

Submission

IPART

Review of Rural Water Charging Systems May 2012

120710

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators access regulated, unregulated and groundwater systems. Our Members include valley water user associations, food and fibre groups, irrigation corporations and community groups from the rice, cotton, dairy and horticulture industries.

This submission represents the views of the Members of NSWIC with respect to *Review of the Rural Water Charging System 2012 in New South Wales*. However each Member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

Contents

- Introduction2
- General Comments3
- Answers to Specific Questions5
 - 1. Assessment Criteria.....5
 - 2. Water Availability & Customers' Cash Flow6
 - 3. Tariff Structure9
 - 4. Cost Shares11
 - 5. Valleys Below Full Cost Recovery12
- Conclusion14

General Comments

NSW Irrigators' Council (NSWIC) appreciates the opportunity to be part of the review on *Rural Water Charging Systems in NSW* through a submission to IPART's Discussion Paper.

Given the current changes in the regulatory environment, NSWIC considers it imperative that such a review is conducted so that a suitable framework can be established that allows for a sustainable future of irrigated agriculture in NSW.

NSWIC had expected this review to commence at an early time given the NSW Liberal & National pre-election commitments;

We will: immediately commence a review of the water charging system¹.
(emphasis added)

NSWIC is disappointed that the review has commenced a year after the election and is only given consideration over a six week timeframe. The short timeframe of the review and the late commencement date cannot be regarded as an appropriate fulfillment of the pre-election commitments by the NSW Government. In particular, the short timeframe does not allow for an extensive evaluation of all aspects of the current rural water charging system in NSW or for the consideration of a potential new system that;

(...) better reflects the cash flows of farmers and businesses and provide compassion for families doing it tough².

Additionally, NSWIC is a membership organisation and as such is required to consult with Members on all aspects of our submission. As only two weeks are provided between the publication and submissions of this Discussion Paper, we believe there is insufficient time for a detailed response to all points raised in the Discussion Paper.

With respect to the fulfillment of pre-election commitments, NSWIC does not believe the Discussion Paper has fully addressed this issue. Prior to the last election, the NSW Liberals and Nationals declared;

We will: waive fixed water charges (...)³

NSWIC is disappointed that instead of fulfilling this pre-election commitment, the Discussion Paper suggests for a modification of this key promise in that fixed charges are proposed to be deferred instead of waived. NSWIC would like to emphasis that a deferral of charges is not equivalent to a removal of charges and we would like see the NSW Government fulfilling its pre-election commitments in full.

Aside from the insufficient timeframe and the absence of meeting key pre-election commitments, NSWIC would like to congratulate IPART on conducting this review and engaging with stakeholders through the workshops in Narrabri and Griffith. We appreciate the consultation process, but would have liked to see a more detailed discussion of stakeholder's concerns.

¹ <http://www.nswnationals.org.au/images/stories/pdf/8%20waive%20fixed%20water%20charges%20during%20the%20drought.pdf>

² Ibid.

³ Ibid.

NSWIC is not convinced that the Discussion Paper has adequately addresses the full range of concerns stakeholders have voiced with respect to the ACCC. The fact that a regulation of bulk water charges under the ACCC Rules would create more costs, greater price volatility and lead to more uncertainty for bulk water users in the state has not received adequate attention from our point of view.

Furthermore, NSWIC has highlighted on several occasions that a regulation by the ACCC will create severe inconsistencies between Basin states and reverse a decade long reform process of bulk water charging in NSW. NSWIC would like to add that a regulation by the ACCC would also shift the risk of climate variability further to those who are most vulnerable - bulk water customers. The consequence would be even greater financial burden is placed on customers.

As a consequence, NSWIC would like to stress its preference to maintain IPART as the regulator of bulk water charges in NSW independently of the ACCC regulation. Not only would this ensure that customer impacts are taken into consideration, a clear defined cost sharing process and a sensible and sustainable tariff structure framework would be available.

NSWIC is extremely concerned about the future of irrigated agricultural producers in the NSW should bulk water charges be regulated by the ACCC. We do not believe that the Rules guiding the ACCC will provide a sustainable framework for irrigated agriculture in the state, especially in valleys where full cost recovery is not yet achieved.

Answers to Specific Questions

1. Assessment Criteria

Are the proposed assessment criteria appropriate?

NSWIC considers the assessment criteria to be comprehensive but not sufficient. As highlighted in the general comment section of our submission, we would have appreciated if this review also assessed whether all pre-election commitments by the NSW Government had been met. As far as NSWIC can verify, such an assessment has not taken place nor have all pre-election commitments been fulfilled. NSWIC considers it crucial that this aspect is considered as it provides the background and purpose for this review.

Furthermore, NSWIC does not consider it sufficient to only assess whether the review complies with the ACCC regulation. Given the substantial changes that would occur with the introduction of the ACCC Rules, NSWIC believes it is crucial to conduct a comparative analysis that outlines the differences between the ACCC and IPART framework. NSWIC is of the opinion that this would highlight the substantial shift in risk and financial burden towards customers under the ACCC regulation - a step that we cannot support. In line with previous comments, NSWIC would like to reiterate its concerns about the effectiveness of the ACCC Rules as we believe these Rules would disproportionately harm bulk water customers in NSW.

Additionally, NSWIC welcomes IPART's considerations of customer and community impacts, however we do not feel that the review has made this criteria a central focus point. Should State Water Corporation (SWC) be required to make a submission to the ACCC, it will be crucial to have a solid framework in place that operates alongside the ACCC regulation and assesses customer and community impacts. As the workshops in Griffith and Narrabri have highlighted, irrigators and irrigation corporations do not operate in isolation, hence the impact on bulk water users will have a direct impact on the social and economic fabric of rural communities. NSWIC would therefore re-emphasise that a thorough consideration of community impacts need to be included in this review.

Are there other factors or criteria we should consider when assessing options?

As outlined in our response to the previous question, we hoped this review would include an assessment on whether pre-election commitments by the NSW Government had been met. As far as NSWIC can assess, to date such an assessment has not taken place.

Furthermore, NSWIC considers it necessary that the assessment criteria are applied on a valley by valley basis in order to obtain a thorough understanding of the differences between valleys and what impact bulk water charges will have on consumptive water users.

2. Water Availability & Customers' Cash Flow

What is the most appropriate method of analysing historical water availability to understand the relationship between water availability and customers' cash flows.

NSWIC welcomes the use of the full data set of the Integrated Quantity and Quality Model (IQQM) to analyse the total modeled extraction for regulated water sources. As we have highlighted in our last submission to IPART's determination of SWC, we regard this as an appropriate data set to examine water availability in NSW. In this instance, we would again like to emphasize our objection to the twenty year moving average model used in the last determination of SWC.

We concur with IPART that average allocation is the most appropriate method for determining historical water availability. While we support IPART's assessment in this respect, we would like to raise our concerns about its usability for assessing farm's cash flows. As the workshops in Griffith and Narrabri have highlighted, quantity and timing of water allocations are important for production decisions. Should allocations be delayed, then this can have severe negative impacts on individual irrigators. As average allocations only give an indication about the quantity of water available, it is unsuitable for determining when allocations occurred within a particular water year.

Furthermore, average allocations might also not fully capture the water availability of a particular irrigator as it depends on an individual's water management choices. Storage facilities and temporary water trading can have an impact on individual's water availability and therefore on farm cash receipts.

To reiterate, NSWIC supports IPART's use of average allocations as a proxy for water availability however we do not believe there exist a high positive correlation between water availability and cash flows as choices made by an individual bulk water user can significantly change the outcome of farm cash flows.

Do the differences between valleys and associated farming systems mean that instituting broad rules across valleys to measure the impact of water availability is not appropriate?

There is no doubt that significant differences exist between valleys in NSW, however for the purpose of an adequate bulk water charging system in NSW, NSWIC advocates for a coherent, consistent and transparent framework that applies across valleys in NSW. This framework should determine a state wide approach to cost shares, tariff structure and take into consideration customer impacts.

NSWIC would like to re-emphasize that we do not support cross subsidisation between valleys or any associated averaging of prices in NSW. We strongly support the continuation of the current differential pricing approach that levies charges on actual costs of providing water within a valley.

Which customers are most affected by variability? Are there circumstances where water variability affects high security users?

NSWIC would like to stress that under the ACCC Rules all bulk water customers - high and general security - would be more at risk from increased water variability. As the ACCC pricing framework includes a consumption based price adjustment, any water variability would trigger changes in bulk water charges - a process that will lead to less

certainty and less transparency for consumptive water users. As such, NSWIC would like to argue that both, high and general security water entitlement holders, will be both affected by water variability under a new ACCC regulatory framework.

Furthermore, NSWIC would like to stress that the Commonwealth Environmental Water Holder has the capacity to impact both general and high security entitlement holders in NSW. The management of environmental water could delay water allocations within a particular valley which then has significant impact on the production decisions of an individual bulk water user in NSW.

Instead of determining which entitlement holders will be more at risk from increased water availability, NSWIC would like to suggest that the user base is broadened to spread the risk between all consumptive water users who currently receive benefits from the provision of bulk water services. As an example, additional users who currently enjoy the services provided by SWC but do not pay for them include, stock and domestic and recreational water users and ECA. NSWIC would like to see this matter addressed urgently and have charges attributed accordingly.

Other options for measuring the impact of rural water bills on users?

NSWIC would like to emphasize that water is a crucial input into the production of irrigated agricultural products. However other input costs should not be neglected. To assess the full impact of rural water bills on customers, the review should broaden its scope to include an assessment on the development of other input cost factors (i.e. electricity) that increasingly influence irrigator's decisions.

NSWIC would also like to highlight that irrigators do not operate in isolation and hence changes to input costs and associated changes in cash flow receipts will have follow through impacts on wider communities.

How closely is water availability aligned with farm cash flows?

Water is an essential input into the production of irrigated agricultural products, and hence the availability of water and the timing of water allocations are of significant importance for farm cash flow. As outlined in our response to the previous question, wider economic considerations should however not be ignored. This includes an evaluation of other input costs (i.e. electricity) that will influence farm cash flows and hence the financial viability of irrigation businesses.

How and when do farmers take water availability into account when making production decisions?

NSWIC would like to reiterate that water is a crucial input into irrigated agricultural production and hence the quantity and timing of water allocations are of significant importance for any production decisions. Even if water is available over a year, production of a particular crop might not take place if the allocation was announced too late. Hence the timing of the allocations is of equal importance to the quantity of water available.

As stated in NSWIC policy document⁴, we regard the 31st October of any year as an appropriate evaluation date for water allocation or cumulative AWD.

⁴http://www.nswic.org.au/pdf/policy_documents/Fixed%20Charges%20Trigger%20policy%20v5.pdf

What is the degree to which water trading has allowed rural water customers to maintain the viability of their businesses and maintain cash flows in times of drought? Are their limitations of water trading and the impact on customers of these limitations?

NSWIC would like to highlight that water trading is not always feasible or possible. As a result of trading restrictions - between regulated and unregulated systems - there will be a limit to the amount of water trading that can take place in NSW. To what degree water entitlement holders can utilize the water market as a risk mitigation tool is limited in several instances.

Furthermore, NSWIC would like to emphasize that agricultural producers intend to put water allocations to productive use, and not trade allocations in the water market. This is not to say that the water market has failed to assist agricultural producer in providing risk management options, but care should be taken not to overstate the benefits of the water market.

NSWIC would additionally like to highlight that the involvement of the CEWH has significantly influenced water market prices and therefore created further risks for agricultural producers. While potential distortions in water market prices are not part of this review, NSWIC would like to highlight the limits of the water market to provide an optimal risk management tool for agricultural producers in case of low water availability.

NSWIC would also like to mentioned that irrigated agricultural producers have sought other methods to mitigate risk of variable water supply. The progressive move towards more water saving infrastructure has made agricultural producers less vulnerable to water availability but has caused greater reliance on other input costs like electricity. Most on-farm infrastructure equipment is highly energy intensive and hence has resulted in greater exposure to energy cost fluctuations. The ability to trade water allocations and/or entitlements in water markets does not provide a complete picture of the constraints that irrigated agricultural producers currently face.

The importance of water trading for irrigated agricultural producers should not be ignored, but a complete set of agricultural inputs necessary for productions have to be taken into consideration to assess the financial viability of individual irrigators.

Additionally, other suggested risk mitigation tools that were outlined in the Discussion Paper should be evaluated in light of the recent drought period. The severe climate conditions in previous years have caused substantial financial difficulties for many irrigated agricultural producers. There will be a limit to further adjustments that can take place in terms of off-farm income and the acquisition of liquid assets.

What is an appropriate basis to determine a trigger level of water availability before there is a significant impact on the cash flows of customers?

NSWIC recommends that the trigger be two consecutive years of 1 in 20 year low announced Available Water Determinations (AWD's).

The trigger should be defined as 'when water allocation or cumulative AWD as at 31st October in any year is within the lowest 5% of historical allocations for that valley for two consecutive year'⁵.

⁵ http://www.nswic.org.au/pdf/policy_documents/Fixed%20Charges%20Trigger%20policy%20v5.pdf

We consider it appropriate, that meeting of this trigger would result in fixed charges for that license category to be paid by NSW government and possibly other relief measures appropriate to be provided. It is NSWIC opinion that the NSW government should apply some eligibility criteria to ensure that the assistance is targeted at those producers who earn the majority of their income from primary production.

It should also be considered that cash flow issues triggered by extreme low water availability has implication for the wider regional community and irrigation corporations. This link should be carefully assessed and provide the basis for the eligibility criteria for any form of government assistance.

3. Tariff Structure

What are the key issues in the current suite of price tariffs, pricing policies and payments terms that cause hardship in periods of low water availability?

The key concerns for NSWIC are the continuous price increases for bulk water services in addition to inadequate drought relief measures that could mitigate some of the financial hardship imposed on bulk water users in times of low water availability.

Water is essential for the production of irrigated agricultural products and any further price increase of such a vital input imposes an additional financial burden on irrigators and irrigation corporations. NSWIC would like to highlight that these price increases should not be considered in isolation as recent developments in other input costs (i.e. electricity) have caused further financial burdens. One of the fundamental reason for a continuous price increase appears to be the existence of substantial volatility allowance for SWC. NSWIC does not concur with IPART on the assumption that such a high volatility allowance is necessary for the financial viability of SWC.

Additionally to a continuous increase in bulk water charges, irrigators and irrigation corporations also suffer from a lack of appropriate drought relief measures that were promised as part of previous election commitments by the NSW Government. One key pre-election commitment was to waive fixed charges in a particular valley in case certain trigger values were met. Irrigators and irrigation corporation have yet to see a fulfillment of this pre-election commitment.

Furthermore, NSWIC would like to emphasize that it does not agree to the current cost share arrangements and the associated determination of an appropriate use base that is subject to bulk water charges. NSWIC believes that this aspect needs urgent attention and should be addressed in this review.

In relation to the tariff structure, NSWIC would like to express its support of the current 40:60 fixed / variable charge structure. However we would like to highlight that the involvement of the ACCC would cause unnecessary costs and risks should this tariff structure be maintained. As a result of the full cost recovery requirement imposed by the ACCC and in addition to the consumptive based price adjustment, this proposed tariff structure would cause greater price variability and potentially higher prices for all consumptive water users in NSW.

Who should be responsible for establishing the conditions that would trigger a rural water charging policy response?

The conditions for the trigger values should be embedded in the price review framework established by IPART and hence be self-enforceable.

Should rural water charging policy triggers be established in the price determination process?

Under the current conditions, NSWIC is of the opinion that the triggers should be defined by this pricing review and not be subject to ongoing changes between determinations.

Should substantial changes to the current system materialize, a review of appropriate policy triggers could however be justified.

What are your views on the tariff structure options presented? Do you agree with our preliminary view of tariff structure or policy options that best meets the assessment criteria?

As mentioned previously in this submission the tariff structure considerations have to be evaluated in light of potential future ACCC involvement. It is NSWIC's opinion that all tariff structure options outlined in this review consist of second best solutions to the current IPART framework. Any of the proposed tariff structures would result in either higher price volatility or higher fixed charges - both which are undesirable for bulk water users in NSW.

In the absence of the ACCC, NSWIC supports IPART's assessment that maintaining a 40:60 tariff structure and an improved arrangements for drought relief provides a fair sharing of risk between customers and State Water. It is our concern however that due to the involvement of ACCC, there will be a negative impact on irrigated agricultural producers due to the inverse relationship between prices and water availability. In the case of the implementation of a 40:60 tariff structure under the ACCC framework, bulk water users will experience more volatile year-on-year prices should water availability be highly variable. It is evident that bulk water users in NSW are trading off two undesirable outcomes; either high fixed charges and low price volatility, or low fixed charges and less price stability. Given the variability of farm cash flow and the high dependency of irrigated agricultural production on costs and availability of input factors, both of these pricing outcomes for bulk water charges are undesirable.

Given the undesirability of the two alternative outcomes, NSWIC suggests that the NSW Government reconsiders the involvement of the ACCC in the regulation of bulk water charges in NSW.

Furthermore, NSWIC considers it necessary that further work is conducted on other alternative options available to balance the costs for irrigators - i.e. through a more detailed consideration of alternative tariff structure options with varying fixed/ variable ratios for customer. NSWIC supports an investigation of flexibility in fixed / variable charges provided that a 40:60 tariff ratio remains available.

To be more precise, NSWIC would support further modeling to be conducted to assess the feasibility of two alternative tariff structure options – one having a higher fixed charge component and one having a lower fixed charge component.

As we currently have insufficient information on the alternative options, we are unable to fully comment on whether NSWIC would support such an alternative tariff structure. To allow all bulk water users in NSW to make an informed decision, we strongly recommend that further modeling is conducted that assesses the viability and feasibility of multiple tariff structure options for consumer of bulk water services in NSW.

Conclusively, independent of our suggestions for potential future adjustments to the current bulk water pricing framework, NSWIC would like to reiterate its preference for a continuation of IPART's role of the regulator of bulk water charges in NSW independent of the ACCC.

Are there any tariff structure or other policies or approaches that we should consider?

In light of the ACCC Rules, NSWIC would support further work on alternative tariff structures that could suit individual bulk water customers. We would however like to stress that we cannot comment on whether this would be a more desirable option as we do not have sufficient information to assess whether such an option is feasibility and/or cost effective.

Are there any other implementation issues that should be considered for the tariff structures or other policy options outlined? Are there any implementation issues for tariff structure or other policy options at a local level (e.g. within irrigation corporation) that we should be aware of?

NSWIC would like to again highlight that under the ACCC regulation, irrigation corporation are less able to provide assistance to individual customers in case of prolonged low water availability. As such, it will be necessity to establish appropriate hardship policies that are supported by NSW government funding.

4. Cost Shares

What are your views on the cost share options presented? Do you agree with our preferred option on determining cost shares?

NSWIC strongly supports the continuation of an independent and transparent cost share framework that is determined and administered by IPART. In light of the cost share options presented in this review, we agree that an eight year reevaluation process by IPART is the most sensible approach to set cost shares for bulk water in NSW.

While NSWIC strongly support the existence of a cost share framework, we would like to express our discontent with the current cost share proportions. We have highlighted in our last submission to IPART on the determination of SWC's charges, that we do not consider the current cost share proportions to accurately reflect the conditions prevalent in NSW. Not only are the current cost share proportions inadequate, but the individuals who currently pay bulk water charges are only a subset of all those who benefit of the provision of bulk water services. We stress that a review of the current cost share proportions is necessary, additionally to a consideration of an appropriate user base.

NSWIC understands that the timeframe and complexity makes it difficult for IPART to review the cost share proportions and the user base for the next determination of SWC, however we believe that an urgent review of the cost proportions and user base are

necessary. NSWIC asserts that in line with beneficiary pays approach, the pricing system should apply to a full range of users of NOW and SWC services.

Are there alternative options for determining the cost sharing ratios that we have not yet considered?

NSWIC is supportive of the current cost share framework developed by IPART in conjunction with stakeholders over the last determinations.

As mentioned in our response to the previous question, we would suggest that the user base is extended to account for all bulk water users who currently receive benefits from the provision of bulk water services. This would include, stock and domestic users, as well as recreational users. NSWIC is of the opinion that those users should also contribute financially to the provision of bulk water services in NSW.

Additionally, NSWIC would like to raise the awareness of IPART that current environmental water holdings are inadequately charged in several valleys across NSW. For consistency purpose, these environmental water holdings should be assessed and appropriately charged in line with charges set for other consumptive water users in the state.

Are there any other issues on determining cost shares that we need to consider?

As outlined in our response to the previous question, NSWIC does not consider the current user base to accurately reflect the conditions prevalent in NSW. Environmental water holdings, and bulk water use by recreational water users should be subject to the same charges as irrigators and irrigation corporations. For example, as the workshop in Narrabri indicated, the current environmental contingency allowance are not subject to the same water charges as irrigators and hence impose additional costs for other consumptive water users in these valleys. NSWIC calls for a review of the current user base to be considered for future cost share setting by IPART.

NSWIC would like to reiterate its main recommendations for more accurate user shares as outlined in our last submission to IPART on SWC determination;

Operating expenditure	User Share
Customer support	Less than 100% due to additional services that are provided for environmental water holdings.
Water Delivery & other Operations	Less than 100% due to other benefactors that receive services from SWC.
Flood Operations	Less than 50% due to community benefits.
Environmental Planning and Protection	Lower than 50% due to the increasing volume of environmental water holdings.

5. Valleys Below Full Cost Recovery

Is there a case for ongoing subsidy of the Peel Valley users?

Given the substantial costs that bulk water users in the Peel Valley currently face, NSWIC strongly supports an ongoing financial support through CSO provided by the NSW Government.

The low number of bulk water users in the Peel Valley, creates an environment that is unsuitable for full cost recovery as unit costs would be prohibitively high.

What are your views on the options presented for recovering user share of costs in the Peel Valley? Do you agree with our preferred option?

NSWIC does not concur with the suggestion made by IPART that an incremental increase of 5% per annum in the Peel Valley is sustainable. Full cost recovery in the Peel Valley is not financially viable and would place individual irrigators in this region at a substantial competitive disadvantage.

NSWIC would support an upper bound pricing approach (strictly less than 100%) which is implemented gradually. To mitigate the impact on bulk water users, we suggest that the upper bound limit is close, if not identical, to the current 90% cost recovery. The remaining 10% should be covered through adequate CSO provided by the NSW government.

Are there alternative options for determining the government subsidy of the Peel Valley to reflect the under recovery of costs in this valley?

NSWIC would like to reiterate its preference for the current IPART approach in determining cost recovery in the Peel Valley. We support an explicit CSO provided by the NSW Government as full cost recovery would be unsustainable for the future of irrigated agricultural production in this area.

Are there other issues that we should consider regarding the under recovery of the users' share of costs in the Peel Valley?

NSWIC anticipates that the coastal valley regulated river review will highlight the substantial social and economic costs imposed by the current bulk water charging system in the Peel Valley. We suggest that the preliminary finding of this study is taken into consideration for IPART's pricing review.

Conclusion

NSWIC appreciates the opportunity to contribute to IPART's rural water charging review. We believe a review of the current framework is necessary especially in light of the potential involvement of the ACCC in future determinations of SWC.

NSWIC has on several occasions voiced its concerns over future regulation of bulk water charges by the ACCC. We hold the strong opinion that the ACCC framework is highly stylistic and inefficient. Given the proactive approach NSW has taken towards bulk water pricing over the last years - realising the need to make infrastructure operator viable whilst at the same time allowing businesses and communities to thrive - it comes at a considerable disappointment that the proposed ACCC framework would severely harm NSW by exposing customer to considerable price increases which do not apply in other Basin states. The ACCC will shield under-performing states which have failed to address inefficiencies in water allocations and water use. Instead of harming NSW, which has created a feasible and viable bulk water pricing framework, the ACCC should provide incentives for those underperforming states to address their current shortcoming and thereby create a consistent framework for bulk water pricing across Basin States. The ACCC needs to aim for consistency and equity with focus on protecting consumers rather than providing further financial burdens and costs.

NSWIC would like to stress that the framework which has been developed by IPART over the previous determinations has made the water infrastructure operator financial viable and at the same time allowed businesses and communities to thrive. We would like to see this approach continued and hence reemphasise our preferences to maintain IPART as a regulator of bulk water charges in NSW independent of the ACCC.

ENDS.