

Submission

Independent Pricing and Regulatory Tribunal

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

16 October 2015

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 Issues Paper on the *Review of prices for the Water Administration Ministerial Corporation (DPI Water)* and the DPI Water Submission to IPART for its 2016 pricing Determination. 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

Assessment of DPI Water Costs & Proposed Charges

In response to the DPI Water submission to IPART for the next pricing Determination, NSWIC continues to be highly critical that irrigation sector stakeholders remain unable to assess the efficiency of DPI Water activities as they pertain to their requested prices, because of the lack of historical and current cost transparency as the basis of the requested prices. This is a fundamental shortcoming in the ability of the irrigation sector to fully participate in providing IPART with meaningful feedback on the pricing regime being proposed by DPI Water, the efficiency of those costs, and how equitably those costs are borne by water users.

Recommendation 1: The continuing lack of transparency in DPI Water costings leads NSWIC to strongly recommend that IPART enforce a more open and transparent methodology in cost assignment by DPI Water for future Determinations, and that IPART very critically assesses the basis of the cost / pricing regime being proposed by DPI Water for the 2016 Determination.

DPI Water Customer Engagement

DPI Water has based an assumption of a high level of acceptance of its charging regime amongst irrigator stakeholders through a very poorly executed survey of approximately 1000 irrigator stakeholders.

Recommendation 2: NSWIC recommends that IPART rejects the DPI Water assertion that a flawed customer survey represented significant customer consultation.

Coastal Valleys Cost Framework

It is very apparent that significant differences exist between the irrigation costs and usage patterns between Inland NSW Valleys and the Coastal Valleys. Coastal Valley Members of NSWIC are proposing a review of their Fixed / Variable Cost regimes to account for their

peculiarities in usage patterns, the cost base management of the coastal river systems and how costs are being proportioned between classes of water users.

Recommendation 3: NSWIC submits that the differences between the water use patterns and management of Inland Valleys and Coastal Valleys warrants IPART exploring the costs and benefits of a different water management charge framework for NSW Coastal Valleys.

Cost Share Framework

NSWIC remains concerned with the current cost share framework because it does not accurately reflect the sharing of DPI Water management costs by all water users.

Recommendation 4: NSWIC submits that IPART ensure that the cost share proportions being proposed by DPI Water reflect the appropriate sharing of costs across all water users.

Previously Allowed Costs

NSWIC is aware that costs associated with Office of Water work plans, particularly related to Water Sharing Plan Review costs allocated to the NOW cost base in the previous Determination period, have not been completed.

Recommendation 5: NSWIC submits that IPART should not allow for further cost allocations for work plan components from the previous Determination not yet completed.

Recovery of Government Costs

NSWIC notes the inclusion of External Reporting Requirements in the cost base contained in the DPI Water submission to IPART, including annual information returns for State and Federal agencies and resource inputs into IPART submissions. NSWIC rejects that irrigators should be paying for costs associated with internal or standard business practices intrinsic to the functions of a Government Department.

Recommendation 5: NSWIC recommends that IPART rejects the inclusion of standard Government reporting or business function costs in DPI Water management charges.

[Please Note: The NSWIC responses to the questions posed in the IPART Issues Paper are addressed in Part 2 of this Submission.]

General Comments

The NSW Irrigators' Council appreciates the opportunity to provide comments to the 2015 review of prices for the Water Administration Ministerial Corporation - DPI Water.

The Council has continuously engaged with the NSW Office of Water (NOW) / DPI Water on the pricing review and we are pleased that the pricing review is finally underway after a two year delay. NSWIC has also welcomed the initiative by NOW / DPI Water to engage early with stakeholders in the pricing review process and provide irrigators and stakeholder representative organisations with the opportunity to meet and discuss historical prices and future service levels.

Despite this progress, NSWIC and its members remain concerned about the price review process and the current level of DPI Water's water management charges which form the basis of the charges being requested in the IPART determination for the next regulatory period. The Council raised its concerns in our previous submissions to NOW and IPART about the process in the previous determination, specifically about the methodology applied by NOW to derive water management charges in NSW. It is apparent that DPI Water has not altered the fundamental methodology used to determine the charges being submitted to IPART for approval, and NSWIC has strongly urged DPI Water to consult NSWIC's previous submissions and address the issues that were previously raised¹ as part of its pre-submission engagement with the irrigation sector.

In short, NSWIC believes that the previous price review lacked transparency, and understandable costing structure and comprehensive support information which would have assisted stakeholders in understanding the rationale for previous water management charges, and making informed comment on the efficiency and appropriateness of those charges. Given this lack of detail, NSWIC remains unconvinced that previous water management charges were efficient and justified. The Council has grounds for this claim as the two year deferral of the pricing review and the freeze of water management charges to 2013/14 levels have not materially impacted NOW / DPI Water's activities and service levels.

Furthermore, the historical cost review that was undertaken by NOW / DPI Water indicates that the Department has not significantly under-recovered on its revenue target, which shows that the approved charges might have been higher than necessary over the last determination period. This is compounded by the fact that NOW / DPI Water has not yet completed its work plan activities from the last determination period - suggesting that irrigators have already paid for work that was planned but has never been completed. Therefore, NSWIC believes it is imperative that IPART does not allow an additional revenue allowance for work that formed part of NOW / DPI Water work plans in the previous period and should have already been completed.

Further specific issues are addressed below.

1

Customer Survey

NSWIC holds serious concerns about the customer survey that the NSW Office of Water (NOW) / DPI Water conducted earlier this year to inform its pricing submission to IPART, and despite the Council raising these concerns with DPI Water we remain concerned that this flawed survey process forms the basis of DPI Water's claim in its pricing submission to have undertaken significant consultation with a selected group of irrigator stakeholders. It is NSWIC's view that a customer survey is only useful if it is clear, easy to understand and seeks to answer well formulated questions. Regrettably, NOW / DPI Water's survey did not fulfill any of these criteria and caused more confusion amongst irrigators rather than answering important stakeholder questions about the basis of the cost of NOW / DPI Water's water management activities and services in NSW.

NSWIC received an initial draft survey on which we provided extensive feedback. It was extremely disappointing that our recommended amendments and suggestions for improvement were not taken into consideration in the final survey; only becoming aware of this oversight when we were contacted by a consultant to take part in the survey.

NSWIC provided extensive feedback to the DPI Water on our (and our members') survey experience and warned that the survey would not add value to the future price review or genuinely provide irrigators with an opportunity to express their views. To the contrary, NSWIC believes that the survey had the very serious potential to misrepresent irrigators' views about water management activities and charges in NSW. Therefore any claims by DPI Water of positive guidance obtained on pricing from irrigator stakeholders as one basis for the framing of requested charges to IPART should be discounted.

NSWIC does not endorse the customer survey or its results. In our view, DPI Water has failed to draft a survey that would assist this pricing review. As a result of the extremely poor irrigator customer survey quality, NSWIC submits that no weight should be given to the survey results in the pricing submission to IPART.

Differentiating Coastal and Inland NSW

NSWIC is of the view that the water management challenges in the NSW coastal valleys are fundamentally different to inland NSW valleys and as such, there should be consideration (including a comprehensive cost benefit analysis) of managing the pricing determination for these two broad geographic areas separately.

NSWIC understands that such a differential approach could increase the complexity of any future price reviews and determination processes, however, NSWIC believes there are a range of potential benefits which justify such a consideration. Through extensive discussions with NSWIC's coastal valley members it has become evident that the current approach to tariff structures, cost shares, cost driver methodology and metering programs does not work for the NSW coastal valleys and has resulted in water charges that are unsustainable for coastal valley irrigators - creating a disincentive for coastal valley irrigators to fully utilise their water allocations. The outcome is suboptimal for both DPI Water and our coastal members².

² NSWIC strongly recommends to liaise further with our NSWIC coastal members on the issue.

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 water management initiatives to avoid tidal salt intrusion), there is also greater demand for water from recreational users who currently do not pay DPI Water management charges - creating an unsustainable cost recovery burden for coastal irrigators.

NSWIC considers it is imperative that IPART engages separately with our coastal valley members to find a sustainable long term solution for determining sustainable water management charges in the NSW coastal valleys. NSWIC submits that IPART should explore the benefits of implementing a different water management charge framework for the NSW coastal valleys than for inland NSW.

Cost Shares

While NSWIC strongly supports the existence of a cost share framework, we would like to express our concerns with the current cost share proportions. We highlighted this issue in our last submission to IPART on the determination of NOW's charges in 2006, in which we stated that the current cost share proportions do not accurately reflect the conditions prevalent in NSW.

Not only are the current cost share proportions inadequately weighted, but the individuals who currently pay water management charges are only a subset of all those who benefit from the provision of water management activities by DPI Water. NSWIC stresses that a review of the current cost share proportions is necessary, with consideration of a more appropriate user base. NSWIC maintains that in line with the beneficiary pays approach, the pricing principles should apply to the full range of users of DPI Water's services.

Methodology

NSWIC has raised concerns about NOW / DPI Water's methodology to set cost drivers and derive water management charges in NSW. The Council believes that further consultation in regard to DPI Water's methodology is necessary to assure irrigators that the current process is efficient and equitable in distributing costs. In this respect, NSWIC reiterates that the Council does not support cross subsidization between groups of water users, and water management charges must fairly reflect efficient DPI Water activity costs.

Transparency

As we have outlined previously, NSWIC has long struggled to understand how NOW / DPI Water has derived its costs in each valley. The methodology and the cost drivers are extremely complex and opaque and do not provide an opportunity for irrigators or irrigator representative organisations to assess their efficiency and effectiveness. Given this lack of transparency on how costs have been assessed, NSWIC has long been concerned about the efficiency of NOW / DPI Water's water management charges per se.

DPI Water has indicated an intent to cap costs at 2013/14 levels for the first year of the new determination, but in the absence of greater transparency the question for NSWIC and for IPART is whether these costs represent an efficient level of costs.

In order to assist stakeholders to adequately comment on the DPI Water pricing submission, more detailed information on the cost codes and subcategories must be provided in order to compare historical costs with DPI Water's future pricing proposal to IPART. This will be particularly important since DPI Water has changed its activity codes. NSWIC is concerned that with the changes to the cost codes, it is even more difficult for stakeholders to compare historical and proposed future costs for DPI Water.

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.

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.

Review of Water Sharing Plans

NSWIC is extremely disappointed that NOW / DPI Water has failed to complete its work plan from the last determination period. In particular, it was NSWIC's understanding that the 2014 review of Water Sharing Plans was a significant component of NOW's previous resources and revenue requirement over the last determination period. As we have yet to see the completion of a full review of any of these Water Sharing Plans, NSWIC questions the amount that irrigators have paid in water management charges over the last determination to undertake this review (including the two years of deferral).

NSWIC seeks assurance that there will be no 'double dipping' in this determination whereby DPI Water attempts to recover further revenue from irrigators for the review of Water Sharing Plans - already accounted for in the previous determination period. NSWIC

is of the view that NOW / DPI Water has received adequate funding for this work program over the previous determination.

In addition, NSWIC reiterates its grave concern about the ongoing progress of the review of Water Sharing Plans. In the context of this next determination, this inaction on a major work program, already costed, must be considered in light of any future revenue allowance made to DPI Water in the next determination period.

Water Take Strategy

NSWIC welcomes 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 progress has been made in this regard.

NSWIC reiterates that 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.

Nevertheless, NSWIC seeks to understand how the development of the Water Take Strategy will influence the current water management charge review - given that the Strategy is unlikely to be finalised until early 2016, and may have significant implications for the costs DPI Water is seeking to recover through the next IPART determination.

In light of this, we have made the following submission to DPI Water:

The NSW Irrigators' Council (NSWIC) appreciates the opportunity to comment on DPI Water's Water Take Measurement Strategy discussion paper. NSWIC has encouraged the development of this strategy as the previous metering programs and pilots have highlighted several inefficiencies, prohibitive costs, and led to significant measurement errors³. As part of NSWIC's submission to DPI Water for the review of NSW water management charges, NSWIC stated that we welcome the prioritisation of this project as we believe it has potential wide scale benefits for irrigators in NSW.

The Council has long been supportive of accurate measurements of water use by all water licence holders and other beneficiaries, including the environment⁴ as we believe it strengthens the protection of the property rights of irrigators in NSW and also mitigates any possible third party impacts. These third party impacts could arise from incomplete information being available to DPI Water which could possibly lead to inaccurate available water determinations.

NSWIC stresses that a state wide water take strategy must be based on the following three principles:

³ As indicated in the Discussion Paper.

⁴ <http://www.nswic.org.au/pdf/Briefings/110912%20-%20Metering.pdf>

- *The Strategy must be practical, easy to consistently implement, maintain and enforce.*
- *The Strategy must be accompanied by a thorough cost benefit analysis that determines whether its implementation will lead to greater benefits than costs.*
- *The Strategy must enable water licences holders access to two part water prices.*

NSWIC has long argued that all those who derive benefits from DPI Water and Water NSW functions should contribute to the costs of performing these functions. As such, NSWIC considers it appropriate that all licence holders, including stock and domestic, are incorporated into the further refinement of this Strategy. Such an inclusive approach will ensure that an accurate assessment of the available water determination can be made and all water charges are accurately attributed to licence holders and other beneficiaries and no cross-subsidisation occurs between them.

NSWIC has also stressed on a number of occasions that the benefits from the development and implementation of a water take strategy must be greater than its costs. As we have seen in previous iterations of the state metering programs, there has not been equitable cost sharing across users and no solid business case provided that outlines an appropriate funding model for its implementation. The most recent Commonwealth funded metering project for northern NSW was unilaterally rejected by our members due to the lack of consultation on the Business Case, the absence of a national metering standard as well as pattern approved meters, the inequitable sourcing of entitlements to be passed to the Commonwealth, and the poor value proposition for the regulated water users.

Furthermore, NSWIC has raised concerns about costs related to meter telemetry. In our submission to the ACCC on the State Water's bulk water charge determination, we highlighted that telemetry is not a viable option for some NSW regions - in particular those that do not have good telecommunication coverage. While it is a 'nice to have' capability, it is an unnecessary expense at current costs. NSWIC does however acknowledge that telemetry could be an option for some water users if multiple use benefits can be gained from the technology. Should any further consideration be given to telemetry as part of this strategy, such multiple use benefits must be part of any further discussions. In addition, the costs of the ongoing data analysis must be taken into consideration when determining the benefits of telemetry. NSWIC believes that the ongoing gathering and assessment of the data is expensive and as such, it must be proven that the benefits of collecting the information outweigh the expense.

In addition, NSWIC has also provided comments to Water NSW's (the then State Water) proposed meter service charges which the Council believes were inflated and based on a flawed methodology. We remain sceptical about the data that was used for the assessment and equally urge caution in using the Government owned metering program as a guide for further assessment about the Water Take Strategy. As page 2 of the Discussion Paper highlights, there were significant inaccuracies in the meter readings from previous programs.

NSWIC is also alarmed by the cost estimates of meters to be upgraded in the regulated and groundwater systems in NSW as outlined on page 4 of the Discussion Paper. The Council would like to seek clarification on this figure and the cost implications for irrigators in NSW. NSWIC recommends a full audit of the percentage of the state that currently has metering and that meets the various forms of categories proposed for the interim standard. Prior to implementing a new Strategy, it must be clear what will occur with those existing meters that will be replaced since the interim standard was announced.

Furthermore, NSWIC stresses the need to progress this Strategy in a timely fashion to provide irrigators with the opportunity to access two part pricing for their water charges. This is particularly relevant in the NSW coastal valleys where many irrigators are currently on one part pricing for DPI Water's water management charges. To enable these irrigators to better control their costs, this Strategy must be progressed with urgency. In the context of the NSW coastal valleys, further consideration must be given whether the Water Take Measurement Strategy can be applied uniformly across NSW. It must be acknowledged that the river systems along the NSW Coast, the water use patterns and the competing water demands are fundamentally different to inland rivers. As such, NSWIC suggests that the Water Take Measurement Strategy must be sufficiently flexible to ensure it is relevant, applicable and achievable for each valley - potentially requiring a different approach for inland and coastal regions.

In addition, it will be equally important to ensure that the Strategy is flexible and adaptive to consider appropriate cut of values for pump size and available proxies (i.e. electricity charges or gauging system verifications) as a substitute for actual metering equipment. Again, valley specific idiosyncrasies must be incorporated to ensure that these proxies provide a reliable and applicable substitute to meters.

Furthermore, water users should be able to read their meters and report the figures to DPI Water. To ensure accuracy, an annual validation visit could be undertaken. Should such a system be adopted, the meter service charges for these water users should reflect the lower cost burden for DPI Water.

NSWIC believes it is vital that DPI Water continues its engagement with the industry to ensure that a sensible and achievable solution can be reached. We recommend that a common-sense approach be taken to avoid small water-users being required to install costly metering equipment on small capacity works where water use is small and risks are low. However, it will equally be important that large scale users are not disadvantaged by the proposed categorisation classification. NSWIC suggests that the strategy must be based on the principle of potential risk to the resource rather than the size of the pipe. Also, it will be important that the appropriate and cost effective level of metering is clearly defined before the Strategy is finalised.

Following, NSWIC would like to point out that pattern approval for large diameter pipes is still not available and we would like to seek clarification from DPI Water about how this issue will be addressed. NSWIC suggests that testing should be done to determine if the pattern approval works for smaller diameter pipes and whether these measures could be extrapolated for larger diameter pipes.

In conclusion, NSWIC reiterates that the protection of water licences as a property right for irrigators must remain the focus of this strategy. This property right is intrinsically linked to an irrigator's business operation and investment plans. NSWIC suggests that the value of water rights are often greater than the price discovery in the water market which should be given consideration in the Water Take Strategy and the analysis of meter misreading values on page 2 and 3.

Fixed/Variable Tariffs

NSWIC's coastal valley members would like to review the current fixed/variable tariff arrangements in their valleys. Many of our coastal valley members are concerned that the current tariff structure disadvantages them in efficiently running their business operation and managing their input costs.

In addition, our coastal Members would like to review the methodology by which the current cost drivers are derived. It appears that the current methodology significantly drives up costs for our North Coast members in particular, who pay significantly higher charges due to the large number of gauging stations for flood alerts and salt water incursion in tidal zones.

Water NSW and DPI Water

NSWIC understands that certain DPI Water functions will be transferred to Water NSW in the near future. NSWIC would like to seek clarification on the process and timelines for this transition of activities, with a view to assessing the implications on the price determination of DPI Water charges in the next regulatory period, and would urge IPART to do the same. If the shift of activities to Water NSW occurs after the next determination is finalised in July 2016, NSWIC would like to seek clarification and confirmation from DPI Water that irrigators will not be paying for functions that are no longer performed by DPI Water.

External Reporting

NSWIC has noted that in one of the DPI Water's Factsheets, reference was made to increased external reporting requirements. NSWIC understands that this additional requirement includes 'annual information returns' and 'resources inputs to develop the four year IPART submission'. In addition, we were told that significant resources were invested to improve DPI Water's reporting process so that for the next reporting period the systems would already be in place for efficient reporting. NSWIC rejects the basis of these cost area recovery requests as NOW / DPI Water were previously required to provide accurate, complete and timely annual reports and comprehensive information about their activities to IPART and stakeholders.

NSWIC strongly rejects any recommendation that the revenue allowance for DPI Water should be increased to perform a standard 'business function' which DPI Water is obliged to undertake regardless.

Specific Comments on IPART Questions

1. *Are NOW's proposed monopoly service activities for the 2016 Determination period appropriate?*

While NSWIC does not in principle reject DPI Water's decision to refine its current activity codes, it must be highlighted that the change prevents a detailed and transparent comparison between previous costs and proposed future water management charges. NSWIC has had a long held concern that NOW / DPI Water has set water management charges in excess of its requirements and hence over-recovered revenue from water licence holders above an efficient level. As a result of the changes in cost codes, it is extremely difficult for NSWIC to assess this potential inefficiency and hence review historical figures as a comparison.

In addition, NSWIC rejects DPI Water's attempt to shift further costs to water licence holders through re-categorising the new cost codes in different clusters. As table 6.1 (p.115 -117) shows, DPI Water is trying to move lower percentage usage share components to higher share components by simply bundling the cost shares. Examples of this can be found in W02-02, W04-01, W06-01, W06-02 and W06-06. NSWIC considers it absolutely unacceptable that DPI Water is attempting to place even greater cost burden on irrigators and the irrigation industry without providing a compelling case for the change. NSWIC submits that DPI Water is simply attempting to shift costs and hide previous inefficiencies.

NSWIC also rejects the DPI Water's proposed monopoly service activities related to the Federal Water Act 2007 (Cth), Murray-Darling Basin Plan 2011, the Australian Competition and Consumer Commission's water charge and water market rules as well as other Commonwealth funded projects. NSWIC is of the view that much of the work for which DPI Water is requesting additional revenue is 'business as usual' work that DPI Water would have had to conduct anyway as part of the Water Sharing Plan development and other related water management tasks. As such, NSWIC believes that this work does not constitute an 'additional' work burden and should not be additionally funded. NSWIC is aware of the recent transfer of work programs related to the Murray-Darling Basin Plan from the Murray-Darling Basin Authority to the Basin States. However, NSWIC is demanding assurances that this transfer does not impose an additional cost burden on irrigators through their water management charges.

Furthermore, as we highlighted in our last submission to IPART on NSW water management charges in 2010, NSWIC asks IPART to seriously question DPI Water's attempt to recover costs for a Federal Water reform process which irrigators' were assured would be funded completely by the Commonwealth Government. It is NSWIC's understanding that the NSW Government sought, during negotiations with the Commonwealth, to protect itself with a 'no net cost increase' approach in relation to the Murray-Darling Basin Plan. It appears (according to the submission by DPI Water) that this approach does not extend to Water Access Licence holders who are asked to shoulder an additional cost burden as a result of the Federal water reform process. NSWIC contends that IPART must reject this attempt to shift costs to Water Access Licence holders.

2. *What is the appropriate length of the determination period?*

NSWIC agrees with DPI Water that a four year determination period is reasonable. It must be ensured however that future determinations are not again delayed for multiple years as this delay limits the options to correct any previous mistakes or change any aspect to the determination which might result from a change in the regulatory framework and management structures - as we are seeing in NSW currently.

NSWIC questions the comment made by DPI Water on page 113 of its submission. It is stated that "NSW will benefit from this alignment, and the resulting ability to transition to new pricing arrangements at the same time." We would like to gain further clarity around the 'new arrangements' and request that stakeholders will be consulted, as the detail of the realignment of activities and future management structures are not yet clear, and potentially risk the prospect of "double dipping" in cost recovery by DPI Water and Water NSW in its next determination.

3. *Are NOW's proposed operating costs over the 2016 determination period efficient, taking into account drivers of this expenditure and water management outcomes achieved?*

As detailed above in the body of our submission, the lack of transparency around how activity costs have been calculated in the past and therefore how these have informed DPI Water's cost recovery targets for its next regulatory period makes it impossible to accurately assess the efficiency of its past costs.

4. *What scope is there for NOW to achieve efficiency gains over the 2016 determination period.*

While NSWIC notes that DPI Water's submission to IPART makes reference to an efficiency saving of 1.5 per cent per annum, it is not clear from the submission how this efficiency saving is derived or how it is incorporated into the operating expenditure figures. NSWIC believes it is too simplistic to set the efficiency factor equal to the inflation adjustments from 2015-16 to 2016-17, as this factor is not yet known and hence cannot be an accurate target. NSWIC submits that DPI Water must have a clearly defined efficiency factor which is known and understood by stakeholders and can be reported against. The Council also submits that this efficiency factor must exceed CPI inflation.

5. *What contributions to the Murray-Darling Basin Authority and the Dumaresq-Barwon Border Rivers Commission should be recovered from water users through NOW's water management charges over the 2016 determination period?*

As we detailed in the body of our submission, it is our understanding that the Commonwealth has agreed to pay 100 per cent of the costs associated with the Basin Plan. We therefore assume that any work undertaken by DPI Water is on a commercial, fee-for-service and full cost recovery basis. As a result, there ought to be no costs to be recovered and it is misleading for DPI Water to suggest that it will require further resources for this process.

6. *Is NOW's capital expenditure over the 2011 determination period prudent and efficient, taking into account drivers of this expenditure and water management outcomes achieved?*

As highlighted in NSWIC's last submission, DPI Water is a section within the Department of Primary Industries and therefore under any reasonable interpretation, DPI Water is clearly not a 'business' per se.

While NSWIC concurs that a charging component ought to be added to the Determination in respect of depreciation (as was the case in previous determination), NSWIC rejects the concept of a return on asset base.

NSWIC submits that a return on asset - with funds delivered to Government through its own Department is effectively a tax and should not be considered by IPART as part of the DPI Water 2016 determination; particularly as NSWIC understands the transitional management arrangements will see Water NSW managing the capital water assets of the State into the future. NSWIC recommends that IPART should reject DPI Water demands for 'the same as that requested by State Water' which is a State owned corporation and operator of the State owned water assets.

7. *Is NOW's forecast capital expenditure program over the 2016 determination prudent and efficient, taking into account expenditure drivers, scope for efficiency gains and proposed water management outcomes?*

As per our response to 3 (above) NSWIC is not in a position to accurately assess DPI Water efficiency with the information previously and currently provided in NOW and DPI Water submissions.

8. *What are your views on NOW's proposed depreciation allowance, including the assumptions (asset values and asset lives) underpinning, the calculations for this allowance?*

NSWIC has always been concerned by NOW's capital expenditure proposals as insufficient information and detailed business plans has been provided to scrutinise its efficiency. NSWIC submits that this lack of clarity around DPI Water's capital expenditure proposal continues this lack of transparency, and as such we are not supportive of the proposed depreciation allowance, in particular as 74 per cent of the 'costs' are proposed to be levied on users. NSWIC submits that a thorough business case must be developed for any future capital works and further stakeholder consultation must take place.

Furthermore, NSWIC rejects DPI Water's proposal to seek a rate on return on 'buildings', 'furniture and fittings'. As Government agency these are standard equipment that ought to be provided and funded fully by Government. Any other capital that is referred to in table F.6. must be more thoroughly reviewed and further details provided to stakeholders. NSWIC submits that this is a prime example of DPI Water attempting to pass off costs to irrigators that rightly should be accounted for by Government through the "public purse".

9. *What is a suitable rate of return on NOW's regulatory asset base?*

Please see NSWIC's answer to question 6.

10. *How has NOW performed over the 2011 determination period, including in relation to the 2011 schedule of monopoly service outputs in Appendix B.*

As we outlined in our answer to Question 1, NSWIC finds it extremely difficult to review historical costs and performance of the NSW Office of Water / DPI Water due to the shift in cost codes. However, we would like to reiterate our concerns that NOW asked for multiple extensions of the current price review for spurious reasons. NSWIC believes there is a lack clarity around NOW's previous responsibilities in relation to work programs and costs that raises questions about efficiency of service outputs and costs. As far as NSWIC can see, DPI Water has not suffered any financial impasse as a result of the two year price freeze which begs the question whether NOW's previous water management charges were overvalued in the last regulatory period.

Once again NSWIC would like to point to the fact that NOW / DPI Water has not completed its work schedule from the previous determination, including the review of Water Sharing Plans. As detailed in the body of our submission NSWIC considers it crucial that DPI Water is not attempting to recover costs from users which have been paid in the previous determination.

11. Should reporting measures be included in the 2016 determination period?

Given NOW's track record of seeking extensions for future pricing review and submitting incomplete and often confusing documentation to IPART and stakeholders, NSWIC believes it is crucial that there are ongoing reporting requirements imposed on DPI Water. Such a practice should be regarded as 'best practice' for a NSW Government agency and hence paid for by the Government.

12. Do the cost shares of the 2011 Determination remain appropriate (as outlined in Appendix B). If not, what adjustments are required?

The issue of cost shares is being covered via a separate NSWIC Position Paper currently in draft form and under active consideration of NSWIC Members. NSWIC would like the opportunity to submit its final position on cost shares in the near future and address this issue at Public Hearings in November.

13. What are your views on NOW's proposed cost shares for the 2016 determination period?

Please see the response to 12 - above.

14. Is the current geographical split for water management charges appropriate? Or should we consolidate valleys into wider regions for tariff setting purposes?

NSWIC has continuously supported valley based pricing and rejected cross-subsidisation. This remains a guiding policy principle advocated by the Council. While the current geographical split for regulated and unregulated rivers is based on a valley-by-valley basis, NSWIC rejected NOW's previous submission (and IPART's acceptance) of the amalgamation of groundwater sources for pricing purposes - as it gives rise to cross-subsidisation across groundwater sources. NSWIC continues to hold the view that NOW / DPI Water has provided little justification for this amalgamation of water sources.

NSWIC submits that groundwater pricing ought to be on a source by source basis to provide transparency and efficient water pricing.

15. Is NOW's cost allocation model suitable for determining valley or regional based prices?

Please see our response in 14 - above.

16. Should two-part tariffs be maintained for NOW, or should we move to one-part tariffs?

NSWIC supports two part pricing as it gives water licence holders a degree of control over their costs and also encourages efficient use of the water resource. A two part tariff structure is particularly important in case of dry periods when water availability is constrained, farm income is low, and fixed water charges are a significant cost burden to food and fibre producers.

In addition, NSWIC believes that a fully fixed charge structure does not promote incentives to DPI Water to seek further internal efficiencies and hence drive down costs.

17. To what extent does water trading act as a risk management mechanism for water users, and therefore remove the need for a two-part tariff?

NSWIC is perturbed that any assertion that the existence of a water market eliminates the need for a two part tariff structure - as the fixed tariff component relates to an irrigator's Water Access Licence volume and not to the volume of water used; including any additional water bought by the irrigator. NSWIC does not believe these two issues are connected and should not be considered together.

The existence (and further development) of the water market enables water licence holders to manage their water holdings according to seasonal supply volumes. The issue of fixed charges however is mainly an issue in dry periods when no water is available or allocated to licence holders. The existence of a water market is irrelevant in this instance as no water is available to be traded.

In addition, NSWIC points out that market depth is not equal in all NSW valleys. In the NSW coastal valleys, the trading zones are too small to facilitate a thriving water market. Trade is also limited for those who are in disconnected river systems.

18. Do two-part tariffs promote greater metering and therefore enhanced water management outcomes?

Larger licence holders have an incentive to install meters to access two-part pricing, however the costs of meter installation and maintenance are difficult to justify for smaller licence holders, including those in coastal valleys who often draw water for irregular supplementation of rainfall and often in small volumes.

19. If two-part pricing is maintained, what is the appropriate balance between NOW's fixed and usage charges?

As we outlined earlier in this submission, NSWIC submits that no further amendment to the current tariff structure should be proposed except for the NSW coastal valleys which are currently on different fee structures to the remaining NSW

valleys. Further discussions with NSWIC's coastal members must be conducted to find sustainable cost share solutions for these valleys.

20. Are NOW's forecast water entitlement and usage (extraction) volumes reasonable?

NSWIC continues to hold the view that the use of a 15 year rolling average consumption forecast is suboptimal to the use of the full IQQM model. It is our view that the use of all available data is the most appropriate method of achieving forecasts and it is regrettable that IPART accepted NOW's previous application to move to a 15 year rolling average.

21. What, if any, mechanisms should be introduced to address risk associated with variations between forecasts used in setting prices and actual levels of water usage?

NSWIC rejects any proposal to introduce any further mechanism to 'address risks' associated with variations between forecast take and revenue. The last determination (and the two year extension) has shown that DPI Water has not suffered any financial shortfall from the current tariff structure and cost recovery methodology, therefore NSWIC questions the need to consider further mechanism. NSWIC is of the view that DPI Water faces significantly less risk than water licence holders in NSW and hence a monopoly service provider should not be allowed to obtain a special risk mitigation mechanism that is not available to water licence holders.

22. What are your views on NOW's pricing proposals in relation to specific category of licences, including any new special category licences proposed for the 2016 determination period?

NSWIC has continuously held the view that all licence holders should be treated equally and that anyone who receives benefits from DPI Water's functions and services should pay for the delivery of these functions. As such, we support the introduction of a charging regime for stock and domestic licence holders as proposed by DPI Water.

23. What is the appropriate level for the minimum bill, and what types of users, if any, should be exempt from paying the minimum bill?

NSWIC does note a need for a reasonably stable minimum revenue stream for DPI Water. NSWIC has previously recommended to IPART to consider increasing the minimum licence charge to encourage the amalgamation of multiple licences, thereby decreasing the overall number of customers and increasing efficiency within DPI Water. NSWIC would support a move if limited to a \$200 minimum charge and the change was preceded by a 12 month lead-in period together with a notification to multiple licence holders of the increased charge to enable amalgamation where warranted.

NSWIC does not support the exemption for any licence category as stated in our previous response.

24. How should the price path account for customer impacts (i.e. in balancing NOW's transition to full cost-recovery)?

Currently the path price is set at 2.5% maximum increase per annum, and while NSWIC does not contest this pathway setting for cost recovery, the Council remains concerned that any further cost recovery must be assessed against the economic impact of current pricing levels on Water Access Licence Holders, and whether further cost recovery from irrigators is justified - particularly if there are concerns about how equitably costs are being allocated. The prime example would be the already high water charges being experienced by coastal valleys irrigators.

25. *What are your views on NOW's meter-related activities and charges for users on unregulated river and groundwater sources, including:*
- a. *The appropriateness of meter types, meter charges and the metering target?*
 - b. *The appropriate water user share of costs for NOW's metering activities?*
 - c. *The affordability/impact on water users (own meter and government meter)?*

As NSWIC is aware that all metering activities are to be transferred to Water NSW and there are fundamental changes to metering and meter management in prospect, it would be more appropriate to provide comment when that transition and the new arrangements are completed and in place.

26. *Does the potential to trade water allocations provide an incentive for unregulated and groundwater users to install a meter?*

Please see our response to earlier questions.

27. *Does the potential to switch from a one part to a two part tariff provide an incentive for unregulated and groundwater users to install a meter?*

Irrigators face significant uncertainties and would value the access to a two part pricing structure to enable them to actively manage their costs. As such, there is a great likelihood that a two part tariff could provide an incentive for unregulated and groundwater users to install a meter, where the level of annual water take and overall cost of metering is warranted.

28. *Are NOW's proposed consent transaction charges for the 2016 determination period reasonable (i.e. do they represent the efficient incremental costs of assessing and using the licences and approvals)?*

While NSWIC concurs with DPI Water that consent transactions should be based on a 'user pays' principle (including overhead costs), as with the basis of DPI Water calculated costs generally we harbour some significant concerns in respect of the efficiency of these costs.