



Submission to the Independent Pricing and
Regulatory Tribunal NSW on:

*Prices for the Rural Bulk Water Services by
WaterNSW from 1 July 2017*

Gwydir Valley Irrigators Association Inc

October 2016



making every drop count



GVIA

Gwydir Valley Irrigators Association Inc.

PO Box 1451 | 100 Balo St | MOREE NSW 2400

P: 02 6752 1399 | E: gvia@gvia.org.au

www.gvia.org.au | Twitter: @Gwydirvalley

ABN: 49 075 380 648

making every drop count

17 October 2016

Dr Peter Boxall, AO
Chairman
Independent Pricing and Regulatory Tribunal NSW
PO Box K35
Haymarket Post Shop
NSW 1240

Lodged online

Re: Submission by Gwydir Valley Irrigators Association Inc on IPART's Issues Paper on *Prices for the Rural Bulk Water Services by WaterNSW from 1 July 2017*

Dear Dr Boxall

Please see enclosed the submission from the Gwydir Valley Irrigators Association Inc (GVIA) to the Independent Pricing and Regulatory Tribunal NSW in reference their issues paper on Prices for the Rural Bulk Water Services by WaterNSW from 1 July 2017.

We have developed 18 recommendations for consideration by the tribunal and every applicable Questions for Stakeholders as part of the IPART Issues Paper, dated September 2016.

We welcome the opportunity to elaborate on our submission at the public hearing in Moree on 31st October and we look forward to welcoming you to our region.

Kind Regards

Zara Lowien
Executive Officer
Gwydir Valley Irrigators Association

Contents

1. Purpose of the Submission	4
2. Introduction	4
2.1. Recommendations	4
2.2. Questions for stakeholders	5
3. About the GVIA	9
3.1. Our region.....	9
3.2. What we do.....	10
3.3. Association contacts	11
4. General Comments.....	11
5. Revenue Building Blocks	13
5.1. Operational expenditure.....	13
5.2. Capital expenditure	14
5.3. Regulatory asset base	14
5.4. Return on capital.....	15
5.5. Water use forecasting	15
6. Price Control Mechanisms	16
6.1. Two-part tariff.....	16
6.2. User shares	16
6.3. Price cap.....	16
6.4. Efficiency savings	16
7. Revenue Volatility Controls	17
8. Price	18
8.1. High security premium	18
8.2. Bill impacts.....	18
9. Conclusion.....	19

1. Purpose of the Submission

This document has been developed by the Gwydir Valley Irrigators Association (GVIA) on behalf of its members as a formal submission for consideration by the Independent Pricing and Regulatory Tribunal (IPART) NSW during their determination of Prices for the Rural Bulk Water Services by WaterNSW from 1 July 2017

This document represents the concerns and views of GVIA's members. However, each member reserves the right to express their own opinion and is entitled to make their own submission.

The GVIA and its members are members of the NSW Irrigators Council and we endorse the submission made by this organisation.

2. Introduction

The Gwydir Valley Irrigators Association (GVIA) Inc welcomes the opportunity to provide this submission to the Independent Pricing and Regulatory Tribunal (IPART) NSW on WaterNSW's pricing proposal for rural bulk water services from 1 July 2017 in 20 June 2021.

The GVIA urges IPART NSW to not be convinced by WaterNSW's proposal that they are passing on a pricing benefit to customers. When in fact, they have miss-represented the impact of their prices and they continue to embellish their revenue and business risk at the expense of users.

The GVIA are concerned with the high level nature of the pricing proposal and believes that customers and IPART NSW, have less information to base their assessment on, than we previously did under this process. Our concerns are particularly justified by the significant increase in capital expenditure with limited information.

The GVIA believes there are two additional factors that will influence the outcome of this pricing determination and that is the continual regulatory and organisation re-structures and WaterNSW's (or State Water Corporation's) past performance, with neither factor really explored by WaterNSW as part of this proposal.

We note that WaterNSW did undertake an improved consultation process in the lead up to this proposal but that ultimately, they continued to ignore much of the information and feedback provided to them and pursue their own agenda and objectives. This is clear by the commitment to seek the 80:20 fixed to usage charge tariff structure by stealth and by providing little detail on the capital program, despite repeated requests.

We have provided 18 recommendations for further investigation or analysis as well as addressing all of the appropriate Questions for Stakeholders as included in your issue paper.

We would be willing to provide further comment or clarification on this submission at the public hearing.

2.1. Recommendations

1. IPART NSW request or undertake a detailed analysis of the actual revenue received versus expenses to transparently assess the financial performance of WaterNSW and financial risk.

2. IPART NSW review the operation expenditure and revise downwards accordingly.
3. IPART NSW request from WaterNSW a detailed capital program to support the revenue requested.
4. IPART NSW review actual capital expenditure prior to the determination to adjust the opening RAB.
5. IPART NSW undertake an analysis of similar organisation to compare WaterNSW's proportion of revenue from RAB and outline the benefits and disadvantages of this for users and the impact on prices.
6. IPART NSW update the WACC using the current national cash and debt rates.
7. IPART NSW to consider alternative forecast methodology for northern river systems like the long-run IQQM outputs.
8. IPART NSW request evidence from WaterNSW to support the increase in entitlement volumes in the Gwydir Valley.
9. IPART NSW revise the user shares of the water delivery, other operations and hydrometrics categories.
10. IPART NSW request the user share of the new capital program categories from WaterNSW and review the appropriateness of these.
11. IPART NSW maintain a price cap to manage price control shocks between years.
12. IPART NSW to include an efficiency dividend (driver) as part of their price determination.
13. IPART NSW analyse the benefits and advantages of the two mechanisms for capturing efficiencies; the efficiency carryover mechanism and the unders and overs mechanism and adopt one method for implementation.
14. IPART NSW reject the inclusion of a risk transfer product.
15. IPART NSW maintain the unders and overs mechanism in its current format.
16. IPART NSW update the WSP ratio and reliability ratio to calculate the high security premium based on new information and a change in forecasting.
17. IPART NSW adopt two thresholds of water usage to calculate bill impacts 30% and 60%.
18. IPART NSW present comparison of the bill and pricing impacts between determination periods as well as within the determination period.

2.2. Questions for stakeholders

1. Given we are obliged to follow the WCIR when setting pricing in the MD Basin valleys, are there issue where we should apply the same approach when determining prices for the three coastal valleys?
No comment.
2. Are WaterNSW's proposed monopoly services for the 2017 Determination appropriate?
No – see sections on Revenue Building Blocks and Revenue Volatility.
3. What further information should be provided to stakeholders in relation to MDBA and BRC contributions?
No Comment
4. Is there any reason why the price path for WaterNSW's MD Basin and coastal valleys should not be aligned at four years?
We support the four-year determination period provided there are mechanisms for further efficiency savings from the corporate restructures of both DPI Water and WaterNSW to be realised by customers.
5. Is WaterNSW's proposed user share revenue requirement for the 2017 Determination appropriate?

We question the user share of three categories and the detail behind the capital program's user share. Hence, we do not fully support the user share of revenue requirement. See section on User shares.

6. Is WaterNSW's approach to allocating indirect costs between its Greater Sydney and rural operations appropriate?

We do not object to the process for determining the proportion of costs (and efficiencies) to be shared between the two separate businesses however, note IPART to consider the impact of the merger with DPI Water and how it may alter any proportions of the two businesses.

7. Are WaterNSW's proposed operating costs of the 2017 Determination period efficient, taking into account drivers of this expenditure and bulk water services delivered?

We do not support the operating expenditure requirement. See sections on General Comments and Revenue Building Blocks, particularly Operational expenditure.

8. Water scope is there for WaterNSW to achieve further efficiency gains over the 2017 Determination period?

WaterNSW will continue to realise efficiency gains through their regulatory and organisational restructures but also other strategies within their business. An efficiency dividend should be considered to driver efficiencies further. See sections on General Comments and Efficiency savings.

9. Has WaterNSW's capital expenditure in Coastal Valleys over the previous determination period been prudent?

No comment.

10. Is WaterNSW's forecast capital expenditure for the 2017 Determination period prudent and efficient?

We remain concerned over WaterNSW's approach to capital funding and projects and do not accept the proposed costs without further explanation. See sections on General Comments and Revenue Building Blocks, particularly Capital expenditure.

11. Is WaterNSW's proposal to have a capital maintenance allowance in addition to its building block allowance for depreciation reasonable?

We are concerned that WaterNSW may be attempting to over-compensate for capital expenses and depreciation and do not support this approach.

12. Should we maintain our standard approach to setting the WACC in the coastal valleys, or should we adopt the same approach as in the MD Basin valleys?

No comment.

13. What is an appropriate rate of return for WaterNSW's assets?

We support the transparent approach applied as part of the WCIR but believe this should be updated with current information. See section Return on capital.

14. Are there any reason to depart from a straight-line depreciation method for calculating the allowance for the regulatory depreciation?

No.

15. Are WaterNSW's proposed lives for existing and new assets appropriate?

We question the disparity between government and user share of the calculation of asset lives. See section on Regulatory asset base.

16. Should irrigation Corporations and Districts receive rebates to reflect the avoided costs of the bulk water services they provided to their members?

No comment.

17. Are the levels of irrigation Corporation and District rebates proposed by WaterNSW reasonable?

No comment.

18. Under current price structures, what measures should be used to manage risk (positive and negative) to Water NSW?

We support the maintenance of the unders and overs mechanism as a long-term tool to manage risk and revenue volatility. See sections on Price Control Mechanisms and Revenue Volatility Controls.

19. What rate should be applied to the unders and overs mechanism account?

The final determined WACC provides the most appropriate return for all parties and is transparently determined.

20. Should an unders and overs mechanism be introduced in the Peel Valley?

No comment.

21. What implications, if any, should WaterNSW's proposed risk transfer product have for the unders and overs mechanisms and the annual adjustment to prices?

We do not support the implementation of a risk transfer product and believe WaterNSW are overstating their revenue volatility and risk, and are enforcing a high tariff structure by stealth. See section on Revenue Volatility Controls.

22. Should water users pay for WaterNSW's purchase of a risk transfer product?

No, see section Revenue Volatility Controls.

23. Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of the risk transfer product?

The creation of a risk transfer product is 80:20 price tariff by stealth. Water users were unanimous in supporting the maintenance of 40:60 tariff. See sections on Revenue Building Blocks and Revenue Volatility.

24. Are the proposed BRC and MDBA user share of costs efficient?

No comment.

25. How should BRC and MDBA costs be recovered from water users?

No comment.

26. Is WaterNSW's proposed adjustment to the high security premium reasonable?

The inputs into calculating the Gwydir premium need to be updated. See section on High security premium.

27. Do water users in the Yanco Creek system support the continuation of the Yanco Creek levy as proposed by WaterNSW?

No comment.

28. Should the Yanco Creek levy be charged per ML of water entitlement or per ML of water usage?

No comment.

29. Are there reasons to depart from a price cap as the form of price control for WaterNSW?

A price cap provides WaterNSW an upper limit for pricing and therefore an opportunity for efficiencies or high revenue collection, to be redistributed. We support this method. See section on Price Control Mechanisms.

30. What regulatory measures can enhance WaterNSW's incentive to pursue efficiency gains?

The GVIA believe that an efficiency dividend should be incorporated in WaterNSW pricing application. See the section on Efficiency savings.

31. Should we apply an efficiency carryover mechanism to WaterNSW's rural operations?

We do not understand the opportunity or benefit of such a mechanism when the unders and over account is in operation. We do not support a duplication of an already adopted mechanism. See section on Efficiency savings.

32. Is WaterNSW's proposed 40:60 fixed to usage charge split appropriate?
Water users unanimously supported the maintenance of the 40:60 fixed to usage price structure. We would support WaterNSW continuing to explore the opportunity for user choice. See section on Two-part tariff.
33. Are there reasons to depart from the current approach for setting high security and general security entitlement charges?
No.
34. What is the appropriate structure of WaterNSW's fish river charges?
No comment.
35. Is WaterNSW's proposed 80:20 fixed to usage charge split for fish river charges appropriate?
No comment.
36. Is Water NSW's proposed adjustment to sales forecasts in the dish river scheme appropriate?
No comment.
37. Are WaterNSW's forecast water sales volumes reasonable?
We do not support the 20-year rolling average and would prefer the long-term IQQM outputs to provide greater depth of data for determination. We also question the time-lag and how that will impact prices. See section on Water use forecasting.
38. Should we maintain the existing approach to forecasting water sales?
We support the adoption of the long-term IQQM output for the region. See section on Water use forecasting.
39. Are WaterNSW's forecast water entitlement volumes reasonable?
We request confirmation of the increases in water entitlement volumes in our region. See section on Water use forecasting.
40. Are WaterNSW's proposed bulk water prices reasonable?
We do not accept the bulk water prices, our submission outlines each of the areas where we believe IPART should investigate and review WaterNSW's proposal. See section on Recommendations.
41. Is WaterNSW's proposed approach to increasing prices in the North Coast and South Coast valleys so they transition to full cost recovery reasonable?
No comment.
42. Are WaterNSW's proposed MDBA and BRC pass through charges reasonable?
No comment.
43. Are WaterNSW's proposed final prices reasonable?
As per above, we do not support the bulk water prices in our valley.
44. Are WaterNSW's proposed fish river scheme charges reasonable?
No comment.
45. Do customers support the introduction of a credit card payment option?
Yes, flexibility in payment options is supported.
46. Is there any reason for IPART to regulate these fees?
Upon notice of complaint otherwise, no.
47. Are WaterNSW's proposed meter service charges reasonable?
No comment, the Gwydir does not have a WaterNSW owned meter.
48. Should WaterNSW recover meter reading costs through a separate charge rather than including them in standard bulk water charges?

Due to the change in approach to meter reading, a separate charge should be considered to be cost reflective of the entitlement type and service that the user is receiving.

49. Is WaterNSW's proposed trade processing charge reasonable?
Yes, we support the reduction in overall fee and the minor adjustment in the per megalitre component. Although believe a fee cap should be in place to set a maximum cost as there would be a point at which the volume of the transaction would not impact the time taken to process that application.
50. Is WaterNSW's proposed environmental gauging station charge reasonable?
No comment.
51. Are WaterNSW's refundable meter accuracy deposits appropriate?
Yes.
52. Is WaterNSW's proposed fee for service approach to determining the fish river scheme connection fees appropriate?
No comment.
53. Is WaterNSW's proposed fish river disconnection fee reasonable?
No comment.
54. Is WaterNSW's analysis of the impacts of its proposed prices on customer bills reasonable?
Their impact analysis does not reflect an appropriate level of usage for valleys that have a low reliability and therefore, are not useful for our members and should be amended. See section on Bill impacts.
55. Can we improve our proposed approach for assessing customer impacts?
Yes, see section on Bill impacts.
56. How should the costs of pricing bulk water services be recovered in valleys in which full cost recovery has not been achieved?
No comment.
57. What principles or approaches should we use to assess the efficient costs of services in valley that are well below full cost recovery?
No comment.
58. What principles or approaches should we use to determine prices in valleys that are well below full cost recovery?
No comment.
59. Given the low level of cost-recovery, are there any assets that should be excluded from the asset base and hence prices?
No comment.
60. Is there a need for output or other reporting measures for WaterNSW over the upcoming determination period? If so, what are the appropriate measures?
Yes, performance measure outputs should be considered in the context of the water delivery year to ensure that services are maintained across all business cycles.

3. About the GVIA

3.1. Our region

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 250 water entitlement holders in the Gwydir Valley, centred around the town of Moree in North-West

New South Wales. Our mission is to build a secure future for its members, the environment and the Gwydir Valley community through irrigated agriculture.

The region is highly dependent on agriculture and in particular irrigated agriculture for economic activity contributing over 40% of Gross Regional Product, employing 20-30% of the population and accounting for almost 90% of exports from the Moree Plains Shire in particular (Cotton Catchment Communities CRC Communities and People Series 2009).

The 2011 Agricultural Census estimates that the total value of agricultural commodities for the Moree Plains region was \$911,951,079 up from \$527,744,851 in the 2005-06 census. This is an estimated 7.83% of NSW's total agricultural production from a 1,040,021Ha principally used for agricultural crops¹.

The Gwydir is characterised as having low water reliability with the majority of water held as general security water with a reliability of 36%. Supplementary water entitlement is somewhat more reliable with 55% but accounts for less than a quarter of the total volume. Groundwater reliability is considered 100%.

Environmental water has been held in the Gwydir prior to the first water Sharing Plan and is primarily used to contribute waterbird and fish breeding events and to maintain the condition and extent of the internationally recognised Gwydir Wetlands. Entitlements owned for environmental purposes totals more than 150,000ML, made up of high security (375ML), general security (106,000ML), supplementary water (19,500ML) and an environmental contingency allowance (45,000ML).

The main broad acre irrigated crop is cotton with irrigated wheat, barley and Lucerne also occurring depending on commodity prices the total broad acre irrigated area is approximately 80,000 ha (although recent results indicate this to be around 110,000 ha) but is rarely cropped in one year. In 2010-11 census data indicated the total production value of irrigated cotton was \$623M and is estimated to be worth three times that to the local community using the Cotton Catchment Communities Research Corporation economic multiplier for cotton regions².

Currently there are also pecans, walnuts, oranges and olives being grown within the region covering approximately 1,500 hectares, generating an estimate \$31M with considerable benefits to the local community as a high intensity, permanent crop. There is however, significant and potential for expansion into horticulture and improve high security water utilisation on permanent cropping.

3.2. What we do

GVIA members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources. All of which are managed through water sharing plans, which have been progressively developed since early 2000. Total river water availability for irrigation is 26% of the long term average flows. There is around 575,000ML

¹ 2010 2011 Agricultural Census Report – agdata cubes, 71210D0005-201011 Agricultural Commodities, Australia

² Social and Economic Analysis of the Moree Community, 2009. Cotton Catchment Communities CRC

available to irrigators from regulated entitlement (high security, general security and supplementary water). There is also nearly 30,000ML available from groundwater aquifers. In addition, unregulated water is used for irrigation purposes with the use well below the volumetric licences.

The Gwydir Valley Irrigators Association organisation is voluntary, funded by a cents/megalitre levy on regulated, unregulated and groundwater irrigation entitlement. In 2015/16 the levy was paid on in excess of 86% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Regional Facilitator funded through Local Land Services and the Cotton Research and Development Corporation.

Much of the activity the association revolves around negotiating with government at a Federal, State and Local level to ensure the rights of irrigators are maintained and respected. While the core activities of the Association are funded entirely through a voluntary levy, the Association does from time to time, undertakes special projects, which can be funded by government.

The GVIA and its members are members of both the National Irrigators Council and the NSW Irrigators Council.

3.3. Association contacts

Gwydir Valley Irrigations Association

ABN: 49 075 380 648

100 Balo Street (PO Box 1451)

Moree, 2400, NSW

Chairman: Joe Robinson

Executive Officer: Zara Lowien

Ph: 02 6752 1399

Fax: 02 6752 1499

Mobile: 0427 521 399

Email gvia@gvia.org.au

4. General Comments

The GVIA believe that there are two key factors outside of the building block approach that influence the appropriateness of WaterNSW's current pricing proposal, these being:

1. The current regulatory and organisation context; and
2. Past performance of the organisation.

It is important to acknowledge that WaterNSW has underwent a number of regulatory and subsequent organisational changes since the last determination and since submitting this current proposal. The mergers and change of services has impacts with the current pricing proposal as it is not in sync with more recent changes to shift services from DPI Water to WaterNSW. The resulting efficiencies from such amalgamations and the transparency

around the movement of user share of revenue between organisations must be maintained. IPART should consider the revenue proposed therefore as a maximum.

Whilst we acknowledge WaterNSW for its service to customers and performance on key performance indicators like delivery efficiencies and customer response times, their financial performance and reporting, leaves much more room for improvement. WaterNSW historically has poor performance for managing their capital program expenditure (acknowledged also by IPART) and now over the last determination period, have underspent on operational revenue due to 'new efficiencies'. The significant difference in operational expenditure are far greater than efficiencies alone and could be attributed to lower water sales throughout the determination period, which would unravel WaterNSW's claim that it is a fixed cost business and hence, is not suggested by them.

The benefits of any underspend must be passed through to customers. Yet apart from reducing future operational revenue requirements, WaterNSW continue to pursue a higher fixed component of the tariff structure, multiple revenue volatility mechanisms and recover additional revenue through the unders and overs account balance regardless of whether they needed it or not.

We question, WaterNSW's commitment to customers beyond conversations about being customer and service focused, as their actions as contained within their current pricing application do not support their language.

With their past performance history, it is difficult for the GVIA to accept two major building blocks for revenue, these being the operational revenue and the capital revenue.

We ask that IPART NSW request or undertake a detailed analysis of the actual revenue received versus expenses to allow IPART and stakeholders the opportunity to transparently assess financial performance and financial risk claimed by WaterNSW.

The GVIA needs to understand the past financial performance of WaterNSW to better assist us in assessing whether the proposed revenue requirements are adequate. The GVIA does not consider the report by WaterNSW as sufficient and request further analysis to be provided.

IPART NSW request or undertake a detailed analysis of the actual revenue received versus expenses to transparently assess the financial performance of WaterNSW and financial risk.

The GVIA does acknowledge the improvement in communication and attempted engagement by WaterNSW in preparing this current pricing application. They provided ample opportunity to provide input and comment into their approach and decision making through a two-layered engagement model including state-wide Customer Service Committee (CSC) chairs and local valley CSCs. Whilst the process as resource intensive and time consuming (it could possibly be refined), we do support it as a beneficial process that no surprises were contained within the pricing proposal.

However, it is disappointing that despite this input WaterNSW have continued to pursue organisational objectives that are not support by their customers. The inclusion of a risk

transfer product for example, is the pursuit of the 80:20 fixed to usage tariff structure by stealth.

The GVIA agree with WaterNSW's strategy to be a modern and efficient business but the benefits must out way the costs and users must be brought along with this journey. Being more modern and efficient doesn't mean providing such high level information on strategies, projects and activities that users, who do not have a choice in supplier, do not understand the businesses direction.

We are somewhat concerned with their direction to move "away from a single offering to a more modern and contemporary approach"³, as we are not entirely sure what WaterNSW are intending and whether this will improve and reduce services. IPART NSW should be as interested in the future direction of WaterNSW as users.

5. Revenue Building Blocks

The GVIA does not consider that the overall revenue requirement is appropriate and that because it has been reduced from previous determination periods, it will be acceptable and therefore reasonable for users.

The following outlines the areas where the GVIA has concerns with the building blocks used to determine the total revenue requirement for WaterNSW and hence, valley prices.

The GVIA has not provided commentary on all revenue building block components as we do not have the resources to do so. However, if further supporting documentation was provided the opportunity to review calculations and assumptions would be simplified and therefore more commentary and recommendation may be forthcoming.

5.1. Operational expenditure

Whilst the GVIA has welcomed the 3.6% decrease in operating expenditure required in our valley from 2016-17 through to 2020-21. Although, we note that WaterNSW has forecasted lower expenditure in 2016-17 than what was required, suggesting that the real decrease is negligible if actual costs were used rather than allowances.

The GVIA believes that larger efficiencies than the stated 3.6% should be realised by WaterNSW over the next determination period, for the following reasons:

- Realisation of efficiencies from the organisation restructure.
- Strategic priority to be "more modern and efficient organisation"⁴.
- Underspend on previous allowable revenue (or overstatement of requirement).
- Opportunity to drive further efficiencies.

We request that IPART review the operational expenditure with the above considerations and revise the requirement as part of their determination advice.

IPART NSW review the operation expenditure and revise downwards accordingly.

³ Page 10, WaterNSW Pricing proposal to IPART in Regulated prices for NSW rural bulk water services from 1 July 2017 – 30 June 2021.

⁴ Page 20, WaterNSW Pricing proposal to IPART in Regulated prices for NSW rural bulk water services from 1 July 2017 – 30 June 2021.

5.2. Capital expenditure

The GVIA does not support the high level approach by WaterNSW to budget and prepare for capital expenditure in the forthcoming determination. We were vocal throughout the consultation period that water users, who are paying the majority share of capital expenditure are entitled to have greater transparency and therefore, hold WaterNSW more accountable for the implementation of the program. The current proposal leaves water users, with less information and therefore, less confidence in WaterNSW's ability to implement the program than what we previously had.

Our concerns are largely due to:

- Significant increase in revenue required with total expenditure increase of 155% in all valleys and 90% in the Gwydir.
- Re-categorisation to four high level strategies with no detail.
- Lack of information about individual projects, their location, their budget their implementation schedule.
- Lack on consultation on projects.
- Changes in user shares without consultation.
- Poor past performance on capital investment.

The fact that the capital program is impacting prices up in the Gwydir is a significant concern for our members and we want clarity on what this investment is contributing towards. Water users as with WaterNSW, want to maintain the future capability of our structures, but we need to have confidence in the approach and the current proposal does not provide this.

We request that IPART reject the capital revenue component until WaterNSW provide the additional detail required to make an assessment on the prudence, efficiency and reasonableness of the capital expenditure.

IPART NSW request from WaterNSW a detailed capital program to support the revenue requested.

5.3. Regulatory asset base

Due to WaterNSW's historical under-expenditure on capital projects, the GVIA have concerns with the determination of the opening RAB and RAB projections. Whilst the process for calculating the RAB remains clear, the fact that these are based on estimations of expenditure by WaterNSW, the calculation in this instance will be flawed by their tendency to overstate their revenue needs and expenditure capability.

IPART NSW review actual capital expenditure prior to the determination to adjust the opening RAB.

The GVIA notes that the RAB is now forming at least 50% of the total revenue requirement for WaterNSW. We request a review of similar organisations to see if this proportion is comparable and if not, what are the disadvantages/advantages of this proportion of RAB and the impact it has on prices.

IPART NSW undertake an analysis of similar organisation to compare WaterNSW's proportion of revenue from RAB and outline the benefits and disadvantages of this for users and the impact on prices.

The GVIA support the straight line approach for depreciation in calculating the RAB.

The GVIA request further information regarding the discrepancy between user and governments asset lives.

5.4. Return on capital

The GVIA request a review of the weighted average cost of capital closer to the determination being finalised to ensure accuracy with the national measures. We support the process as being transparent for determining the WACC.

IPART NSW update the WACC using the current national cash and debt rates.

5.5. Water use forecasting

In previous submissions to IPART NSW, GVIA has warned that the adoption of the 20-year moving average extraction had the very real capacity not only to lead to artificially high usage charges, but also lead to very significant over-recovery as the chances of exceeding the average consumption forecast has been significantly increased. A review of revenue from the past period highlights that for high dynamic systems, like the Gwydir Valley this concern is real.

We support a longer term view to forecasting and support the reinstatement of the Long Run Average determined from the NSW Governments Integrated Quantity and Quality Model (IQQM). The GVIA support IQQM forecasting because:

1. IQQM is the primary water management and policy tool for NSW. It forms the basis of the Gwydir Regulated River Water Sharing Plan
2. It is the most robustly constructed and tested water availability model for the Gwydir Valley.
3. It fairly accounts for volatility, while providing long-term certainty.
4. It matches water availability with the natural business cycles of those that depend on water – be they irrigators or WaterNSW.

As a result, the GVIA recommend IPART NSW consider the risk of significant over recovery, the driving up of usage charges, the impact of the time lag of the current approach and risk to inefficient prices and review the forecasting methodology for northern valleys in particular.

IPART NSW to consider alternative forecast methodology for northern river systems like the long-run IQQM outputs.

The GVIA also requests that WaterNSW provide evidence to support the increase in entitlements in the Gwydir Valley, as these estimates are over and above those historically and what is known to the GVIA to have been established recently following the finalisation of the Mallowa Basin Pipe project.

IPART NSW request evidence from WaterNSW to support the increase in entitlement volumes in the Gwydir Valley.

6. Price Control Mechanisms

6.1. Two-part tariff

The GVIA supports a two-part tariff to be maintained at the current 40:60 fixed to usage charge. This in principle, allows an irrigator to contribute to revenue when they take water, presumable for economic return therefore businesses are more likely to have cash flow to support additional costs. However as outlined earlier we are concerned that due to poor consumption forecasting, elevated water take prices are occurring.

6.2. User shares

Whilst the4 GVIA largely accepts the user shares provided by WaterNSW and the basis of impactor pays principle, despite their being a significant broader community benefit received through many activities, including the generation of economic activity by irrigators efficiently using water.

We do have issues around the users shares of the following activities:

- Water delivery is 100% user share, yet WaterNSW deliver a significant volume of planned environmental water on behalf of the community in our valley at the cost of other users. We recommend this is reviewed with reference to the delivery or supplementary water in our region and the likelihood that there will be increased accountability on WaterNSW of the delivery of this planned water.
- Other operations are 100% user share but there are increased costs associated with the management of environmental water that must be accounted for.
- Hydrometrics is 90% user share, although the benefit of this information is much broader than users themselves especially in times of flood operations and management.

The GVIA recommend that the users share of these three categories is reviewed by IPART NSW. We also recommend that IPARTNSW ask for more information from WaterNSW over the breakdown of user shares under their new capital categories.

IPART NSW revise the user shares of the water delivery, other operations and hydrometrics categories.

IPART NSW request the user share of the new capital program categories from WaterNSW and review the appropriateness of these.

6.3. Price cap

The GVIA support the adoption of a price cap to minimise 'shocks' associated with the implementation of other price and revenue volatility controls. This mechanism has benefits for both WaterNSW and customers, by allowing WaterNSW to operate under a maximum pricing structure for future forecasting and providing customers a level of information to forward plan their own businesses within specified range.

IPART NSW maintain a price cap to manage price control shocks between years.

6.4. Efficiency savings

Our members must offset inflation to ensure their businesses maintain viability and we expect the same from user funded monopoly services like WaterNSW. As a result, the GVIA support the inclusion of an efficiency saving for WaterNSW operations, which should at a

minimum offset increases in inflation. The GVIA is not aware of any other regulatory measures that could promote further efficiency gains by WaterNSW apart from the adoption of an efficiency driver as opposed to adopting inflation. An efficiency dividend of at least inflation would require WaterNSW to make small and consistent improvements to their business over-time.

IPART NSW to include an efficiency dividend (driver) as part of their price determination.

WaterNSW could continue to explore opportunities to improve business systems and move towards greater on-line presence and processing, as well as telemetered systems that interact with reporting information, a means to continue to drive efficiency and provide uninterrupted service to customers. The GVIA believe that efficiencies should not be achieved at the cost of serviceability of customer needs and therefore, required further detail on how WaterNSW aim to achieve these efficiencies.

The GVIA does not understand the opportunity or benefit that the proposed efficiency carryover mechanism will provide WaterNSW. We question whether this new product provides WaterNSW the opportunity to not pass on efficiency savings to their customers. The GVIA believes that the unders and overs mechanism, provides the opportunity to efficiencies to offset future revenue requirements and therefore, a mechanism to capture these efficiencies already exists.

We do not support the adoption of the efficiency carryover mechanism without further explanation of how it will apply in conjunction with the unders and overs mechanism.

IPART NSW analyse the benefits and advantages of the two mechanisms for capturing efficiencies; the efficiency carryover mechanism and the unders and overs mechanism and adopt one method for implementation.

7. Revenue Volatility Controls

The GVIA strongly believes that WaterNSW continue to embellish the risk that revenue volatility has to their business. Due to the lack of information within their pricing application, we could not undertake an analysis of actual versus forecast revenue, against expenses but would again request that IPART instruct WaterNSW to undertake this analysis or undertaken it themselves as part of this determination process. We believe this analysis will reveal that WaterNSW's business is not at as much risk as they propose but that it is easier and simpler, as well as beneficial to their investors to seek a higher proportion of fixed revenue from users.

The GVIA do support the maintenance of the unders and overs mechanism to manage short-term revenue volatility over the long-term. We support the mechanism as it provides, users the only opportunity to have significant over-recovery utilised to offset future revenue. But it would appear that WaterNSW remain fixated on short-term security of revenue regardless of whether they require the full amount or not.

The GVIA believes that the introduction of an additional risk transfer product to be paid for by users is the implementation of 80:20 fixed to usage tariff structure by stealth and is unacceptable. This product will add additional complexity to the pricing structure through a

hybrid of controls with the compounding impact of both the unders and overs and risk transfer production unknown.

IPART NSW reject the inclusion of a risk transfer product.

The GVIA believes that WaterNSW should adopt one volatility mechanism only and supports the maintenance of the unders and overs mechanism in its current format, as a long-term solution to an over-stated problem.

IPART NSW maintain the unders and overs mechanism in its current format.

The Gwydir Valley has a UOM balance of \$2.432M and understand that it has an impact on future prices. However, we support the analysis undertaken by the Australian Competition and Consumer Commission that outlined over the long-run analysis, there was no impact from the UOM due to the significant over-recovery in some years.

8. Price

8.1. High security premium

The GVIA believes that the logic behind the establishment of the high security premium is sound and transparent. However, in line with our issues with forecasting believe that for northern valleys the long-term IQQM outputs on usage should be adopted rather than the 20-year rolling average. The GVIA would also question how the change in relationship between the volume of high security and general security entitlement may affect the premium, this is of reference to the increase in these entitlement volumes.

AS a result, the GVIA believes the two major inputs into the high security premium; the WSP ratio and the reliability ration for our valley should be investigated and updated accordingly.

IPART NSW update the WSP ratio and reliability ratio to calculate the high security premium based on new information and a change in forecasting.

8.2. Bill impacts

The GVIA continue to be frustrated with WaterNSW's presentation of potential bill impacts to justify their pricing proposal. The current analysis that incorporated three tiers of water entitlement owners is welcomed but that additional analysis on water usage is also required to match the varying reliabilities of water sources. For example, a 30% and 60% usage percentages should be considered (as with 100% for high security). This will provide further evidence to water users on the potential impact to their business in a uniform manner.

IPART NSW adopt two thresholds of water usage to calculate bill impacts 30% and 60%.

Furthermore, the GVIA a disappointed the how WaterNSW present the positive or negative percentage impact on bills as it is deceiving customers on the real impact of prices over the determination period. WaterNSW must include a comparison between the previous determination period and throughout the determination period not just one or the other depending on their story. For example, WaterNSW promote the impact for high security

users in the Gwydir valley is an increase of 2.2%⁵ between 2016-17 and 2020-21 following an initial decrease in price but actual price impact of the determination period has to be manually calculated as an increase in 7.8%⁶ between 2017-18 and 2020-21.

WaterNSW chose to highlight the initial decrease in price from the previous determination period and then use this inflated price to present a smaller impact throughout the current determination period. This approach dupe's customers into believing WaterNSW is providing them a better pricing outcome than what they will actually realise throughout the determination period. These deceptive tactics are unacceptable and must be rectified in the draft determination by IPART NSW.

IPART NSW present comparison of the bill and pricing impacts between determination periods as well as within the determination period.

9. Conclusion

The Gwydir Valley Irrigators Association (GVIA) Inc welcomes the opportunity to provide this submission to the Independent Pricing and Regulatory Tribunal (IPART) NSW on WaterNSW's pricing proposal for rural bulk water services from 1 July 2017 in 20 June 2021.

The GVIA does not support the proposed prices for our region for a range of reasons outlined within our submission.

We have provided 18 recommendations for further investigation and analysis by IPART NSW, in addition to addressing the Questions for Stakeholders as included in IPART NSW's issues paper.

⁵ Table 28, page 49 of WaterNSW Pricing proposal to IPART in Regulated prices for NSW rural bulk water services from 1 July 2017 – 30 June 2021.

⁶ Calculated from the difference between indicated price in 2020-21 to 2017/18 divided by the starting price.