HARRIS: To be clear about that, we are expecting that quote from the market shortly, within the space of weeks not months. We have the next round of CSCs locked in for February. We will consult during that next round of CSC meetings at that time.

THE CHAIR: Thank you. Bob, did you want to say something?

MR DOYLE: I want to make a comment about the individualised products being offered to customers. I can't recall the exact meeting where we might have had some of this discussion. It may have been a chairs' meeting or a CSC Reference Group meeting.

My recollection is there was a concern expressed about having these individualised products and discussions with major customers and that it would impact on the effectiveness of the CSC process.

I don't recall whether we actually had that discussion specifically within our coastal valley CSC, but one of the significant powers of the current system of the CSC meeting structure is that all the customers come and are able to put forward their position. In the main, we nearly always finish up with a good compromise.

The specifics of it are there was one term when the coastal valleys did not have MacGen, which is now called AGL. The power station withdrew from the CSC process. I am not sure of the actual terms, but certainly it was in the year 2007, which was the big drought in the Hunter. We were about to head down the path of having major water restrictions which were going to impact on power generation. One of the outcomes of that was MacGen then rejoined the CSC. So a group like MacGen/AGL do have the power to negotiate individually.

If you go too far down this path of individualised products, it will take away from some of the effectiveness of the CSC process. For us on the coast, where we are less organised structurally, with our customer base - our customers in the main are very small; we don't have the resources that many of the other irrigator water user groups have - it would be a problem for us. I would, therefore, have a little bit of concern about heading down that path of individualised products and our ability to consult and discuss the issues with all of the customers present at the same time. Thank you.

THE CHAIR: Thanks Bob. One more from WaterNSW?

MR STOCKLER: Thanks, Madam Chair. I would like to clarify that the subject of customer choice is not exclusive to the CSC. It was certainly discussed at every CSC as part of leading up to this submission by virtue of the different tariff splits - that is, customer choice currently at a value level is what was being discussed.

The CSCs remain, and will remain, an important channel to engage with our customers, but by no means are they the only channel. We as a business; if we are going to be customer centric, need to engage more and across more mediums in the future not solely at the CSC level.

THE CHAIR: Thanks, David. Before we have a break, would anyone from the audience like to make a comment on these matters? No?

We are running a little over time. We will now have a break and we will resume in 25 minutes, so that will take us to 12.40. We will talk in session three about the Border Rivers Commission and the Murray-Darling Basin authority costs and cost recovery.

LUNCHEON ADJOURNMENT

UPON RESUMPTION

THE CHAIR: Welcome back, everyone. I hope you enjoyed your lunch. We are going to continue our public forum for IPART's review of prices for WaterNSW 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 cost recovery.

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

A reminder that today's forum is being recorded by our transcriber. Therefore, to assist, I ask that on each occasion that you speak to please identify yourself and your organisation before speaking. I also ask that you speak clearly and loudly.

I now call on John Madden from the IPART secretariat to introduce the discussion on BRC and MDBA costs. Thanks, John.

SESSION 3: Border Rivers Commission (BRC)/Murray-Darling Basin Authority (MDBA) costs and cost recovery

MR MADDEN: Thank you, BRC and MDBA costs apply in three of the valleys where we are setting prices - so the Border Rivers and then for the MDBA costs, Murray and Murrumbidgee. The MDBA is the focus today. Up in Moree, we talked a bit more about the BRC.

The MDBA is a cross-jurisdictional body. It operates jointly owned infrastructure mainly in the Murray Valley but in the Murrumbidgee as well.

WaterNSW has included the MDBA costs as uncontrollable costs and they have been advised the level of those costs and contributions by DPI Water. A letter advising those costs was included in our Issues Paper. WaterNSW has proposed that those costs be passed through to the relevant customers.

There is a change which we will talk about, which is changing the price structure from a fixed:variable to an entirely fixed charge.

Under the ACCC and the Water Charge Infrastructure Rules in 2014, the ACCC determined that these costs are a regulatory requirement and should be passed on, as stipulated by the treasurer, to WaterNSW. The proposed cost is a user share of $59 million over the determination period, which averages over four years about $14.7 million per year. The annual user share has increased by 13 per cent compared to the level set by the ACCC Decision for the last three years.

I mentioned briefly the change in structure. There is also another adjustment made. As a result of that change to the fixed charge, there is an adjustment to the high security premium to avoid bill shocks.

Here we have the graphic representation of the historic costs that were allowed and also those that were actually collected from users versus then the proposed MDBA costs going forward over the next four years. You can see the lift, particularly in 2017-18, then dropping back down - as we have said before, an increase compared to the last decision by the ACCC.

This is the effect on charges in the Murrumbidgee Valley and the Murray Valley. We have there the actual MDBA charge for each valley in the first column. We see the usage price dropping by 100 per cent, which reflects the change in structure to an entirely fixed charge. Then we see the charge for the high security and general security, and then the final charge which basically includes the WaterNSW costs and proposed prices, plus the MDBA cost pass-through.

The costs outlined by DPI Water are based on the MDBA joint venture costs across its whole joint venture and then there is a share allocated to New South Wales. Those costs are based on the MDBA corporate plan. There is one year of proposed costs, which are based on the previous year. It is the final year of the determination period of four years, because the plan does not go out to that year.

Turning to our preliminary position, at this stage we do not have a direction from the treasurer to WaterNSW that has actually been provided to WaterNSW. After the MDBA provided, I guess, a positive reply in their submission to working with IPART to review the basis of these costs, we are looking at the prudence and efficiency of the proposed MDBA costs and the BRC costs. We are hoping that this figure will then be provided in our Draft Report and taken into account by the treasurer in any direction to WaterNSW.

I would note that the treasurer may or may not take those costs into account, so the direction might be the original amount, the amount recommended or arrived at in our Draft Report, or another amount as seen fit.

We have some questions.

Are the proposed costs efficient, and the user share component of those costs, in particular?

How should those costs be recovered from water users?
Is the adjustment to the high security premium as part of that price structure change reasonable?

We have Andrew Reynolds from the MDBA, who has agreed to come along today and potentially can give us some overview of the corporate planning process and the information that they then provided to DPI Water to use as the basis of their advice.

THE CHAIR: Thank you, John. Thank you, Andrew, for sitting here so patiently. You can go first on this session, thanks.

MR REYNOLDS: Thank you. Andrew Reynolds from the MDBA.

I thought I would give a quick overview of how our corporate planning process works, how the cost base is then determined and how that is apportioned to states. The MDBA program is a joint venture, or the joint venture component, which is at least in these costs is a joint venture of four government - the Commonwealth Government, and those of Victoria, New South Wales and South Australia. Queensland and the ACT have a very, very small part in that but their costs are immaterial.

MDBA is effectively the agent of that joint venture. We would say we are implementing a program on behalf of those governments. Our corporate planning process or the development of our program is an annual process. Each year we develop up a corporate plan for the current financial year, with a three to four-year outlook. Governments only commit to that first year of the plan. Unlike this process where you have a pricing determination over the period of time, the MDBA joint venture program is done on an annual basis.

The way it works is we have constructing authorities in each of the three states who deliver the program on the ground. They use their systems and processes with which they deliver the rest of their business to deliver the joint venture program. In New South Wales, it is WaterNSW as well as DPI Water who deliver a small component of the program. In Victoria, it is Goulburn-Murray Water, and in South Australia it is SA Water.

Each year those agencies bring forward to the MDBA a program of works that they believe is required to operate, maintain and renew the asset portfolio that they are responsible for. The MDBA takes that information, aggregates it, makes assessments around the prudence and efficiency of it, works with the constructing authorities to refine that program and ultimately takes it through a governance process of governments for approval by ministerial council, which comprises the water ministers of each of those governments. They eventually approve our program of works which the constructing authorities are then tasked to deliver.

In terms of the cost recovery of that process, each of the states and the Commonwealth Government are responsible for a share of the costs. The Commonwealth picks up 25 per cent of all capital - effectively capital; it's called investigation and construction, but it is effectively capital expenditure - and the balance is shared between the other three states.

The basis of that sharing is quite complicated. There is some information on our website about exactly how that works, but it is based on the program mix. It is a combination of entitlements held in a state and the five-year rolling average of water deliveries or water consumption in that state as well as, for some components of the program, a local beneficiary component. For instance, where we have lots of weirs that would effectively provide a navigation benefit but do not contribute to water supply, then the state in which they are located picks up the first 50 per cent of that cost and then the balance is shared between the other partners.

Through that process there is an annual program of works, an annual cost base. There is a cost share arrangement which allocates those shares to governments. The governments are then responsible for meeting that payment to the MDBA. At that point, governments can make the decision about how they will recover those costs from users, what portion of costs they recover and how much.

MDBA is not involved in that process. We do not influence it and we do not really contribute to it. It is important to understand that New South Wales funds a component of the whole River Murray system program. Works that happen at Dartmouth Dam and Hume Dam but also in South Australia and at the barrages, New South Wales funds a part of that. The New South Wales Government determines how they recover that share of the MDBA program from users.

In terms of the efficiency and prudency side of the program, there is a role for the MDBA - that is, the role we play on behalf of each of the governments to make sure that the aggregated program that is brought forward is a reasonable and effective program. We oversee the delivery to make sure that each of the constructing authorities is delivering in an efficient way. We make judgments or assessments of the relative risk profiles and priorities of works across each of the states to make sure that the investments are appropriate across the whole program and we are not over-investing in one area and not investing in another.

There has been a series of reviews over time with that because the question of efficiency comes up quite regularly. The last one was done in 2014. It was commissioned by the governments who were funding that program and were concerned or wanted evidence that the program was efficient. It was done in much the same way that IPART is doing this review on WaterNSW. There was a team of consultants engaged who looked at the prudency and efficiency of the program. They built a building-blocks model of our cost base to assess that and did some benchmarking of the program against other like programs for water authorities across the country.

The upshot of that was the conclusion that the program was reasonable, and with the cost base to maintain the $4 billion asset base, the costs were in the order of $70 million a year.

I guess the other point to note is that the program is funded on an annual basis. Capital is funded in the year that it is incurred, in effect. We do not have a regulated asset base like many water authorities do. When there is a large project to be delivered, governments need to fund that at the time that that expenditure is incurred.

I think that is probably enough on the basis of how our program comes together. As I said, the development of the program and the cost base is part of what the MDBA does. The cost of recovery and how it flows through the pricing in WaterNSW is a matter for the New South Wales Government.

THE CHAIR: That was helpful, thanks, Andrew. Perin, would you like to respond?

MS DAVEY: Yes, I would. Thank you very much for that overview, Andrew. It is appreciated.

We acknowledge that in 2014 that efficiency review was conducted. However, unlike the way IPART conducts their reviews, there was no public consultation process. There was no opportunity for end users to have a look at the submissions you had made or the consultants' building-block evaluations. All we had access to was the final reports.

I note that one of the recommendations from those reports was that the MDBA should conduct further consultation with end users to end this continuous sort of merry-go-round of "We don't know what we're paying for." I acknowledge it is also on the part of the contributing government. If they would allow further openness and transparency into the prices, then we probably would not be coming with the same arguments year after year whenever we have pricing determinations.

The New South Wales Murray funds a significant proportion of the MDBA charges in New South Wales. We acknowledge that that is due to the fact that we rely on the infrastructure. However, as you noted, the constructing authorities operate that infrastructure and there is a lot of concern, due to the lack of transparency, that it is a money cycle and a churn of money whereby the MDBA tells the government how much they need. The government says to WaterNSW, "We need this much money to pay the MDBA." The MDBA then says to WaterNSW, "Operate the system like this." WaterNSW says, "Here's our invoice", and it all goes around in a big circle.

There is concern that there is duplication in processes, and we commend IPART for committing to undertake this review. We acknowledge that the New South Wales treasury may or may not take on board any recommendations that IPART make, but we do look forward to having another set of eyes look at the relationship between the constructing authority in New South Wales and the MDBA and the MDBA's corporate plan and how they come to determine what portion of those costs are passed on to irrigators.

We would also urge you to have a very close look at the user share component. As I have mentioned earlier, a lot of the infrastructure in the Murray system is now being operated with a priority for the environment first. This managing of environmental flows through the system is having an impact on the river system, including negative impacts in areas such as the Barmah Choke, and how the system is operated.

There needs to be more consideration of the user shares and what portion should be government funded because a lot of the river operation now is to deliver on policy that was explained and sold as being for the national good. We look forward to that review. Hopefully also New South Wales treasury will accept any recommendation about cost shares or efficiency dividends, which I know IPART did apply in 2010.

Really the concern of irrigators is the lack of transparency. Murray Irrigation has just taken a rather drastic step under the current billing cycle where we have alerted WaterNSW that we are withholding the MDBA portion of our invoice until such time as we can have further clarity on how those costs are determined, what they are applied to and what services they cover. We have done that so that we can have more confidence that there is not just a cycle of money churning and that there is no inadvertent cross-subsidisation between the organisations and also between water users and other users of the river infrastructure. We look forward to the response from WaterNSW on that.

We have been asking through pricing determinations for the last, I think, three determinations for more transparency into MDBA charges. We appreciate the efficiency review was conducted; however, the lack of opportunity for public scrutiny in that process has not satisfied my board nor has it satisfied many of the irrigators in our region. So we are taking this step to try and give a bit of impetus to the fact that this is of grave concern. Thank you.

THE CHAIR: Thank you, Perin. Stefanie, would you like to add to that?

MS SCHULTE: Yes. First of all, I would like to agree, of course, with the points that Perin raised. I think, overall, reiterating the concerns around transparency in the New South Wales Murray, that is also reflected in the New South Wales Murrumbidgee Valley as well. Our valley members have raised concerns about the transparency of those charges and that there is a lack of regulatory oversight of those charges in line with the other costs for WaterNSW.

A point I think to add is that New South Wales irrigators pay for Murray-Darling Basin Authority activities, not just for WaterNSW itself but also through DPI Water. We have just had the determination of that in June this year. We are very dissatisfied that those costs have been passed through at the last determination at a very late stage for $10 million in the New South Wales Murray on average and $2.2 million in the New South Wales Murrumbidgee.

As John has just outlined, the significant spike in 2017-18 of $18 million is a significant jump. The New South Wales Murray and Murrumbidgee MDBA costs are the biggest component of irrigators' water charges in those valleys, so it is a significant chunk.

We do appreciate IPART having a look at it. We do hope IPART can conduct this efficiency review of MDBA costs in the New South Wales Murray and Murrumbidgee and that it is not instructed by the New South Wales Government just to simply pass through those costs.

The final point I would like to make in this regard - this has been outlined by Andrew - is that the contributions made from the states are being determined on a yearly basis. However, we will be stuck with a four-year price determination on 1 July next year. The charges that irrigators will pay for the Murray-Darling Basin Authority through WaterNSW will be fixed over that four-year time frame whilst the negotiation around what will actually be contributed by the New South Wales Government is determined on a year-to-year basis.

This is of significant concern and it has also been a concern over previous years where the New South Wales Government took a stand of actually reducing its contribution to the MDBA. This has not flown through to irrigators in the New South Wales Murray and Murrumbidgee who have still paid those charges, as was determined by the last pricing determination. Thank you.

THE CHAIR: Thanks, Stefanie. Does anyone else on this side of the table want to comment?

Do we have someone from DPI in the audience that wanted to make a comment? No? Any other questions from the audience on this?

Sorry, there is one more thing from Perin.

MS DAVEY: I am sorry, I did neglect to mention previously WaterNSW's proposed recovery of the charges. With the proposal to move to 100 per cent fixed cost, while we appreciate the reasoning behind it, the actual impact on irrigators' charges will be significant. It will result in New South Wales Murray general security entitlement charges going up by 112 per cent which will not be mitigated by the reduction in user charge. Our preference would be for a continuation of the existing 40:60 tariff structure to more adequately recognise the income streams of irrigators, which are more closely reflected to water use.

THE CHAIR: Thanks, Perin. David?

MR HARRIS: To respond to that, we proposed that change on the basis that the New South Wales Government has proposed a change in how it is requiring us to pay. In other words, they are moving from a fixed:variable arrangement to a 100 per cent fixed. As with the costs themselves, we are simply passing those terms through to the people who we have to collect that charge from.

THE CHAIR: Has the Government indicated whether there was any opportunity if this change in costs based on this annual negotiation happens that that would be arranged with you or not?

MR HARRIS: No. This is the point that Stefanie was making before; namely, IPART is being asked to lock in, as it were, four future years of expenditure when the governments go through that process on an annual basis. There is a gap now and that gap is being realised as we move into the 2017-18 year, and that is the point that Stefanie was making. But, no, there have been no discussions with us about that.

THE CHAIR: Thank you. John has a question.

MR MADDEN: Just for the sake of clarity, the direction at the moment, does that instruct you to pass through what you collected using the price structure or is it a fixed amount under the current Decision?

MR HARRIS: So we have been given - I do not know how it is best described - not a formal direction, but we have been given a letter seeking us to recover those total amounts in each of the four --

MR MADDEN: No, I am sorry, on the current level that is in force now under the ACCC Decision and the regulatory requirements, do you pass through what you collect or a fixed amount?

MR HARRIS: I think what I have just been advised is the current determination is a fixed tariff arrangement. The determination before that was a fixed:variable arrangement and State Water, and now WaterNSW, over the term of the current determination, did not change to that fixed arrangement - am I making sense - one determination ago.

MR MADDEN: The question really is what has changed the price structure proposal that you have proposed, ie, at the moment what you pass on to government, is it what you actually collect or is it a fixed amount?

MR HARRIS: As at two determinations ago, we had a fixed:variable payment structure back to the New South Wales Government. That changed in 2014 where that became a 100 per cent fixed charge. For whatever reason at the time, State Water did not revert to a 100 per cent fixed charge. It continued the 40:60 collection, even though it was paying out 100 per cent. We are proposing, at this point now, to move to that 100 per cent fixed charge to reflect actually what we have been paying in the last four years, and the government is proposing how we pay in the determination period under consideration.

THE CHAIR: Thanks, David. We are going to move on to cost recovery now. Sorry, Chris has one more thing.

MR MAGNER: After listening to David's answer, could I ask David: there would have been a shortfall somewhere in that previous determination and where was that? Was that spread across everywhere? Was it dealt with in some way or --

MS BAKER: I think the answer is about whether we under-recover year to year at the moment with the MDBA charges but we have a fixed amount we pay back to government.

MR MAGNER: Yes.

MS BAKER: At the moment there is a UOM, if you like, on the MDBA recovery charges, but it is different to the UOM across the rest of WaterNSW's charges, where if we needed to pay $12 million in a year back to government for MDBA charges and we recovered $10 million, then the next year we add that $2 million that we didn't get to the charges. So there is a UOM but it is different in operation to the UOM of the WaterNSW charges, which is just a holding cost.

MR MAGNER: So the rest of us are not wearing it?

MS BAKER: We do recover 100 per cent of the charges from users - I am sorry, with other valleys, no, there's no cross-subsidisation.

THE CHAIR: So cost recovery, I call on Scott Chapman from the IPART secretariat to introduce this discussion. Thanks, Scott.

MR CHAPMAN: I know we have tossed this around a little bit already, but we will now expand on it and have a formal discussion on cost recovery.

Essentially, we typically aim to set prices that fully recover the user share of WaterNSW's efficient costs in each valley. Two of those valleys - one in the North Coast and South Coast - are well below full cost recovery.

In our 2010 Determination, and also in the ACCC's 2014 decision, price increases were capped on these valleys at 10 per cent per annum. Because of that, the government has essentially borne the shortfall of those costs between the revenue raised. What we judged, and what the ACCC judged, were the efficient costs attributed to users, the government has picked up as a community service obligation.

In its proposal, WaterNSW has again proposed to maintain that approach from the previous two decisions -

that is, capping price increases at 10 per cent per year in both North Coast and South Coast valleys. This would still lead to an under-recovery of the proposed efficient costs. The revenue raised from those prices would cover only 12 per cent of the user share of the costs in the North Coast valley and 44 per cent in the South Coast. As such, the New South Wales Government would need to contribute around $1.2 million per year to cover the difference between the revenue raised in these valleys and the proposed efficient user share of the costs.

We are keen to pursue this process further. We have engaged some consultants to undertake a review 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 these include the North Coast and South Coast valleys.

How should the costs of providing bulk water services be recovered in valleys where full cost recovery has not been achieved?

Importantly, what principles or approaches should we use to assess the level of efficient costs of services in valleys that are well below the full cost recovery?

What principles should we use to determine prices in valleys that are well below full cost recovery?

Essentially we are almost asking two questions there - what is the best way of assessing efficient costs in some of these areas and how should we set the prices?

THE CHAIR: Thank you, Scott. Would you like to start on this one, Steve?

MR GUTHREY: Yes, thank you very much. The North Coast valleys and South Coast valley are unique really in the whole scheme of things. We know we are never going to get full cost recovery. The cost of running the dams goes up, and if we keep going at the 10 per cent, we will never catch up with the cost of running those dams.

We would like to think that we could get the full cost recovery one day but that will never happen, so it is a bit of an issue when you start thinking about, "How are we going to go about recovering some of those costs?" There has to be a balance so that the irrigators keep using the water. There has to be a pricing balance where irrigators keep using the water and the government has to subsidise the use of that water with a community service obligation.

I do not really have any answers to that. It is something that we are looking for IPART to help us understand where the price points are and to understand what we can do in the future. But if we keep raising the prices as they have been raised over the last two determinations, as we have been saying over the last two determinations, there will be some point where irrigators will stop using water.

In saying all that, I can't answer the question. Maybe someone else would like to comment on that, but I will just leave my comments there for the moment. Thank you.

THE CHAIR: Thanks, Steve. Richard, would you like to add to that?

MR PARBERY: Thanks, Catherine. I was talking to Hugo at lunchtime. Brogo Dam is like going back to Deliverance country. Did anyone ever see that movie where the man pulled out his bow and arrow and shot the lad who was doing the wrong thing?

The dam is used extensively by the community. It is quite idyllic. It goes back up into the hills and the bush comes down to the dam itself. People get a lot of pleasure out there. They can take their families out there. It has boat ramps. It does get a lot of community use.

As I said this morning, again we have the issue of 14,000 megalitres issued, a 9,000 dam, with 2,000 locked in for the towns of Cobargo, Bermagui and Quaama. Our cost recovery is absolutely impossible. If we do not protect our farmers at some level, the community contribution will be 100 per cent. As I said this morning, in terms of the tax depreciation, which I was also talking to Hugo about, people are changing their habits because they have been forced out by pricing.

We have generous allocations, as I said, for upgrading infrastructure on irrigation - 100 per cent deductions. Most of my farmer clients need to do that, but they have no courage to do that because they are very aware that WaterNSW is going for full cost recovery.

I have spoken to David Stockler in regards to this. I assume, and I think through Hugo, we probably can get this. I would like to have a full look at a full profit and loss account or income expenditure account or comprehensive income account, whichever you would like to call it on the accounting standards, on the running costs of that dam to June 2016. I would like to see a full comprehensive budget including capital expenditure for that dam.

When I say "full", I would like to see the operating costs. WaterNSW is a huge organisation. Those figures would be available and I would like to see them, if I have the right to, subject to IPART through our Bega Cheese governance.

I am aware of silly things that are occurring - a guy drives from Deniliquin, from thousands and thousands of kilometres away, to read our meters. That is only small, but I would hate to think that the rest of the organisation to have the same inefficiency. I said, "Who are you? Where do you come from?" "Deni. Great spot." It's the other side of the world.

I think that does need analysis. We need to look at that expenditure, but that will still not solve the issues of cost recovery. We cannot get there, especially since now we have the towns which will get priority. We will go through droughts again and those 2,000 megs will be locked up. That is why we suggested in our submissions that maybe we can go right back to the drawing board on this. We can look at the alternatives, look for the community service obligations, look to the towns, maybe, that have now tied up 2,000 megs of water, which is a very large percentage of the dam and limits us as irrigators. There just needs to be an open book and we need to go back and look at it all again. Thank you.

THE CHAIR: Thank you, Richard. Bob?

MR DOYLE: Thanks, Catherine. I think we have to ask the fundamental question, which is: what are we aiming to achieve in this process? We are wanting to get water at a long-term sustainable price so it can be used by WaterNSW customers. I think we have to take a much more holistic approach to this. We have to think a lot broader than just

WaterNSW and IPART. It is much, much bigger than just this process.

I compliment WaterNSW on the commencement of the pilot project on the North Coast and the commitment then with the test of that pilot to move that pilot down to the South Coast. From my perspective, it is not moving fast enough.

The other thing in terms of talking about the holistic approach to it is who has responsibility? WaterNSW has a responsibility and can address some of the issues by looking at levels of service, as Richard just talked about. We can look at the pricing calculator, which I think is fundamentally flawed for the North and South Coast.

Customers have a responsibility. To some degree, I look at that from the perspective of finding ways to increase water use, finding ways to increase irrigation operating efficiency so that the price of the water is affordable. That is bigger again than just WaterNSW; that is electricity, irrigation infrastructure and so on. But the signals have to be right if the farmers - the irrigators - are going to invest in infrastructure that can make that water effectively more affordable.

Then there is a whole of government responsibility here. We have talked about other users, but just within the customer base, within the whole of government, we have DPI Agriculture, who have great services to offer to this process so that we can address affordable issues and we can address infrastructure opportunities.

We need to consider the water sharing plans. All of us - on the North Coast, South Coast, right across the whole state - operate to water sharing plans. We have to question, in this particular instance, the water sharing plans. We have a line on the map that says what is regulated and unregulated. We have to look at other customers outside the existing basic customers. We just have to open up the big picture on this and everyone has to take some responsibility. It is a lot, lot bigger than just this IPART process, if we are actually going to get some fundamental change, because we have the inherent problems with our small dams. Thank you.

THE CHAIR: Thanks for that contribution, Bob. Chris?

MR MAGNER: Thank you, Catherine. I suppose we have to go back to the start to where these dams came from. On the New South Wales coast, there were three dams built in the late 1960s. There was the Brogo Dam, the Toonumbar Dam and the dam on the Paterson - all built by Minister Beale. They were put there to secure an election and get the dairy industry secure in those areas.

We have a situation now where the dairy industry has basically declined to a point where they can no longer, on their own, service the needs that the dam requires for its different functions. Back then, there was no full cost recovery. There were none of the rules that we are now working by. We have government decisions that have happened that have changed industries, changed water policy, and they have all worked in opposition to the way these dams were originally put in place.

If the dam on the Paterson had not been amalgamated into the Hunter system, and had it been in the exactly the same position that Toonumbar and Brogo are in, it would be no different - a small dam with a reduced dairy industry on it.

I know this goes against some of the different policies around the state, but we put in our submission that we should consider looking at amalgamating the coast into one pricing unit. We have seriously looked at that because if you take into account the small figures of each of those two South Coast and North Coast dams, in relation to the total figures for the whole of the coast, we don't believe that we would move pricing to any great degree at all.

In fact, while doing that, if we considered some of the other cost savings that we believe are in the system - we have outlined a number of them in our submission - and if we were to do that, we believe we could actually secure these dams, secure the usage and not get ourselves into a position where we would end up with stranded assets.

All of this seriously has to be looked at. If you take all the issues raised by both the South Coast and North Coast in their submissions, there are quite a number of them that can be addressed in a review. I believe that this round of IPART can actually sit down and seriously look at how we can achieve these goals now.

I do support the pilot process and I have been part of the instigation of the pilot process. However, to wait another four years is just too long. We can't wait four years. We will not have a Toonumbar and I doubt whether we would have a Brogo. I think we have to seriously look at how we do it. We have to come up with a mechanism of doing it and we have to do it very quickly, but we have to take into consideration all of the issues.

THE CHAIR: Thank you, Chris. Fleur?

MS TONGE: Thank you, Madam Chair. I totally agree with what Chris has just said on what we call the blended prices idea. Before I go there, I would like to just go through what Toonumbar Water Users have suggested for the second question which relate to the principles and approaches that we can use to assess the efficient costs in our valley.

We believe that currently the efficient costs of services is based on the assumption that the primary role of the dam is to provide water to the licence holders. With those figures I discussed earlier, and if you look at releases from Toonumbar Dam versus the amount sold, I think that the primary purpose of that water going from Toonumbar Dam is no longer just for the licence holders.

Unfortunately, this assumption, together with the impactor pays approach, has resulted in these totally unacceptable prices being charged for the water and, of course, a reduction in the amount of water sold. If the approach is broadened to include all the beneficiaries of the dam, the costs will be spread across a much larger group. Beneficiaries would include the environment, for the provision of environmental flow; the local community, through the provision of recreational activities and as a secure water storage for future urban growth; riparian rights users, and that is a very big user of this water; and the current licence holders.

Having established the full level of services, the efficient costs can then be reviewed against the total of these services. This approach will also encourage WaterNSW to look at other service options that could help defray costs. Currently the cost for each megalitre released is quite reasonable. While it is costing in the thousands of dollars for each megalitre sold, each megalitre released ranges from about $13 to $55 over the period of time - the seven years or so that we looked at it - suggesting that the dam is in fact efficient if all its released water is sold.

This concurs with what the other speakers were saying. These dams were built with a specific purpose. That water was meant to be sold at a reasonable cost to the irrigators, whereas the costs that have been put on to us have meant that that water is no longer viable within our operations. So we have actually had to look at alternative systems, or certainly it takes the initiative out of improving the current irrigation facilities, which mean you gradually end up being further behind in your cost benefits of irrigating.

The second thing I would like to look at is the pricing and what principles we should use to determine pricing in these valleys. Chris has touched on the idea of a blended price across coastal valleys. Toonumbar Water Users Association actually came up with a few different ideas. We didn't really come up with a best option; we just had four different suggestions to put forward.

The four principles we thought that need to be considered when determining prices include: affordability; community benefit; the water availability, so there are supply and demand principles there; and the future value of that water storage.

The first of the pricing alternatives we thought could be that price could be benchmarked against other areas where irrigation water is used in similar situations and a like product established. This would have the effect of stabilising prices and giving farmers the confidence to purchase the appropriate infrastructure for an efficient irrigation system.

A second option is the blended price which Chris has touched on. Another alternative is to base prices on the marginal cost of a group of users. What we mean here is that the general maintenance of the dam would be borne by the community while the additional costs to supply the particular users - in this case we would be thinking of the licence holders - would be charged to those users.

This idea assumes that the asset is desired for some future use and there is also a basic cost of maintaining it, but any costs above this would be payable by the users of that water, being the irrigators. It is anticipated that the resulting charges would be substantially lower than the current prices and the result would be that more water would actually be sold, so the income received by WaterNSW would actually be greater.

The fourth option is to provide the water according to what we have described as the "opportunity cost" of the water in the Richmond Valley. In our district, all other irrigation licences are on unregulated systems. The opportunity cost we have suggested would be the costs of unregulated water plus a value for the additional reliability of our water being on a controlled stream. This would be similar to the current method of pricing high security water.

This method recognises that, in the long term, farmers will relocate to areas where water is more affordable and it provides an additional value to the reliability of water sold. Currently, instead of people moving to the Toonumbar area or the Eden Creek area, which is where the Toonumbar water flows, they are actually moving away from the area, which is a crazy scenario because Toonumbar water is extremely reliable. It is more reliable than the unregulated systems, but the unregulated systems, of course, are quite affordable and in our high rainfall area there are not a lot of years when the unregulated systems let people down. They have chosen to move off a regulated system to an unregulated system because of the costs of that water. The implications of the price signals is, in the longer term, actually changing the whole course of where people locate their farms.

I will leave it at that. Thank you very much.

THE CHAIR: Thank you, Fleur. Stefanie, did you want to comment?

MS SCHULTE: Thank you, Catherine. Lots has already been said, and the NSW Irrigators' Council does have a coastal valley forum, which is made up of those people who are here today, so I do not have much to add.

I would like to say that we commend IPART for taking on this very challenging task of looking at the North and

South Coast cost issues. We have raised the issue that the coast in general is quite different to the inland valleys in terms of usage pattern and also in terms of cost pressures. We have submitted, therefore, that we would like to see a different pathway for the coastal valleys going forward.

In light of that, and as David Harris had outlined earlier, we wrote to the New South Wales Minster for Primary Industries, Lands and Water, a few weeks ago to ask the New South Wales Government for a price freeze on the coast until such time as we can have a very good look at the issues in the coastal valleys and find long-term solutions for those customers on the coast. Thank you.

THE CHAIRMAN: Thank you, Stefanie. WaterNSW did you want to comment on this?

MR HARRIS: Yes, thank you. We tend to agree with every comment that has been made. The frustration for us is exactly the same as it is for Steve and others. We do not have an answer to this question, sitting here right now.

As Chris indicated, the solution is not just going to come from WaterNSW or its customers; it will come from industry. On the North Coast in particular the local water utility is involved in that pilot program and there may be some potential there with other users, recreational users and whatever.

For that reason, as I said earlier, just to reinforce the position from the NSW Irrigators' Council, in our pricing proposal we recommend that the government maintain that subsidy to allow all of us the time to come to a sustainable long-term solution either for the valleys as a whole or the two valleys as they are currently constituted. I think that is where we are at. We would all love to be in a very different position. We would all love to have the answers here but, quite simply, none of us do.

THE CHAIR: Thanks, David. Does anyone from the audience want to make a comment on this? Yes, Melissa?

MS BALAS: I want to focus on that point. While we agree that there is no easy path here and a need to identify some solutions, I commend the North Coast on at least coming up with some ideas and it is something that we need to explore.

Can I really emphasise that the time to actually do something is now. We can't wait another four years. From the Bega Cheese perspective, we have 37 to 40 per cent of our milk supply coming from the farmers on the Brogo. There were 18 farmers. Two have already dropped out on using the water, so we only have 16 current users. We really need milk supplier security for the viability of the industry on the Far South Coast and certainly to support the economics of the factories that Bega Cheese has built in the Bega region. We employ over 700 people and milk security is critical. We cannot wait another four years. We can't have another wave of farmers move out of the industry and move across to beef. We can't afford to wait.

Could I put the imperative on the leaders in that area, and to IPART, that we need to actually focus in and come up with a solution. We can't have the building up of the 10 per cent increases over the next four years because we will have more farmers drop out and we cannot afford to lose any more supply. This is critical to the viability of our communities.

THE CHAIR: Thank you, Melissa. Bob?

MR DOYLE: Thanks, Catherine. I want to make two points and they are conflicting.

The first one is wearing a Paterson River Water Users hat. On the basis of that, I can't see the Paterson River Water Users arguing against Chris and the blended price across the coast. There is no question that we on the Paterson have benefited from having being part of the Hunter. There is plenty of good reason that we can justify that, but wearing a Hunter Valley Water Users hat - Shane Gee might want to add a little bit more to this - Hunter Valley Water Users Association - the irrigators - have argued quite strongly that valley-by-valley costing is the way to go.

Historically special note has always been made of the fact that the Paterson was subsidised - the Paterson irrigators had been subsidised with their price by the Hunter. I am not so sure that the Hunter irrigators would be entirely in favour of the blended costs, but I think it is something that is well worth considering.

While historically they have had that view, there is no reason why that can't be revisited because I think one of the things that the Coastal Valleys CSC has been able to achieve is that, with the great diversity of customers that we have within the Hunter, we have nearly always been able to come up with an agreed position, even though we have had a different sort of individual stance. I think that there is a real opportunity to pursue this a bit harder just so that the guys on the North Coast and South Coast can actually break that cycle.

What Melissa said is the most critical bit - the irrigators on the North Coast and the South Coast just can't wait another four years to commence this process. It will be too late. Thank you.

THE CHAIR: Thanks very much, everyone. We hear you on that one and we are going to do our very best to come up with some alternative solutions for this area.

We will move on to our final session now - other issues. The purpose of this fourth session is to discuss other issues related to the price review and other prices we set for WaterNSW, such as meter service charges and irrigation corporation discounts. This session also provides the opportunity to hear your views on any other issues that are relevant to this review of WaterNSW prices for rural bulk water services.

Our Issues Paper identified a range of questions that we are seeking views on. We cannot cover all those issues in detail today; however, we have identified some issues for discussion and welcome discussion on any other issues that are relevant to stakeholders that have not covered following that session.

I now call on Elina Gilbourd from IPART'S secretariat to introduce the discussion on WaterNSW's other prices and issues. Thanks Elina.

SESSION 4: Other issues (eg, meter services and miscellaneous charges)

MS GILBOURD: Thanks, Catherine. In this session, we will look at other charges proposed by WaterNSW. They have proposed a number of other charges, which include the meter service charges which generally apply to new meters installed under the New South Wales metering scheme.

WaterNSW proposes to continue to levy these charges to cover its maintenance and admin costs. They propose imposing 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 by meter size.

Under the new approach, prices will generally increase within the four-year determination period by up to 35 per cent and we have asked our expenditure review consultant to assess these charges.

Currently WaterNSW does not levy a separate charge for meter reading and water use assessment costs as these costs are recovered through bulk water charges. WaterNSW intend to restructure their approach to meter reading over the determination period. 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 this 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 has 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 costs for credit card payment fees through to customers based on the normal cost of merchant interchange fees. This is currently 0.44 per cent for Visa and 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 other payment methods.

The final issue I will outline today is WaterNSW's proposed ICD discounts. 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 that lower WaterNSW's costs. Historically ICD discounts have been calculated as WaterNSW's avoided costs of these activities and paid directly to each ICD. The value of discounts is collected from other users.

WaterNSW has proposed a sizeable reduction in these discounts in 2017-18 of about 50 per cent on average. 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; a reduction in the proposed WACC, which has contributed to a reduction in telemetry installation avoided costs; and a reduction in entitlements helped by some ICDs, particularly by Eagle Creek.

Our preliminary view is to retain ICD discounts to reflect the cost savings from the aggregation of many customers into a single WaterNSW customer.

We have now formed a preliminary view on the scale of the proposed discounts and will look at the calculation of the ICDs including the activity cost assumptions.

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

WaterNSW are reasonable. Thank you.

THE CHAIR: Thank you, Elina. Mary, would you like to comment on this one first?

MS EWING: Thank you, Catherine. In terms of the ICD rebates we do support the continuation of them. We ask that IPART request further information from WaterNSW on the level of costs on a valley basis to determine whether that level of reduction in the ICD rebates is an accurate reflection of the avoided costs.

In terms of the environmental gauging stations, we support the proposal that WaterNSW has put forward. We support all users being required to meet the same measurement standards for water. In many valleys held environmental water is a significant user, therefore we think it is appropriate that they should be certainly metered or their usage should be measured at an accurate standard.

With regards to the meter-reading costs in view of the water-take measurement strategy that DPI Water has been involved in some time, which proposes some changes to metering and measurement methods, we support meter reading costs being recovered through a separate charge. Thank you.

THE CHAIR: Thanks, Mary. Stefanie?

MS SCHULTE: Thank you, Catherine. We would like to comment on four particular points. Starting off with metering, we have disagreed in 2010, and we disagree again this time around, with the cost build-up and assumption underlying the metering charges put forward by WaterNSW. We would be very interested in seeing what IPART's expenditure consultant does come back with in terms of its review.

I also would like to agree with Mary. In light of DPI Water undertaking a water-take measurement strategy, we would like to see how that would feed through to the meter-reading charge. I think, as a principle, we would not necessarily disagree on having that as a separate charge rather than included just to provide more transparency.

In terms of the other components, they would probably go into the more broader other issue category and one concerns the weighted average cost of capital. We have raised concerns in our written submission that we have one business and potentially two different weighted average costs of capital. We believe that is not necessary or appropriate.

Given that IPART has, under the Water Charge (Infrastructure) Rules, reasonably strict requirements of applying the ACCC methodology of calculating the weighted average cost of capital, we believe that that should also then be applied across the state and, hence, for the coastal valleys, given that, at the moment, there is a 2 per cent difference between the weighted average cost of capital for the coast and for the inland valleys.

In terms of the ICD rebates, we have supported the continuation of the ICD rebates. Similar to what Mary said, and probably Perin will comment on, we would like to understand the reduction in proposed ICD rebates and see how they correlate with WaterNSW's proposal around all of its operating expenditures and a reduction to those because we do not really see a 50 per cent reduction in those down the track.

Finally, we noted the proposal of an efficiency carry-over mechanism. We believe that the principles around that are sound. We have seen that in other areas including electricity. However, we do not really believe that the operating efficiencies should be maintained by WaterNSW. We do believe they should be shared with customers to a certain degree, if we see those ones down the track. Thank you.

THE CHAIR: Thank you, Stefanie. Grant, did you want to comment on that?

MR BUCKLEY: Nothing further.

THE CHAIR: Chris?

MR MAGNER: No.

THE CHAIR: Perin?

MS DAVEY: Yes, thank you. I echo the comments by Mary and Stefanie with regards to the ICD rebates. Murray Irrigation fails to see how the proposal for 50 per cent reduction in the rebates is a true reflection on what is the avoided costs of operations in our region.

Murray Irrigation provides services to 1,200 unique farm businesses and we operate just under 3,000 metered outlets to those businesses. If Murray Irrigation did not exist, that would be 3,000 meters WaterNSW would have to take over the operation of and the administration and the issuing of invoices, et cetera.

Our entitlement holdings have not reduced significantly since the ACCC Determination. In our region particularly, a reduction in entitlements is not a true reflection.

While WaterNSW says that their compliance costs have reduced and their meter operations costs have reduced, the costs of us complying with WaterNSW in regards to providing them the data from our offtakes and our compliance costs in other areas, including through ACCC reporting, have not reduced at all. That is said just because one area of their costs has reduced. I think the true avoided costs is actually on what we do that WaterNSW would otherwise have to do if we didn't exist.

THE CHAIR: Thank you, Perin. On this side of the table, Bob, do you want to comment?

MR DOYLE: No, thank you.

THE CHAIR: Richard or Steve?

MR PARBERY: No.

MR GUTHREY: No.

THE CHAIR: WaterNSW?

MR HARRIS: No.

THE CHAIR: Are there any questions from the floor on metering? Melissa? Thank you.

MS BALAS: I guess another transparency issue in term of metering is do we have any assurance that it is based on a cost recovery rather than another point for revenue generation? It is at least a transparency thing with the metering. Is it based on a cost recovery only or is it based on sort of a means of generating revenue exercise? Again it is important that we have transparency in identifying those costs.

THE CHAIR: Would you like to comment on that WaterNSW, please?

MR STOCKLER: I am sorry, could I clarify whether you are talking about the meter service charge or meter reading costs?

MS BALAS: The whole lot.

MR STOCKLER: The whole lot?   Well, we are a regulated business so our overall approach is cost recovery and a regulated return.

MS BALAS: I suppose that "whole lot" is the transparency of identifying what the costs are in terms of the meter --

THE CHAIR: Are you asking about what the cost drivers are, Melissa?

MR HARRIS: On the meter service charge we have an allowance from the ACCC. We have struck a contract with a third-party provider, which is the cost that we are seeking to pass through. That cost is below the ACCC allowance. You might say we are more efficient than the allowance there.

In terms of the meter-reading cost, that is a function of the relevant policies around how many times we have to read meters, and so on. That is under very active consideration between ourselves, DPI Water, the Irrigators' Council and others because, to be a bit blunt, I don't think we have got that right at the moment. But that is a simple cost recovery exercise for how many times we have to send somebody out to read meters - that's all.

THE CHAIR: Thanks, David. We have about five minutes left. Does anybody else have any other issues that they would really like to discuss now before we wind up? Yes, from the audience there.

MR SCHOEN: Thank you, Madam Chair, I would like to make a general statement in support of our submission.

THE CHAIR: Can you just identify yourself, please.

MR SCHOEN: Derek Schoen, President of the NSW Farmers Association and also chair of the Water Taskforce at NSW Farmers. We run a mixed farming operation in Corowa including 400 hectares of irrigation with water sourced from the Murray River via the West Corurgan private irrigation district.

NSW Farmers is a peak industry body for farmers in New South Wales. We are Australia's largest state farming organisation representing the interests of our farming members, ranging from broadacre livestock, wool and grain producers to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.

As a member of the NSW Irrigators' Council, NSW Farmers endorses the NSW Irrigators' Council's submission to IPART regarding the WaterNSW regulated water charge review.

We take this opportunity to reiterate a number of fundamental points and we welcome further and ongoing discussions with the tribunal.

Reform and efficiency savings. It has been pleasing to see that following the amalgamation of State Water Corporation and the Sydney Catchment Authority, efforts were made to bring bulk water delivery in New South Wales under the operation of one entity - WaterNSW. We note that efficiency savings have been passed on to customers including in some rural areas.

The association submits, however, that IPART should make clear whether or not the appointment ratio of 45:55 is appropriate as well as what amount of efficiency dividend is allocated to WaterNSW's rural customers.

We also submit that the WaterNSW Amendment (Staff Transfer) Bill 2016 calls into question the validity and efficiency of the recent determination of the Water Administration Ministerial Corporation's water management charges.

We have been extremely frustrated by the passing of the WaterNSW Amendment (Staff Transfer) Bill 2016 only days prior to IPART's Final Determination of WAMC charges. As a consequence, it is very difficult to see how IPART's Final Determination of WAMC charges could in any way reflect the current operational conditions of DPI and WaterNSW. This has created the further issue of a lack of transparency about what stakeholders pay to DPI and WaterNSW.

IPART has stated that it will not reopen the previous Water Administration Ministerial Corporation Determination. Accordingly, we are very concerned that licence holders will benefit very little from this shift in functions and responsibilities. We submit that IPART should re-run its models to determine the efficient costs for all functions transferred to WaterNSW. We also request that IPART expressly make a commitment that additional efficiencies resulting from the transfer of functions will flow through to customers leading to reduce water charges.

The association also expresses concern in relation to the existing accreditation arrangements whereby IPART is required to assess WaterNSW's MDBA valleys under the Water Charge (Infrastructure) Rules 2010 and the ACCC pricing principles. In the event that the Water Charge (Infrastructure) Rules are amended as proposed, IPART would be able to conduct a review of WaterNSW's regulated water charges under the Independent Pricing and Regulatory Tribunal Act 1992.

IPART and the ACCC differ in their calculations of the weighted average cost of capital and WaterNSW's regulated asset base. This, in our view, provides materially different outcomes. Further consultation with stakeholders should take place to ensure that stakeholders are properly informed about how regulated water charges will be impacted.

Transfer of business risk to customers. As a general observation, NSW Farmers are concerned there are a number of mechanisms in WaterNSW's proposal which ultimately transfer the vast bulk of its business risk and cost to its customers.

The association notes that customers of WaterNSW are not given a choice as to whether they utilise WaterNSW's facilities and pay WaterNSW's charge. These arrangements are linked to customers' water access licences. The only option available to WaterNSW's customers is to sell their licences. This would have a significant impact upon irrigated agriculture production in New South Wales.

In addition, the New South Wales Government has not committed to a cost-sharing framework between WaterNSW customers and the New South Wales Government. We understand that WaterNSW proposes to use share component at approximately 70 per cent, which is 8 per cent higher than that required under the 2014 ACCC Determination and 10 per cent higher than the 2010 IPART Determination. In order to ensure that WaterNSW is not unduly shifting costs to its customers, we propose that IPART conduct a review.

In relation to the current regulated water charge review and IPART's review of WaterNSW's operating licence, we note that the changes to WaterNSW's operating licence could impact further regulated change. The association submits that changes to WaterNSW's operating licence should be postponed until further stakeholder consultation can take place in order to allow discussion of costs, benefits and risks.

Coastal water. NSW Farmers also seeks more equitable and affordable pricing structures for coastal valleys. We welcome the Issues Paper IPART recently released during its review of WaterNSW's water charges which explores the needs to address the pricing and cost recovery problem in coastal valleys.

In the case of agriculture in coastal valleys, there are some sectors that are being priced out of the market because the price they have to pay for water has no bearing on the price which they are receiving for the commodity they produce. Often soil and climatic conditions limit the use of agriculture production in these areas.

There are other sectors that would quickly become unviable with a small shift in the price that they have no option but to pay. We would like to see further analysis on the average worth of water, which has a different value to different buyers who choose to purchase it.

The regulated supply is designed to encourage new, and grow existing, enterprises, but it is effectively achieving the direct opposite. The problem is multiplied on the remaining users and these issues need further exploration.

We submit that, in the Peel Valley, the principle of user pays is not being achieved. Notwithstanding that the Peel Valley is now at full cost recovery, Peel Valley customers pay relatively high prices and have under-recovery user share costs.

The association is of the view that the approach to the equitable payment for water service infrastructure in the Peel Valley requires further exploration, particularly in order to provide pricing transparency about water charges.

We note that WaterNSW is presently conducting a North Coast pilot in recognition of the ongoing challenges in the New South Wales coastal valleys and the inherent complexities of conducting water pricing in coastal valleys. NSW Farmers is of the view that IPART should maintain WaterNSW's current regulated water charges in New South Wales coastal valleys until the another coast pilot is completed.

Furthermore, it is our belief that IPART should conduct a similar analysis in the New South Wales South Coast valleys and provide sufficient time for proper stakeholder consultation regarding the options outlined in IPART's Issues Paper.

We would be grateful for IPART's consideration of these issues raised above in making its decision. Thank you.

THE CHAIR: Thanks, Derek.

CLOSING REMARKS

THE CHAIR: On behalf of IPART, I would like to thank you all very much for your considered participation in today's proceedings. It has been a great benefit for us to hear your views. We really appreciate all the efforts and contributions that have been made by everyone today.

A transcript of today's proceedings 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 set will apply from 1 July 2017.

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

Finally, I note that we will hold a further public forum next week in Coleambally, in southern New South Wales, on 14 November. You can refer to our website for further information, if you wish to register or attend that forum.

We will also be holding another public hearing here in Sydney, on 4 April 2017, following the release of our Draft Report which will provide further opportunity for our stakeholder consultation.

This brings to a close today's public forum. Thank you very much for participating.

AT 2.15PM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY