

Submission

Independent Pricing and Regulatory Tribunal Draft Determination and Report

Review of prices for the Water Administration Corporation
1 July 2016 - 30 June 2020

5 April 2016

Introduction

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

This submission represents the views of the Members of NSWIC with respect to the Independent Pricing and Regulatory Tribunal (IPART) Draft Determination and Report on the *Review of prices for the Water Administration Ministerial Corporation (DPI Water) - 1 July 2016 to 30 June 2020*. 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.

Executive Summary

Inefficiencies

NSWIC continues to have concerns about the structure and level of DPI Water's proposed water management charges. We believe IPART has failed to thoroughly scrutinise DPI Water's revenue allowance and has ignored Synergies' efficiency review which provides evidence that the NSW Office of Water / DPI Water previous notional revenue allowance was inefficient. Given these previous inefficiencies,

NSWIC submits that IPART deduct further revenue from DPI Water for any inefficiencies that have occurred over the current determination period.

Amalgamation of Valleys

NSWIC has long supported valley based pricing and thoroughly rejects 'postage stamp' pricing or cross-subsidisation.

NSWIC is deeply concerned that the proposed amalgamation of inland NSW valleys will lead to even less transparency in water management charges and possibly result in cost shifting between valleys. It would also create the wrong price signal for irrigators in inland NSW valleys as the water management charges will not reflect the underlying costs of the services provided by DPI Water on a valley-by-valley basis.

NSWIC rejects the proposed amalgamation of valleys for the purpose of pricing in unregulated rivers in northern NSW on the basis of transparency, cross subsidisation and inefficient price signals.

Coastal Valleys Cost Framework

It is very apparent that there are significant differences between the irrigation costs and usage patterns in NSW's inland valleys and the NSW coastal valleys. Coastal valley members of NSWIC have proposed a review of the cost recovery mechanism and the current tariff structure. NSWIC believes that the peculiarities in usage patterns, cost base management of the coastal river system and the way costs are apportioned between classes of water users must be reviewed for coastal valley water licence holders to ensure the ongoing viability of irrigations along the NSW coast.

NSWIC submits that the differences between the water use patterns and management of NSW's inland valleys and NSW's coastal valleys warrants IPART exploring the costs and benefits of a different water management charge framework for NSW Coastal Valleys.

NSWIC submits that IPART must mandate DPI Water to conduct a full review (including stakeholder consultation) into the viability of current coastal valley water charges and develop an alternative framework on which coastal water charges are based. NSWIC will reiterate this request to the NSW Government also.

Cost Codes

NSWIC remains deeply concerned about the amendments to DPI Water's cost codes because stakeholders are yet to fully understand the differences between the C-codes to W-codes.

NSWIC submits that IPART must ensure that irrigators are not disadvantaged (cost wise) from the shift in methodology.

Previously Allowed Costs

Work that has not been completed but has been paid for by irrigators through water management charges in the current determination must not subject to further water management charges. IPART must deduct further revenue allowance from DPI Water for any inefficiencies that have occurred over the current determination and impose additional reporting requirements and KPIs on DPI Water around the following programs: the review of Water Sharing Plans, SDL Offset Projects, Water Resource Plans and the Water Take Measurement Strategy.

NSWIC submits that IPART should not allow for further cost allocations for work plan components from the previous Determination not yet completed. In addition, NSWIC submits that any work that DPI Water is not able to complete within the next determination must be deducted from the following determination and/or reduced from water management charges accordingly.

Cost Driver - Water Take

NSWIC is yet to be convinced of the advantages of using water take (instead of water entitlement) as the main cost driver for DPI Water's cost codes. NSWIC believes that using 'water take' could increase the volatility in water management charges and also causes a shift in distribution between fixed and variable charges. NSWIC notes this proposed change was not supported by Synergies.

In addition, the use of 'water take' in conjunction with the '20 year rolling average' demand forecast model skews the level of proposed water management charges to be higher than necessary.

NSWIC submits that IPART should reject the change in cost drivers from water take to water entitlement and continue to use the latter for the price determination. Should IPART fail to do so, then NSWIC submits any over-recovery of DPI Water must be returned to water licence holders in the next determination.

Minimum Annual Charge

NSWIC supports the increase in the minimum annual charge from \$105 to \$200 by the end of the next determination. As IPART's draft report highlights, a cost reflective charge would however be \$234 and NSWIC encourages IPART to transition to such a cost reflective charge over multiple determinations.

NSWIC accepts IPART draft decision to transfer to a cost reflective \$234 charge for minimum licence holders over multiple determinations.

Floodplain Harvesting

NSWIC rejects the approach and level of charges proposed for Floodplain harvesting licence holders. In the absence of a regulation that specifies the number of licences that will be issued and the terms and conditions around these licences, NSWIC considers it inappropriate to use the Gwydir valley as a surrogate to extrapolate floodplain harvesting charges for all of the northern valleys.

NSWIC submits that IPART must make an allowance in its price determination that allows for a review and accurate determination of floodplain harvesting licence costs within the next price determination to ensure that all charges are efficient and cost reflective.

MDBA Costs

NSWIC and its members have no transparency around MDBA related costs that are passed onto water licence holders. At the same time, water licence holders have seen a sharp increase in costs associated with Murray-Darling Basin Authority costs which we are unwilling to accept without a corresponding explanation on their underlying cost basis.

NSWIC strongly rejects the increase in MDBA related costs which are passed onto licence holders without any evidence on their accuracy and cost efficiency.

The complex governance structure of the MDBA results in a higher cost which NSWIC argues should not result in higher charges to water users.

NSWIC submits that IPART must instruct DPI Water as part of their annual reporting requirements to provide detailed information on the cost recovered from users for the MDBA and also on the amount of external funding that DPI Water receives from the Authority for relevant work programs. NSWIC requests that this information is made public.

Metering

NSWIC rejects the proposed meter related charges on the grounds that insufficient evidence is provided that would justify the associated charges. In addition, water licence holders have little clarity around which proposed metering charge applies to them and often receive conflicting information from DPI Water.

NSWIC strongly rejects the proposed meter related charges and submits that previous costs plus CPI should be adopted.

Annual Reporting

NSWIC is extremely disappointed by the content of IPART's proposed annual reporting requirement. Not only are the currently listed issues retrospective, they also fail to pick up on the main issues that DPI Water must attend to over the next determination.

NSWIC submits that DPI Water's annual reporting requirements and KPIs are extended to include reporting against the progress of the review of Water Sharing Plans, the completion of the list and assessments of SDL Offset Projects, the finalisation of Broken Hill's alternative water supply, the completion of the Water Take Measurement

Strategy, the progress on Floodplain Harvesting Licences, and the making of Water Resource Plans.

Water Take Measurement

NSWIC reiterates its support for the development of a Water Take Strategy by DPI Water. The Council and its members have been calling on NOW / DPI Water to consider possible alternative water take measurement strategies (aside from meters) for a long time and are pleased that some progress has been made in this regard. However, NSWIC is disappointed that the internal restructure of DPI Water has delayed the completion of the Strategy and we urge IPART to insist that DPI Water completes this work at the earliest possible opportunity.

NSWIC submits that IPART must request DPI Water to complete the Water Take Measurement Strategy at the earliest possible opportunity.

Transfer of functions

In light of the soon to be finalised transfer of functions and responsibilities between DPI Water and WaterNSW, NSWIC believes IPART must impose a further cost efficiency factor into the price determination because the transfer of functions should provide for anticipated operational efficiencies. These operational efficiencies should be passed onto water users in the form of additional cost savings.

NSWIC submits that IPART must impose a further cost efficiency factor on DPI Water for the anticipated operational efficiencies achieved through the restructure of functions and responsibilities between DPI Water and WaterNSW.

General Comments

The NSW Irrigators' Council appreciates the opportunity to provide further comments to IPART's review of the *Water Administration Ministerial Corporation* (DPI Water) water management charges (1 July 2016 until 30 June 2020).

As we outlined in our previous submission to IPART, NSWIC has engaged with the NSW Office of Water / DPI Water on issues related to pricing for many years and we are pleased that the review is finally underway after a two-year delay. The Council has also made a submission to DPI Water during the pre-consultation period and has responded to IPART's Issues Paper as well as attended the Public Forum in Sydney in November 2015. We strongly urge IPART to consult our previous submissions to DPI Water and IPART and we would be glad to answer any further questions.

Before providing a detailed response to IPART's draft decisions, we would like to emphasise our concerns with the ongoing restructure of DPI Water and the possible transfer of functions/responsibilities between DPI Water and WaterNSW. Stakeholders, including NSWIC, have no clarity around these developments which are directly linked to DPI Water's water management charges and WaterNSW's regulated water charges. NSWIC and its members urge IPART to ensure that water licence holders will only pay for the efficient costs of DPI Water's services and functions. It must be guaranteed that there is 'no double dipping' between DPI Water's water management charges and WaterNSW's regulated water charges - in particular since licence holders have had to endure a two year time delay for the review. Furthermore, NSWIC believes IPART must impose a further cost efficiency factor into the price determination because the transfer of functions should provide for anticipated operational efficiencies. These operational efficiencies should be passed onto water users in the form of additional cost savings.

Overall, NSWIC is frustrated with the lack of detail and transparency around DPI Water's water management charges, the proposed amendments to the cost codes and the inefficiencies that IPART and its consultant Synergies have uncovered in this review. As we had feared, IPART's draft report clearly outlines that water licence holders in NSW have not only paid for programs that are yet to be completed (including the review of Water Sharing Plans) but have paid an additional \$14 million for this work¹. It is completely unacceptable to NSWIC and its members that licence holders are again asked to pay for this work program that should have been completed two years ago. NSWIC submits that IPART must not, under any circumstances, provide any further revenue allowance to DPI Water for the review of Water Sharing Plans and instead determine that any additional revenue necessary to complete this work is paid for by the NSW Government. It must be emphasised that stakeholders have continuously been misinformed about the timelines around the WSP reviews and in some valleys, the consultation process has not even commenced yet.

According to the National Water Initiative Pricing Principles, water planning and management charges should be apportioned between water users and government in accordance with cost allocation principles and be tested for cost-effectiveness by an independent party. It is quite evident to NSWIC that water users have already borne the costs (over six years) for the NSW Office of Water / DPI Water's unfinished work plan however, we have not seen an outcome - the completion of a single Water Sharing Plan review. NSWIC believes that this is justification enough for IPART to reject further revenue allowances from water licence holders for this work and we believe that any further costs allocated to users is in contradiction of the National Water Initiative Pricing Principles.

¹ According to the Synergies report.

To allow further revenue for the completion of this work is absurd and puts the entire pricing review into question. We restate, water licence holders must only be required to pay for the efficient and cost effective costs of DPI Water's water management charges and not for programs that have been already been paid for.

Also, DPI Water must transparently report on all external funding received by the Commonwealth to assure that no funds (i.e. for Water Resource Plans) are misallocated to unrelated projects and programs. As the Synergies report highlighted, DPI Water has redirected funding for the review of WSP to the development of Water Resource Plan and Floodplain harvesting. Given that no WSP has yet been reviewed even though water licence holders have already paid for this work (plus \$14 million), it is completely unacceptable that further funding is requested from licence holders to complete the review of WSP while DPI Water is chosen to redirect some of the funding already received for the development of Water Resource Plans.

Furthermore, IPART must not accept, under any circumstances, a move to 'regional pricing' because it sets a dangerous precedent and leads to even less transparency in water management charges as well as possibly resulting in cost shifting between valleys. It would also create wrong price signals for irrigators as the water management charges will not reflect the underlying costs of the services and functions performed by DPI Water. To illustrate our point, NSWIC has requested from DPI Water a comparison of valley specific pricing for unregulated rivers in northern NSW and a list of 'amalgamated' prices. DPI Water was not able to provide this information but told us that the valley specific prices and the proposed prices are 'roughly similar'. If DPI Water cannot produce valley specific prices on request even though IPART stated that it will request annual report on a valley by valley basis, NSWIC has absolutely no confidence in the accuracy of the proposed charges or their transparency. NSWIC has long had a policy that supports valley based pricing and as such we reject strongly any move to 'postage stamp' pricing or cross-subsidisation between NSW valleys.

Further specific issues are addressed below.

PART 2 - Specific Comments

Inefficiency

Despite IPART's review and Synergies efficiency analysis, NSWIC remains deeply concerned about the proposed revenue allowance for DPI Water and the associated water management charges. NSWIC believes that IPART has failed to appropriately scrutinise DPI Water's revenue proposal and has incorrectly used the last determination as a benchmark for comparing the proposed future revenue allowances and the associated water charges. Given the lack of historical information about the NSW Office of Water / DPI Water costs and work program, a comparison between the two price determinations is inappropriate and NSWIC submits that the 2016 determination must be assessed on its own merits - including the efficiency and effectiveness of the proposed water management charges. This is of particular importance since DPI Water has proposed an amendment to the cost codes, cost drivers, pricing areas and the cost recovery methodology which makes a comparison between the two price determinations impossible.

Given the fundamental changes, NSWIC cannot assess the efficiency of previous costs and charges and hence is unable to comment on whether the current level of charges reflect an appropriate and efficient revenue allowance for DPI Water. As IPART's draft report and the Synergies efficiency review indicate, there is ample evidence to suggest that the previous level of NOW / DPI Water's revenue allowance was inefficient. As an example, Synergies identified that DPI Water's actual operating expenditure between 2011-12 and 2013-14 was 7% higher than IPART's 2011 determination because of misallocation of costs to activities, use of external funding and changes in priorities. In addition, Synergies' top-down assessment of efficiency suggests that DPI Water's overhead costs are higher than other government departments of a similar size, which suggests scope for efficiency adjustments.

As such, NSWIC requests that IPART considers adjusting the current draft determination to deduct additional revenue allowance from DPI Water for any inefficiencies² that have occurred over the current determination period.

NSWIC submits that IPART deduct further revenue from DPI Water for any inefficiencies that have occurred over the current determination period.

Amalgamation of Valleys

Despite our earlier comments, NSWIC considers it important to reiterate our position on current 'status quo' valley pricing.

Notwithstanding our ongoing engagement with DPI Water on pricing issues, NSWIC has never been consulted on a proposal for 'regional pricing' for inland NSW valleys. NSWIC has long had a policy that supports valley based pricing and as such we reject any move to 'postage stamp' pricing or cross-subsidisation between NSW valleys.

NSWIC is deeply concerned that the proposed amalgamation will lead to even less transparency in water management charges and will possibly result in cost shifting between valleys. It would also create wrong price signals for irrigators as the water management charges will not reflect the underlying costs of the services provided by DPI Water.

² NSWIC considers inefficiencies include those costs that irrigators have already paid but DPI Water have failed to provide a corresponding output (i.e. review of Water Sharing Plan).

In addition, NSWIC does not understand the rationale for moving to 'regional pricing' for inland NSW valleys if the costs are derived on a valley by valley basis and if IPART requests DPI Water to report costs and charges on a valley basis. NSWIC has requested further information from DPI Water on valley specific prices for the unregulated rivers in the inland northern valleys. We were told that there is no fundamental difference in prices however, DPI Water was unable to produce the requested valley based prices as the 'model was not calibrated to do so'. NSWIC believes there is a serious conflict between IPART's intention and DPI Water's proposed regional pricing model. NSWIC and its members do not support valley based prices for inland NSW valleys and request that DPI Water provide the comparable valley based equivalent for the unregulated river charges in the inland northern valleys and continues with valley specific unregulated water management charges in inland northern NSW.

NSWIC rejects the proposed amalgamation of inland NSW valleys for the purpose of pricing in unregulated rivers in inland northern NSW on the basis of transparency, cross subsidisation and inefficient price signals.

Coastal Valleys Cost Framework

NSWIC is extremely disappointed that IPART has not considered a differential pricing framework or tariff structure for the NSW coastal valleys. As we had outlined in our previous submission, NSWIC is of the view that water management challenges in the NSW coastal valleys are fundamentally different to inland NSW valleys and as such, there should be a consideration (including a comprehensive cost benefit analysis) of managing the price determinations for these two broad geographic areas in different ways.

NSWIC understands that such a differential approach could increase the complexity of any future price review and determination, however, NSWIC believes there are numerous potential benefits which justify such a consideration. Through extensive discussion with NSWIC's coastal valley members it has become evident that the current approach to tariff structures, cost shares, the cost driver methodology and metering programs does not work for the NSW coastal valleys and has resulted in water management charges that are unsustainable for irrigators along the coast - thereby creating disincentives for coastal valley irrigators to fully utilise their water allocations. This is particularly the case in light of IPART's draft decision to increase the water take component of most coastal valley water management charges. The outcome is likely to be suboptimal for both DPI Water and our coastal valley members³.

In addition, the water demands and patterns of water consumption in the coastal valleys are significantly different from inland NSW. Not only does the NSW coast experience a much higher population density (i.e. creating needs for town, stock and domestic water supply as well as water management initiatives to avoid tidal salt intrusion), but there is also greater demand for water from recreational users who currently do not pay DPI Water's water management charges - creating an unsustainable cost recovery burden for coastal valley irrigators who hold water access licences.

Furthermore, the proposed changes to the meter / water take measurement creates further cost pressures on coastal valley irrigators who would like to access the two-part pricing structure but find it cost-prohibitive if meters are required. The current level of charges and continuous lack of communication from DPI Water on the water take measurement strategy or an alternative proxy creates unnecessary uncertainties for licence holders who are considering surrendering further water licences to the NSW Government due to rising cost pressures. Again, NSWIC believes this is an outcome that is suboptimal to licence holders or the NSW Government.

³ NSWIC strongly recommends IPART to liaise further with NSWIC's coastal valley members on the issue.

NSWIC considers it imperative that IPART engages separately with our coastal valley members to find a sustainable long term solution for the NSW coastal valleys. In this context, NSWIC's coastal valley members have proposed a review of the cost recovery mechanism and the current tariff structure. NSWIC believes that the peculiarities in usage patterns, cost base management of the coastal river system and the way costs are apportioned between classes of water users must be reviewed for coastal valley water licence holders to ensure the ongoing viability of irrigation along the NSW coast.

NSWIC submits that the differences between the water use patterns and management of NSW's inland valleys and NSW's coastal valleys warrants IPART exploring the costs and benefits of a different water management charge framework for NSW Coastal Valleys.

NSWIC submits that IPART must mandate DPI Water to conduct a full review (including stakeholder consultation) into the viability of current coastal valley water charges and develop an alternative framework on which coastal water charges are based. NSWIC will reiterate this request to the NSW Government also.

Cost Codes

NSWIC remains deeply concerned about the amendments to DPI Water's cost codes. Contrary to DPI Water's proposal and IPART's draft assessment, stakeholders are yet to have a comprehensive understanding about the structure and drivers of the previous C-codes and their impact on water management charges.

The proposal to adjust the C-codes to W-codes and reassign users and government shares to these costs suggests to stakeholders that DPI Water had no understanding of its own cost recovery methodology or had no intention to allow stakeholders to compare and assess the efficiency of its previous water management charges - NSWIC suspect the latter. The amendments to the cost codes and the fundamental adjustment to the cost drivers gives stakeholders no confidence that the new cost codes improve the previous C-codes or that they are appropriate.

Furthermore, NSWIC is deeply concerned by IPART's comment that 'there would be technical difficulties associated with reverting to the previous cost drivers because the C-codes might no longer be reflective of the proposed W-code activity costs'. This statement underscores that the C-codes and W-codes cannot be easily compared despite IPART's claim that mapping is possible.

NSWIC submits that IPART must ensure that irrigators are not disadvantaged (cost wise) from the shift in methodology.

Previously Allowed Costs

As mentioned in NSWIC's previous submission, costs associated with Office of Water's previous work plans, particularly related to the review of Water Sharing Plans Review, have not been completed even though costs for this work have already been recovered through water management charges. Not only must IPART deduct further revenue from DPI Water for any inefficiencies that have occurred over the current determination, but NSWIC also submits that IPART must impose additional reporting requirements and KPIs on DPI Water around the review of Water Sharing Plans, SDL Offset Projects, Water Resource Plans, Floodplain Harvesting and the Water Take Measurement Strategy.

Should DPI Water not complete this work schedule in accordance with a specified timetable, NSWIC submits that IPART should impose penalties on DPI Water and reduce water management charges accordingly.

NSWIC submits that IPART should not allow for further cost allocations for work plan components from the previous Determination not yet completed. In addition, NSWIC submits that any work that DPI Water is not able to complete within the next determination must be deducted from the following determination and/or reduced from water management charges accordingly.

Cost Driver - Water Take

NSWIC is concerned that IPART has rejected its own consultant's (Synergies and Cardno) recommendations on retaining entitlement volumes as the cost driver not water take on the basis that there is only a weak relationship between total water take and DPI Water's cost of service. The new cost allocation model relies heavily on reliability water take forecasts without sufficient evidence of the reliability of such forecasts over recent years.

In particular, NSWIC is yet to be convinced of the advantages of using water take (instead of water entitlement) as the main cost driver for DPI Water's cost codes. As Synergies and IPART have highlighted in the draft report and the efficiency review, 'water take' could increase the volatility in water management charges and also cause a shift in distribution between fixed and variable charges. NSWIC has had a number of inquiries about this proposed shift in fixed vs variable charges and we suggest that the insufficient consultation and information on this new cost driver has caused confusion and concern among water licence holders in NSW.

NSWIC notes that Synergies outlines on page 11 of their report that there is little advantage to adopting water take over entitlement volume, unless a causal relationship can be demonstrated between the amount of water taken and costs of services and noted this is not the case for the majority of activities.

In addition, the use of 'water take' in conjunction with the '20 year rolling average' demand forecast model skews the level of proposed water management charges (i.e. higher than necessary). This is because the current 20 year rolling average incorporates some years of extremely low water availability and hence understates the water take in NSW over the long term. As IPART's own analysis has shown, a comparison between the last four years and the 20 year rolling average shows a significant difference in water take - having a higher water take in the last four years than if the 20 year rolling average method was applied. As IPART sets charges for DPI Water over the entire determination, it is possible that DPI Water will significantly over-recover if the proposed system of water take and 20 year rolling average is applied. NSWIC believes that this risk is imminent as DPI Water has effectively protected itself from supply side risk by using this approach.

NSWIC submits that IPART should reject the change in using water take as a cost driver and continue to use water entitlement as a driver for the price determination. Should IPART fail to do so, then NSWIC submits any over-recovery of DPI Water must be returned to water licence holders in the next determination.

Minimum Annual Charge

NSWIC supports the increase in the minimum annual charge from \$105 to \$200 by the end of the next determination. As IPART's draft report highlights, a cost reflective charge would

however be \$234 and NSWIC encourages IPART to transition to such a cost reflective charge over multiple determinations.

NSWIC accepts IPART's draft decision to a cost reflective \$234 charge for minimum licence holders over multiple determinations.

Floodplain Harvesting

While NSWIC's northern members have worked on the development of floodplain harvesting licensing, IPART's draft report accurately pointed out that the regulation which will determine the number of licences and the terms and conditions of such licences is yet to be finalised and published. As DPI Water does not monitor or charge for water take involved with floodplain harvesting at the moment and does not know how many floodplain harvesting licences will be issued across northern NSW, it is incomprehensible to NSWIC that IPART has accepted DPI Water's proposed charges. There is simply not enough information available to determine the accurateness or efficiency of these charges and the practice to extrapolate figures from only the Gwydir valley is simply absurd. NSWIC rejects the derivation of these charges without corresponding evidence.

NSWIC insist that IPART develop a methodology that would explain these charges and outline how they are derived. In addition, NSWIC seriously questions IPART's rationale for accepting these charges as the draft report states 'the marginal level of associated activities of floodplain harvesting creating no additional operation costs to revenue needs'. It is incomprehensible to NSWIC how IPART could consider it appropriate to charge for harvesting licence if IPART is of the view that there are no further revenue needs for DPI Water from the establishment or management of these licences.

NSWIC believes it is imperative that DPI Water has ongoing discussions with our northern members around floodplain harvesting licences and the costs associated with managing these licences (once issued). Should IPART accept DPI Water's proposed floodplain harvesting charges, NSWIC considers it important that the department annually reports on the costs of managing these licences to ensure that the proposed charges are accurate and cost reflective.

NSWIC submits that IPART must make an allowance in its price determination that allows for a review and accurate determination of floodplain harvesting licence costs within the next price determination to ensure that all charges are efficient and cost reflective.

MDBA Costs

As NSWIC outlined in its previous submission to IPART and our responses to State Water's previous regulated water charge review, stakeholders have no transparency around MDBA related costs that are passed onto water licence holders. At the same time, water licence holders have seen a sharp increase in costs associated with Murray-Darling Basin Authority costs which we are unwilling to accept without a corresponding explanation on their underlying cost basis.

NSWIC has spent considerable hours reviewing MDBA related costs paid for by water licence holders -we have reviewed DPI Water's current and previous price proposal as well as the MDBA corporate plans. We have engaged with DPI Water, WaterNSW, IPART and the ACCC to gain a better understanding on the basis for the costs - however to this date, NSWIC is unable to assess the appropriateness of MDBA related charges.

In addition, NSWIC stresses that IPART has accepted DPI Water's proposal for MDBA charges without knowing the actual costs over the next four years. As we have determined

through our conversations with DPI Water, the NSW Government negotiates the level of MDBA charges each year with the MDBA however IPART is now asked to determine the level of user related MDBA costs for the ENTIRE determination. As MDBA related costs make up a large proportion of WaterNSW bulk water charges in the NSW Murray and Murrumbidgee valley - the importance of DPI Water's proposed MDBA contributions recovered from water licence holders are critical and must be thoroughly scrutinised.

NSWIC strongly rejects the increase in MDBA related costs which are passed onto licence holders without any evidence on their accuracy and cost efficiency.

NSWIC submits that IPART revisits the user share components of these activities as many of these activities have significant public good components.

NSWIC submits that IPART must instruct DPI Water as part of their annual reporting requirements to provide detailed information on the cost recovered from users for the MDBA and also on the amount of external funding that DPI Water receives from the Authority for relevant work programs. NSWIC requests that this information is made public.

We have prepared a separate document (Attachment A) that outlines our concerns regarding MDBA related charges.

NSWIC is in the process of writing to the NSW Minister for Primary Industry, Lands and Water on this issue.

Metering

NSWIC rejects the proposed meter related charges on the grounds that insufficient evidence is provided that would justify the associated charges. In addition, there is insufficient clarity around which meter related charges are applicable in each circumstance. The question around metering charges is particularly pressing for the NSW coastal members who consider the current proposal will provide a strong incentive to surrender further licences to the NSW Government as the cost of maintaining the licence (with meter related charges) outweigh the benefits.

Finally, water licence holders have little clarity around which proposed metering charge applies to them and often receive conflicting information from DPI Water.

NSWIC strongly rejects the proposed meter related charges and submits that previous costs plus CPI should be adopted.

Annual Reporting

NSWIC is extremely disappointed by the content of IPART's proposed annual reporting requirement. Not only are the currently listed issues retrospective, they also fail to pick up on the main issues that DPI Water must attend to over the next determination.

NSWIC also notes a number of the weaknesses raised by Synergies have not been incorporated into the KPIs, which remain largely output rather than outcome KPIs or in the case of cross border and national commitments qualitative and effectively meaningless.

NSWIC submits that DPI Water's annual reporting requirements and KPIs are extended to include reporting against the progress of the review of Water Sharing Plans, the completion of the list and assessments of SDL Offset Projects, the finalisation of Broken Hill's alternative water supply, the completion of the Water Take Measurement Strategy, the progress on Floodplain Harvesting licences and the making of Water Resource Plans. In addition the KPIs must focus on outcomes rather than output.

Timeliness

NSWIC has continually raised concerns about the delays in NOW's reporting functions and the deferral of the current pricing review. This concern has been shared with IPART who stated in its letter to NOW from 6 October 2010 that 'the regulator has also had serious concerns that NOW has not provided timely and accurate reports in compliance with its obligations of the 2006 determination'. NOW provided an incomplete 2006/07 report in December 2008, more than 12 months after it was otherwise due, and the Department later replaced that report in January 2010 following the identification of errors. IPART then concluded that these actions suggest that there are necessary improvements that need to be made to increase the reliability and timeliness of NOW's reporting to IPART.

NSWIC suggests that this letter also highlights the issues and concerns irrigators have had with the basis of the current DPI Water management charges. Once again, significant improvements in the transparency of cost assessments are necessary to regain confidence from stakeholders that the charges which are imposed by DPI Water are accurate and efficient.

As noted above, IPART has consistently included in their pricing determinations a requirement that NOW / DPI Water provide IPART with financial information on an annual basis, including valley based financial reports which include:

Revenue collected from water charges

- Operating expenses identified by activity codes.
- Current year budget, actual expenditure and revenues.
- Explanation of the variation between actual and budget expenditure.
- Explanation of how costs have been apportioned to individual valleys.
- Progress on work schedule.

This information, as a minimum, should also be provided to stakeholders on an annual basis, to improve transparency and provide assurance that DPI Water is fully accountable for the efficient expenditure of water charges paid by licence holders.

Water Take Measurement

NSWIC reiterates its support for the development of a Water Take Strategy by DPI Water. The Council and its members have been calling on NOW / DPI Water to consider possible alternative water take measurement strategies (aside from meters) for a long time and are pleased that some progress has been made in this regard. However, NSWIC is disappointed that the internal restructure of DPI Water has delayed the completion of the Strategy and we urge IPART to insist that DPI Water completes this work at the earliest possible opportunity.

As we mentioned in our previous submission meters are often expensive and not cost efficient to install and use in certain areas. Also, since there is currently only one pattern approved meter that complies with the National Metering Standard, NSWIC considers the development

of a Water Take Strategy to be of paramount importance to provide groundwater and unregulated irrigators access to the two-part pricing. Many of NSWIC's members have requested access to two-part pricing which will give them greater control over their costs and hence the ability to more efficiently use their water. NSWIC would like to see the development of this strategy prioritised.

NSWIC submits that IPART must request DPI Water to complete the Water Take Measurement Strategy at the earliest possible opportunity.

Appendix A

Murray-Darling Basin Authority Contributions

As the IPART draft report and additional factsheet outline, DPI Water seeks to recover a share of the costs of the water management activities funded through the Murray Darling Basin Authority (MDBA) Joint Programs, from water users over the 2016 Determination period (2016-17 to 2019-20).

Contrary to the 2011 Determination where IPART allowed \$1.94 million per year of MDBA contributions to be recovered via water management charges, IPART proposes \$4.97 million per year to be recovered from users in the next determination - a 156 per cent increase from the previous determination. While NSWIC acknowledges that IPART has reduced DPI Water's proposed \$9.28 million for total MDBA contributions to \$8.98 million - a 3 per cent decrease - we vehemently disagree with IPART's assessment that the quality of information supporting DPI Water's proposed MDBA costs has improved and these cost increases are therefore justified. Furthermore, NSWIC questions the validity of the assumptions on how these costs should be shared with water users.

As NSWIC outlined in its previous submission to IPART, ACCC and State Water/WaterNSW, stakeholders have no clarity around MDBA related costs which are passed onto water licence holders via DPI Water and WaterNSW water charges. Concurrently, water licence holders have seen a sharp increase in MDBA related cost over recent years through WaterNSW. Water licence holders are not prepared to accept these charges without a corresponding explanation about the underlying cost basis.

NSWIC has spent considerable time reviewing MDBA related charges passed on to water licence holders via DPI Water and WaterNSW water charges. We have reviewed the MDBA's corporate plans and engaged with DPI Water, WaterNSW, IPART and the ACCC to gain a better understanding of the costs and efficiencies of the proposed MDBA contributions. NSWIC is greatly disappointed, that we have not succeeded in providing our members with a detailed and transparent outline of historical MDBA costs - even though this information should be easily accessible to all stakeholders and licence holders who pay these charges. The lack of transparency around MDBA charges puts into question the entire NSW water charge reviews and determinations as licence holders cannot even be confident that their complete bills have been reviewed by an independent regulator and deemed efficient as well as cost-reflective.

Furthermore, it is incomprehensible to NSWIC that IPART has accepted DPI Water's proposal on the user share contributions for MDBA costs without knowing the actual costs over the next four years of the upcoming determination. As we understand, the NSW Government negotiates the level of MDBA charges each year with the MDBA and hence the level of NSW contributions beyond 2016-17 is unknown at the time the next DPI Water determination is handed down. IPART will therefore set user shares of MDBA related costs for the entire determination irrespective of the actual level of NSW contributions - thereby locking water licence holders into a fixed amount of MDBA contributions even though this amount could vary significantly. While stakeholders acknowledge that this could have benefits, we point out that the last downward adjustment of NSW MDBA contributions entirely benefited the NSW Government and not licence holders. In addition, NSWIC believes that such an approach is inefficient.

It must be remembered that MDBA related costs make up a large proportion of water licence holder's water charges in NSW - in particularly in the NSW Murray, Murrumbidgee valleys - as

these valleys now carry 100% of MDBA related contributions through WaterNSW charges. This has been a change to previous determinations where the NSW Government and water users shared MDBA related costs recovered through State Water's bulk water charges. In these two valleys as well as the Gwydir and Namoi valleys, the share of MDBA related costs is between 21 and 32 per cent as IPART outlines in its factsheet. Given these percentages, water licence holders have a right to question MDBA related costs and ask them to be reviewed, scrutinised and determined in line with other DPI Water and Water NSW water charges. The impacts are particularly clear where in the Murrumbidgee Valley – where MDBA costs are 32 percent of the user share of the notional revenue requirement. It must be noted that the NSW arrangements are quite different to other Basin States where the respective governments pay a proportion (if not all) of MDBA related charges.

In addition, NSWIC would like to outline the following concerns with the current MDBA contributions passed on to NSW licence holders via water charges (DPI Water and WaterNSW):

- Contrary to the NSW Government, stakeholders have no 'seat at the table' or direct oversight over the approval processes around MDBA related funding as part of the annual corporate planning process as this is exercised by the Ministerial Council, advised by the Basin Officials Committee. NSWIC agrees with IPART's consultant that the MDBA activities may not be subject to a sufficient level of independent review to ensure that the proposed operating expenditure is efficient and entirely consistent with the 'impactor pays' principles.
- The information contained in IPART's draft report relating to MDBA activities is inadequate. The most detailed information includes that 'MDBA undertakes five activities that are funded in part by contributions from DPI Water on behalf of NSW including 1.operations of salt interception schemes 2.river channel management 3.post water management 4.hydrometric services and 5.water quality monitoring'. Apart from these headline figures, little additional information is provided to stakeholders in the draft report.
- As IPART's consultants have identified, there are further efficiency gains that can be made in the program delivery (in particular the Living Murray Program and the salinity management work). This assessment was made despite the recently conducted efficiency review which claimed that MDBA costs were appropriate and efficient. Given this efficiency review, stakeholders are highly perplexed that IPART's consultant was able to find further efficiencies. We could not agree more with IPART's consultant that:

'An expectation that users should contribute to these costs through water management charges should be matched by an appropriate level of transparency and scrutiny and the opportunity to question the cost sharing arrangements for these activities.'

- In addition, Synergies earlier 2014 review of MDBA's operations for the Ministerial Council identified further scope for improvements to asset management planning, clear specification of service standards and improvements to cost forecasts and cost controls. IPART's consultant therefore proposed a 'blanket' 5% efficiency adjustment to the MDBA costs. While NSWIC supports further downward adjustment in MDBA related contributions, NSWIC questions the approach to use a 'blanket 5%' methodology. What this indicates to NSWIC is that the consultant has insufficient clarity around MDBA related contributions.

- Stakeholders have no clarity around external grants that DPI Water receives from the MDBA to implement work programs and projects in NSW. As IPART's draft determination outlined, stakeholders have ample reason to assume that there has been cost shifting and misappropriation of external funds (i.e. including for monitoring and compliance costs). NSWIC strongly urges IPART to instruct DPI Water to provide further information on the amount of external grants received from the MDBA and the projects that they were meant to fund.
- As outlined earlier, the NSW Government and the MDBA negotiated NSW MDBA contributions every year while IPART is asked to set the user share of MDBA contributions for the entire four-year determination period - this means, if the NSW Government adjusts its contributions (this has occurred in the last determination), the entire savings will be attributed to the NSW Government share and not water licence holders.
- It has been nearly impossible to get accurate historical information on the contributions which have been made by users vs. the NSW Government through both NOW/DPI Water and State Water/WaterNSW. Furthermore, there is significant discrepancy between the determinations (State Water / DPI Water) and the actual NSW contributions made to the MDBA - adding to the lack of clarity.

In conclusion, the lack of transparency around user shares of MDBA contributions through DPI Water and WaterNSW water charges as well as the proposed increases in contributions create significant cost pressures for water licence holders in NSW. As such,

NSWIC strongly rejects the increase in MDBA related costs which are passed onto licence holders without any evidence on their accuracy and cost efficiency.

NSWIC submits that IPART revisits the user share components of these activities as many of these activities have significant public good components.

NSWIC submits that IPART must instruct DPI Water as part of their annual reporting requirements to provide detailed information on the cost recovered from users for the MDBA and also on the amount of external funding that DPI Water receives from the Authority for relevant work programs. NSWIC requests that this information is made public.

Appendix B

IPART Draft Report - Review of Prices for Water Administration Corporation (1 July 2016 - 30 June 2020) - Feedback to IPART's Draft Decisions

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

NSWIC Response: As the costs associated with the Metropolitan Water Plan will exclusively be recovered from WaterNSW through a special charge, NSWIC does not have any objections to IPART's draft decision.

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

NSWIC Response: NSWIC points out that this arrangement could cause an alignment between the last year of the DPI Water price determination and the last year of the WaterNSW price determination if the next WaterNSW determination is 3 years. Should the two determinations align stakeholders must be assured that enough time is provided to appropriately consult with members. NSWIC recommends a six-week consultation timeframe for each the Issues Paper and the Draft Determination in the next price review (should the two determinations align).

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

NSWIC Response: NSWIC notes that despite the reduction in DPI Water's notional revenue allowance, the users share component is expected to increase from 59% (on average) to 72% over the next four years. NSWIC acknowledges that this increase is largely due to MDBA related costs, however NSWIC considers this to be a considerable increase from the last determination. NSWIC is concerned that this development will set a precedent for further cost shifting to irrigators and will place a disproportionate cost burden on licence holders. NSWIC believes the user share of the MDBA activities, such as the Living Murray Program should be lower.

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

NSWIC Response: Please see Appendix A.

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

NSWIC Response: Please see Appendix A.

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

NSWIC Response: NSWIC notes that IPART has expressed concerns with the NSW Office of Water's (NOW) previous capital expenditure proposal in the 2010 price review and adjusted NOW's CAPEX accordingly. NSWIC shared IPART's assessment in the previous determination and continues to hold these concerns in 2016. As the IPART draft report outlines, DPI Water has not provided a comprehensive capital management plan or has provided an explanation on who will be the beneficiaries of these CAPEX projects.

NSWIC rejects IPART's decision to allow DPI Water to justify any CAPEX projects ex-post because stakeholders have no transparency about the costs of these projects but will be asked to pay a return on and off these capital assets in the future. NSWIC believes this is extremely poor business practices and submits that any CAPEX works that are not accompanied with an extensive capital management plan must be rejected by IPART. Like other regulated businesses in NSW (WaterNSW and the NSW Network businesses) there are no opportunities to adjust any capital expenditure ex-post and hence the regulated asset base is fixed once the expenditure has been made. Any inefficiencies are therefore carried forward indefinitely and will cost licence holders in every determination from here forward.

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

NSWIC Response: As outlined in our response to point 6, NSWIC is deeply concerned about DPI Water's CAPEX proposal. IPART's consultant Synergies commented that DPI Water's proposed capital expenditure program has not reached a stage of development at which an assessment about the prudence and efficiency of the capital projects can be made. NSWIC submits that this CAPEX proposal must be removed by IPART and not be considered for the determination of irrigator's water management charges.

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

NSWIC Response: NSWIC questions the negative opening RAB value of minus \$51,000 which is noted on page 58 of the IPART draft report. NSWIC submits that further information must be provided by IPART on this value.

In addition, NSWIC believes a comparison between previous RAB and proposed future RAB is inappropriate due to the different underlying cost codes and cost drivers.

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

NSWIC Response: As the value of the regulated asset base, the weighted average cost of capital (WACC) and water management charges are intrinsically linked, NSWIC urges IPART to thoroughly review NSWIC's response to question 6 and 7 (above). Given the possible inefficiencies of future capital expenditure and IPART's draft WACC decision the impact will be felt by irrigators in every determination from here forward. NSWIC reiterates its rejection of DPI Water's CAPEX proposal and the existence of a

WACC for a government entity. Please refer to our previous submission to IPART for further detail.

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

NSWIC assessment: NSWIC notes that IPART has provided an allowance to DPI Water on its 'working capital' even though the majority of DPI Water's revenue is guaranteed through government contributions and water licence holders fix charge payments. NSWIC questions the need to provide such an allowance to DPI Water and seeks further explanation from IPART on its necessity.

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

NSWIC Response: NSWIC notes that IPART has allowed for a regulatory depreciation on DPI Water's 'buildings', 'furniture' and 'fittings'. NSWIC believes this is outside the scope of the price review and should be fully paid for by government under 'normal government departmental operational costs'. NSWIC does not believe the inclusion of such a charge would fall under 'water management charges' pursuant to the National Water Initiative.

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

NSWIC Response: As outlined in this and previous submissions, NSWIC notes that DPI Water is a government entity and should not be allowed to recover a tax allowance through its water management charges.

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

NSWIC Response: As we outlined in Appendix A, stakeholders have no clarity around DPI Water's external grants and contributions (including grants provided by the MDBA). NSWIC submits that IPART must instruct DPI Water to report on external grants in their annual reporting requirements.

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

NSWIC Response: Please refer to the general comment section for further detail.

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

NSWIC Response: As we outlined earlier in this submission, NSWIC and its members have a number of concerns with the proposed notional revenue allowance for DPI Water. Below is a list of the key issues:

- NSW Office of Water/DPI Water has not completed its work program from the previous determination (including the review of NSW Water Sharing Plans).
- There is no transparency around MDBA costs (and DPI Water's external grants).

- DPI Water has not provided a complete capital management plan for their proposed CAPEX.
- DPI Water seeks a depreciation allowance for government buildings, equipments, fittings which should be classified as 'standard government operating expenditure'.
- DPI Water proposes 'cross subsidisation' among unregulated rivers in the north by amalgamating areas into Far West and Central West region, leading to less transparency in pricing.
- DPI Water proposes changes in cost codes which are difficult to compare with the previous determination.

Given all of these issues, NSWIC rejects IPART's proposed notional revenue allowance for DPI Water and submits further reductions must be made.

NSWIC also expects water users to benefit from the formation of DPIWater and the anticipated transfer of DPIWater activities to WaterNSW, these changes should delivery efficiencies to water users. This pricing determination will be the only opportunity to pass on cost savings to water user for Water Administration Ministerial Corporation costs.

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

NSWIC Response: NSWIC is concerned that IPART has (against the recommendation of its consultant Synergies) accepted DPI Water's proposal to use 'water take' as a cost driver even though IPART states on p.77 that ' there would be technical difficulties associated with reverting to the previous cost drivers because the C-codes might no longer be reflective of the proposed W-code activity costs. This statement makes it obvious that the cost codes cannot be compared or mapped which raises the issue about transparency and cost shifting. Noting Synergies on page 63 of the draft report conclude there is not a strong case for adopting water take over entitlement as a costs allocator, particularly as the majority of activities are not causally related to water take.

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

NSWIC Response: Please refer to our response to point 16. NSWIC does not understand how IPART could accepted DPI Water's proposed amalgamation of unregulated river sources in northern NSW valleys when costs are allocated according to individual cost codes and IPART requests DPI Water to continue to report on an individual valley basis. We have inquired with DPI Water on the valley specific costs and were told that this information is not readily available. As such, NSWIC fundamentally rejects the amalgamation of unregulated river valleys and submits that prices must be recorded on a valley by valley basis.

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

NSWIC Response: Please refer to our response to point 17. Furthermore, NSWIC would like to reiterate its support for valley specific groundwater pricing.

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

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

NSWIC Response: NSWIC does not have any objection to the proposed tariff categories, however we raised the concern that the change in methodology has changed the weighting between the fixed/variable charge components which is not well understood by water licence holders.

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

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

NSWIC Response: NSWIC does not have any objection to the entitlement charge methodology.

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

NSWIC Response: As NSWIC outlined earlier, we strongly urge IPART and DPI Water to consult with our NSW coastal members about the pricing methodology and the current tariff structure.

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

NSWIC Response: Due to a change in cost codes and cost drivers, a comparison between current and proposed bills is meaningless for licence holders.

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

NSWIC Response: This does not seem to be the case for some water sources. We request IPART to comment on the changes to unregulated water take charges as outlined on page 12 of IPART's draft report.

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

NSWIC Response: NSWIC has supported the increase in the Minimum Annual Charge and would further support a move to a cost-reflective charge over multiple determinations.

25. *IPART's draft decision is to accept DPI Water's proposal to set separate water management prices to apply from 1 July following Ministerial approval to issue all*

floodplain harvesting licences (as water take charge only licences) for that water source.

NSWIC Response: NSWIC rejects IPART's draft decision for floodplain harvesting charges. It should be noted that despite the fact that Ministerial approval has not yet been granted for floodplain harvesting, IPART proposes to accept DPI Water's floodplain harvesting charges in the northern MDB valleys. In addition, IPART proposes to use the water take forecast modelling in the Gwydir to extrapolate floodplain harvesting water take for the remaining northern valleys even though no further information on the other valleys is available. In addition, IPART mentioned that 'floodplain harvesting' needs to be regulated due to impacts it has on downstream water supply and the environment however, it is also mentioned that the marginal costs associated with floodplain harvesting will add no additional operating costs to DPI Water's revenue needs, hence questioning the proposed charges.

NSWIC believes it is imperative that DPI Water has ongoing discussions with our northern members around floodplain harvesting licences and the costs associated with managing these licences (once issued). Should IPART accept DPI Water's proposed floodplain harvesting charges, NSWIC considers it important that the department annually reports on the costs of managing these licences to ensure that the proposed charges are accurate and cost reflective.

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

NSWIC Response: As NSWIC has not yet had consultation on these licences, we are unable to comment on their appropriateness. It appears however that most of these licences have a water take component only, raising the questions about the actual cost of the licence.

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

NSWIC Response: As IPART has guaranteed that WaterNSW will be the only contributor to these costs, NSWIC does not have any objection to this proposal.

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

NSWIC Response: NSWIC notes that the entitlement volumes seem to indicate discrepancies in the 2014/15 period. NSWIC seeks clarification from IPART and DPI Water on this issue.

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

NSWIC Response: Please refer to our response to question 27.

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

NSWIC Response: Please refer to our response to question 25.

In addition, IPART's acceptance of the 20 year rolling average leads to lower forecast annual water take in all water sources compared to 2011-2015 time period. NSWIC believes that this has implications for the proposed water take charge which is higher than necessary based on the last four years.

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

NSWIC Response: Please refer to our response to question 25.

32. *We will consider at the next determination of WAMC's prices:*
- a. *An adjustment to the revenue requirement and prices to address any over or under-recovery of revenue over the 2016 determination period due to material differences between the level of billable water take over the period and the forecast water take volumes used in making this determination.*
 - b. *At the next determination, we will consider whether and how best to make a revenue adjustment based on the circumstances at the time.'*

NSWIC Response: As these recommendations are not relevant to this price determination, NSWIC will not provide further comments at this time. Should IPART consider implementing another cost recovery mechanism during the next price determination, we request that IPART and DPI Water provide extensive prior consultation on these issues.

33. *Outlined above (Price Schedules)*

NSWIC Response: NSWIC has covered this in the main part of the submission.

34. *IPART's draft decision on meter service charges is listed in Table 11.1. We have:*
- a. *Set charges based on meter size, but not differentiated charges by meter size to the extent proposed by DPI Water (i.e, we have adopted a flatter charge schedule).*
 - b. *Accepted DPI Water's proposed structuring of meter charges based on two categories: (1) telemetered/non-telemetered and agency read, and (2) non-telemetered customer read sites.*
 - c. *Applied a 1.5% efficiency adjustment to meter service charges, relative to DPI Water's proposal.*

NSWIC Response: As NSWIC raised in its response to WaterNSW price determination, we are not supportive of the current meter related charges and do not believe there is any justification for the associated increases. NSWIC is of the view that DPI Water has simply proposed these charges because they were accepted in the last WaterNSW price determination and due to the expectation that meter related charges will be transferred to WaterNSW in the future.

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

NSWIC Response: Please refer to our response to question 34.

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

NSWIC Response: NSWIC has not made a submission on ancillary service charges.

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

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

NSWIC Response: NSWIC is perplexed by the price differentials for consent transaction charges relating to 'dealings' and 'approvals'. NSWIC notes that the costs for 'low risk' unregulated and groundwater source dealings as well as works approvals are approximately half to those of 'other' unregulated river and groundwater sources. NSWIC does not believe DPI Water has provided sufficient information on the distinction between 'low risk' and 'other' unregulated river and groundwater sources and hence evidence that would justify the proposed charges.

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

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

NSWIC Response: NSWIC wishes not to make a submission on these two issues.

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

NSWIC Response: NSWIC is of the view that IPART has not sufficiently considered the impact of both DPI Water and WaterNSW water charges in their assessment of the price impacts.

In addition, NSWIC requests that IPART provides an assessment on the MDBA proportion of costs that are embedded into DPI Water's water management charges.

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

NSWIC Response: Please refer to our response to question 39.

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

NSWIC Response: Please refer to our response to question 39.

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

NSWIC Response: Please refer to our response to question 39. In addition, it must be noted that water trade is not available in all NSW valleys (i.e. coastal valleys).

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

NSWIC Response: As outlined earlier in this submission, NSWIC believes that the annual reporting requirements for DPI Water must be extended to include KPIs for the review of NSW Water Sharing Plans, SDL Offset Projects, development of Water Resource Plans and the completion of the Water Take Measurement Strategy.

Furthermore, future water management charges should be made contingent on delivering on these KPIs and DPI Water's work schedule to ensure that water licence holders do not continuously pay for DPI Water projects that are not completed.