

WaterNSW Pricing Proposal 2025-30

IPART Submission



Gwydir Valley Irrigators Association
December 2024



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1. Overview

1.1 About Us

The Gwydir Valley Irrigators Association (GVIA) is a representative body comprising of over 400 water entitlement holders within the valley, with a focus on providing a unified voice championing the local irrigation industry. We welcome the opportunity to respond to IPART's review of WaterNSW Bulk Water Prices. We are strong supporters of the independent review of proposed pricing for monopoly services.

The GVIA organisation is voluntary, funded by a nominal levy, cents/megalitre on regulated, unregulated and groundwater irrigation entitlement. All GVIA members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources.

Our membership covers 99% of High Security entitlement, 94% of General Security entitlement and 89% of the Flood Plain Harvesting (FPH) entitlement across the valley.¹

Our region is characterised as having low water reliability with most water held as general security water with a reliability of 36%, meaning irrigators could expect just over a third of their entitlement can be accessed in the long-run. 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% but there is less than 30,000 ML available.

1.2 The role of economic regulation

Since 2006 when IPART first regulated monopoly services in the water industry the sector has welcomed the focus on efficient provision of services. IPART has played a critical role in ensuring that utilities have appropriate planning and focus on the efficient delivery of services.

The corporatisation of water providers has benefited water users and Government. The efficient delivery of services is an achievement of a stronger commercial focus and more rational pricing.

It is important that the focus on core services is front and centre and that the drivers of costs are transparency. The call for customer engagement under the IPART 3s's framework has to be underpinned by clarity and shared information around options and costs.

We would argue that the key drivers of performance and efficiency over time was the transparency brought by the IPART review process and its ability to interrogate business planning processes.

We are concerned that the new framework which places an emphasis on high level incentives and engagement is not fit for purpose when plans are overwhelmed by costs increases and a corporate strategy of blindly accepting regulatory drivers of costs.

We would argue that WaterNSW has not paid sufficient attention on meeting regulatory requirements efficiently.

1.3 Observations on the WaterNSW Pricing Proposal

WaterNSW have provided a proposal which is a combination of its Rural Valleys and Greater Sydney Business.

We believe that this approach, while maybe of utility to WaterNSW, does very little to assist the customer. In fact, it is confusing reading the document as various strategies and savings relate to different part of the business.

Regarding the Rural Valleys elements of the proposal we have particular issue with the following:

1. The level and quality of engagement at a customer level while extensive has ignored regulatory drivers of costs and final costs were delivered very late in the process.
2. The degree of functional transparency – past pricing proposals generally included a section on each valley so that cost build ups are clear. The 2021 pricing proposal on key drivers for a valley are scattered across volumes.

¹ Excludes held environmental water entitlements.

3. The cost drivers are very clear for some costs. For others there is very little discussion on the drivers and optimal approaches. Both, WaterNSW and WAMC seems to have little focus on describing innovation and improvement other than in general terms while then outlining some increases in precise detail.
4. The lack of a clear proposal - WaterNSW has asked IPART to consider issues of affordability when it should be the role of WaterNSW to work on this issue throughout its proposal as it 'knows' its customers.

We will discuss these issues in turn before then addressing key issues in subsequent sections.

Despite the level of engagement undertaken we have reservations that the WaterNSW proposal provides sufficient information on key cost drivers for water users to fully understand why prices are increasing.

We also note that detail on business improvement and productivity is absent. There are some business improvement processes, however, we have witnessed very little effort on the robust plans and assessment of the cost and benefits of proposed actions across many areas of the business.

Comment 1 The WaterNSW Bulk Water pricing proposal is not sufficient for stakeholders to fully understand cost drivers and the build up of user share of costs.

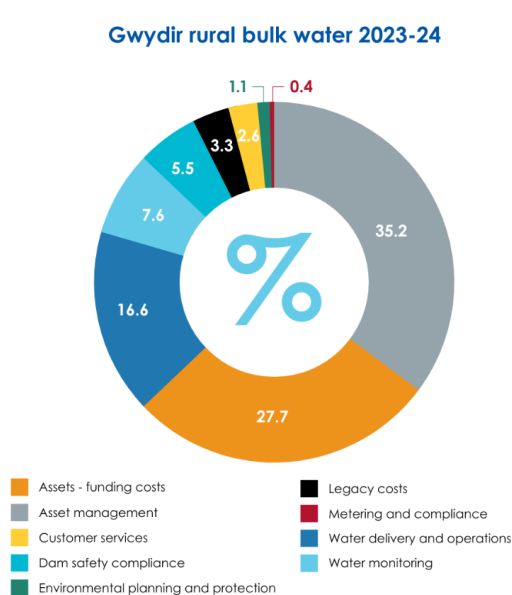
1.3.1 The degree of functional transparency

Economic regulation should increase transparency and accountability. This means that information should be relevant, reliable, comparable and understandable. The combination of the Rural Valleys, Greater Sydney and WAMC pricing proposals has resulted in a discussion of various issues that are unclear.

The combination of providing bulk water and water management services to both rural and urban customers, while maybe efficient for WaterNSW and IPART is more confusing for customers.

The level of information on the cost build up and the basis of prices is minimal. GVIA has found the following on the website. We note that this information while interesting is focused on percentages and does little to inform user understanding on cost allocation.

Figure 1 Example of information on valley by valley breakdown



Source: WaterNSW website accessed December 2024.

Comment 2 WaterNSW should produce a document for each regulated valley that clearly outlines all relevant expenditure including capital programs, user share and proposed prices.

1.3.2 The cost drivers

WaterNSW have outlined a range of legislative, policy and regulatory changes placing upward pressure on costs. This includes

- legislative changes (for example, Commonwealth Security of Critical Infrastructure Act requirements, cyber security requirements, modern slavery, ESG reporting and NSW Dams Safety Act and Regulation compliance obligations)
- policy changes (for example non-urban metering policy, floodplain harvesting policy (coming soon), climate change plans and reporting)
- regulatory changes (for example, data sharing agreements with DCCEE and NRAR and increasing obligations arising from water sharing plans)
- Operating Licence changes are also expected to result in higher capital and operating expenditures, particularly in the Rural Valleys.

Seeing this list highlights that the requirements on the rural water sector across NSW are out of control.

Almost every response to an issue is more regulation and activity. This is compounded by the multiple layers of Government involved and various parties such as the Natural Resources Commission and even IPART itself (through the operating licence review) adding costs with little thought of the benefit, or more importantly other ways of addressing an issue.

The fishways are an example of poor regulatory practice which we will discuss further below.

Comment 3 IPART should request its expenditure consultants to ask WaterNSW to demonstrate how it has considered options to efficiently meet regulatory requirements

1.3.3 The lack of a clear proposal

As we outline in Section 3, WaterNSW have developed a proposal that is open-ended putting the onus on IPART to make decisions on its behalf. As a regulated utility that should understand services, drivers, and its customers, it is remarkable that the pricing proposal does not have a preferred option.

We will respond to the options outlined in further detail, however, IPART faces an invidious choice without understanding the trade-offs associated with various options.

We would also comment that WaterNSW alternatives as detailed in its proposal do not adequately outline the pros and cons of the alternative options.

The core issue with the WaterNSW proposal in its current form is the absence of a strategic response to changing cost drivers. It does not squarely address the issues causing increased cost and affordability issues.

We will discuss various cost categories in subsequent sections. However, at a global level IPART should focus on incentives to ensure that expenditure is prudent, efficient and prioritise.

Comment 4 IPART should request its expenditure consultants to ask WaterNSW to demonstrate how it has considered a range of options to meet regulatory requirements.

1.3.1 Lack of review and business processes

There is a distinct lack of information and justification provided for key costs for the Rural Valleys proposal. For example, the proposed increase in opex due to an increase in headcount seems to have no clear justification.

As another example, the capital costs that are the focus of the proposal relate mainly to Greater Sydney expenditure rather than identifying and justifying the major capital works by valley.

1.3.1 Structure and efficiencies

A further note that the concept of engagement on cost on an element-by-element basis or bottom up is fraught unless there are details on the holistic cost impact as part of this discussion. It is extremely

difficult to prioritise effort and allocation of resources across the state and across investment areas as a portfolio compared to a direct conversation on a utility service. The volumes of consultation reports and activities may have cost thousands, if not millions, of dollars in consulting fees and staff time and there are few if any direct findings that have been used to shape the pricing proposals.

We would also like to note that after 8 years post restructuring bulk water services, including the merger of WaterNSW with Sydney Catchment Authority, there is little evidence of efficiencies. Rural customers are concerned that the State Owned Corporation Act should bring about a degree of commerciality to activities as opposed to build corporate structures and associated expenses for a monopoly service that results in customers significantly reducing their business activity in response to higher increasing prices.

As a final point, we encourage IPART to comment on the WaterNSW pricing proposal and its level of ambition displayed and self-judged 'standard' rating. We would argue that the work placed on capital programs and regulatory drivers has little commitment to improve value and should not be considered an acceptable proposal.

Comment 5 Under its 3c IPART should clearly articulate its view on the proposal's acceptability under the 3c's framework.

2. Engagement and the Proposal

WaterNSW state that:

This is our first pricing proposal prepared under IPART's 3Cs framework that places greater emphasis on embedding customer preferences into the proposal and demonstrating the prudence and efficiency of our activities and costs.

We would argue that while there has been a higher degree of consultation, we struggle to see where this has been reflected in the proposal and further there is less clarity around the efficiency of activities and costs than previous proposals.

We would like to outline the consultation process for the Gwydir Valley. We have summarised the huge degree of effort undertaken by WaterNSW as part of the development of these proposals (see Attachment 1).

We note that the consultation was very extensive. At times, the keys issues that were discussed were water sharing issues and wider catchment management. We also note the process of selection effort seems to suffer from neutral bias.

The selection of effort were:

- We don't do this/minimal requirement
- We do something
- We make all improvements

This type of questioning would tend to see respondents prefer sticking to the middle ground. Examining the results below, only one of all the investment proposals was not the middle ground.

Figure 2 Extract of WaterNSW engagement on key actions

WaterNSW Bulk water proposals final support results					
Investment proposals	We don't do this/Minimal requirement	We do something	We make all improvements	Where participants landed	Where WaterNSW landed
To improve the WaterInsights website (and close down multiple existing customer information websites).	9%	53%	38%	We do something Up to ~\$7 million	~\$7.1 million CAPEX
Invest in more technology and cyber security for safe operating systems	11%	61%	28%	We do something ~\$4-6 million	~\$3 million OPEX
Invest in more WaterNSW telecommunications for a more reliable and resilient network.	11%	50%	39%	We do something ~\$17-22 million	~\$17.9 million CAPEX
To introduce a proactive pest and weed land management program	13%	63%	24%	We do something ~\$4.5 million	~\$4.5 million OPEX
To introduce a pro-active bushfire management program on WaterNSW lands	17%	50%	33%	We do something ~\$16.7 million	~\$16.7 million OPEX
To continue to invest in technology to optimize asset management activities	17%	77%	7%	We do something ~\$12.8 million	We do something ~\$12.9 million
To continue to maintain and update the CARM system (that is used to operate the river 'systems')	24%	61%	15%	We do something ~\$7.5 million	~\$5.3 million OPEX
To capture carbon and then sell carbon credits	24%	43%	33%	We do something ~\$2 million	~\$4.1 million
To invest in more local customer engagement staff with increased face-to-face contact	33%	37%	30%	We do something ~\$4.5 million	~\$4.5 million
To keep WaterNSW sites safe and open to the public	35%	43%	22%	We do something ~\$5.5 million	~\$4 million CAPEX
To invest more in reducing greenhouse gas emissions to help reach net zero	48%	39%	13%	Meet 50% reduction by 2030 ~\$2.5-3.5 million	~\$2.5-3.5 million
To extend WaterNSW call centre hours	72%	26%	2%	Do nothing	Do nothing

We cannot see where the desire for efficiency of services is reflected in the WaterNSW proposal.

Comment 6 IPART should closely examine the utility of engagement processes, in particular relating to the justification of expenditure, including mapping the degree of changes from that initially proposed.

3. Our Understanding of the Proposal for the Gwydir Valley

3.1 Impacts are outlined in percentage terms

WaterNSW have outlined a 'Cost Reflective Base Case' that results in a weighted average price increase across the Rural Valleys of 22% per annum, that ranges from 17% per annum in Hunter Valley to 37% per annum in Peel Valley.

Table 1 Review of proposed price increases for the Gwydir Valley (\$%)

	Proposed price increases by 2030	Annualised price increase
WaterNSW component for standard water use customers		
High security	166%	22%
General security	198%	24%
Water Take Charge	189%	24%
Combined price for standard water use customers		
High Security Entitlement Charge	156%	21%
General Security Entitlement Charge	156%	21%
Water Take Charge	178%	23%

Notes: IPART's information sheet.

For High Security and General Security Gwydir customers the annual increase from 2024-25, assuming 100% and 60% water usage for high security and general security users respectively is significant.

The Deloitte Access economic report outlines average annual water charges per farm of almost \$150,000 per year. The percentage increases above would result in an additional cost of \$150,000 per year.

It is quite revealing that the economic report titled *NSW farming sector gross margin analysis WaterNSW 2024 price submission – supporting analysis* **does not report actual gross margins and farm profits** but relies on percentage reduction. The data should exist to enable the assessment of the reduction in farm profit. This is the number that will highlight not just the impact on the bottom line but the impact on viability. Standard definitions of family farm viability exist and should be used to assess impacts on the margin.

Additionally, these costs **are on top of inflation**. The productivity improvements in the farming sector will not offset these costs. They will be passed onto consumers where possible, lifting inflation, or for export industries will reduce international competitiveness.

Figure 3 Proposed bills by WaterNSW (\$2024-25) – IPART analysis



WaterNSW has not presented detailed bill impacts at a valley level. These increases are significant and should be considered within a whole farm budget environment. Various budgets are available. For example the cotton industry has extensive work available in gross margins. It is a simple exercise to carryout out some partial budgets to provide context for the prices proposed.

3.2 Alternative Proposals

For the Rural Valleys, there are provided three alternative scenarios in addition to complying Cost Reflective Base Case to assist IPART when it seeks to address both of these potentially competing objectives.

Balancing these potentially competing objectives will require IPART to assess:

- What are the lowest sustainable costs and what is financially sustainable for WaterNSW
- What customers can afford (recognising the complexity in distinguishing homogenous customer segments amongst our customers, or within valleys)
- What is appropriate for the NSW Government (as both our Shareholder and a customer)

Alternative 1 – Extend asset lives and reduce user shares with a price ceiling of 15% per annum (plus inflation) to take account of affordability.

Alternative scenario 2 – Extend asset lives and remove major policy projects with a price ceiling of 15% per annum (plus inflation) to take account of affordability.

Alternative scenario 3 – Regional pricing - (including a 15% per annum price ceiling plus inflation) and applies a reform initiative that would see the pricing of rural bulk water services transition from valley-based to regional based charging.

As outlined in the IPART Issues Paper, revenue from prices be reasonably likely to meet, but not materially exceed, the prudent and efficient costs of providing the services, less any government contribution, subsidy or other unregulated revenue derived from the infrastructure.

If the alternative proposals are not underpinned by Government negotiations on any Community Service Obligation (CSO) or alternative funding WaterNSW's proposal should be rejected.

Comment 7 We are concerned that WaterNSW have outlined various scenarios to IPART without proposing a strategy to operate its business. If operating in a constrained revenue environment it should be clear what expenses will be reduced or re-prioritised.

4. The 2021 Review

The 2021 IPART pricing review found that for Water NSW to deliver effective services in the future, its expenditure needs to be higher than the previous determination in 2017. In particular, Water NSW needs higher levels of operating expenditure to maintain its assets to an acceptable quality. The customer share of Water NSW's efficient costs is around 19% higher than when IPART last set prices.

WaterNSW's average annual cost allowance over the 2021 determination period is \$14.1 million (or 12.9%) higher than the allowance we used in 2017 to set its current prices. This allowance provides for a step change in its expenditure to help sustain key performance service areas – including maintenance, drought resilience, dam safety and fishway construction.

Comment 8 WaterNSW has continued to spend through the last determination period. We are concerned that expenditure has not resulted in material improvements or advancements in drought resilience, dam safety or fishway construction.

5. Expenditure and Key Costs Drivers

We will examine the following issues in turn

1. Operational expenditure, including:
 - a. Regulatory drivers
 - b. Land tax valuation
 - c. Costs of fuel
 - d. Efficiencies
2. Capital expenditure, including:
 - a. Past expenditure
 - b. Environmental capex
 - c. Valley level costs
3. Other Issues
 - a. Revenue caps
 - b. Cost shares
 - c. Regional Pricing.

6. Operational expenditure

6.1 Introduction

WaterNSW's estimated total opex forecast for the upcoming 2025-30 determination period is \$1,245 million, representing a 25.6% increase in real terms compared to our expected opex for 2020-25.

In its summary of costs WaterNSW outline the following as drivers of costs:

- Organisation change
- Regulatory change, and
- Inflationary pressures.

WaterNSW have outlined a significant increase in operational expenditure. As WaterNSW outline as approximately 60% of WaterNSW operating expenditure relates to labour related costs².

In Attachment 8 to its proposal WaterNSW outline that in response to *IPART's 3Cs framework* *WaterNSW has undergone a period of organisational change since 2022 with a new operating model and workforce plan.*

WaterNSW states that the *new operating model resulted in an overall increase in our FTE and salary and wage expenditure.* It is uncertain how many FTE and the quantum of salary expenditure is driving costs in the rural valleys, though there is a comment that an additional \$10 million is for additional headcount, the details of which are set out in Attachment 8. It is not clear what percentage of this costs relates to rural valleys.

WaterNSW has outlined a series of cost drivers but has not provided a justification for significant increases in headcount.

Comment 9 **WaterNSW has not provided sufficient detail and rationale for an uplift in labour costs. GVIA determine what the user share of this expenditure is and the increased service for our members.**

² WaterNSW 92024) Pricing Proposal 2025-2030 pg. 17.

6.2 Examples of regulatory requirements

WaterNSW outline that the new Operating Licence has several new obligations compared to the previous licence that have a substantive effect on costs, including:

- Increased scope of the water quality management system (WQMS)
- Water quality monitoring enhancements program
- Early warning system to provide advanced notification of significant changes to water flow quantity or and quality
- Requirements to establish a data management framework
- Expansion of both research and education requirements
- Establish a new Cooperation Protocol with Fisheries.

The GVIA believe that an overly prescriptive interpretation of regulatory requirements is increasing costs for all. Engagement was to 'inform' and 'consult' because many of its functions are 'non-negotiables' that are governed by legislation.

The costs outlined in response to the operating licence are problematic as WaterNSW has estimated that the potential cost implications to be approximately \$19.8 million in direct costs over the determination period.

Comment 10: IPART should consider the extent to which governments have imposed regulatory burden on WaterNSW.

Comment 11: IPART should request its expenditure consultants to review WaterNSW's response to its operating licence changes for efficiencies and potential for deferral of expenditure.

Currently, the main licence categories, in order of priority across NSW are:

- domestic and stock
- town water supply
- high security
- conveyance
- general security.

We believe there is a strong case for the future differential in water security (hence consumption of infrastructure storage assets) and customer specific operational expenditure that town water supply entitlement should be charged as a separate licence category.

In this way the demand for higher water quality and services can be customer centric. The impact on complexity would be marginal and the local water utilities have a high degree of knowledge and understanding of entitlement and services provided.

Comment 12: Where there are significant costs for a section of customers strong consideration should be given to a differential price or a user charge. The first of a significant investment in servicing environmental customers and the second is a significant investment in water quality for Town Water Supply customers.

Comment 13: The additional expenditure on water quality should be assigned to Local Water Utilities or the Government.

6.2.1 Higher petrol and diesel costs

These represent some of the highest increases on record. We note that WaterNSW quoted that 'Given our service area and the distance we travel between our assets – the equivalent of the distance from the earth to the moon and back again every month – higher fuel prices place upward pressure on our costs.'

There seems to be no focus on efficiency or plans to reduce the distance of travel or even a comparison of the cost assumed under the last proposal compared to now.

Comment 14: The statements made around higher fuel and diesel cost are emblematic of the lack of detail or evidence on key drivers.

6.3 Land Tax

There has been a significant increase in the land value of the portfolio in the last two valuation years of 2021 and 2022, increasing by 17% in 2021 and 30% in 2022 respectively. This has resulted in a 22% increase in WaterNSW 2023 land tax obligations.

Further, WaterNSW has significant holdings of land which have not historically been valued by the Valuer General (which mainly relates to Rural Valleys land) but which Revenue NSW has advised it will request the Valuer General to value as part of WaterNSW land tax assessment process. This is expected to increase land tax expense from 1 January 2025 by approximately \$4 million per annum.

The cost build-up suggest the annual figure is around \$5.3 million. As water users we believe this is another way of extracting money from the irrigated agriculture sector. This is especially the case as catchment, generally, are owned by WaterNSW to protect drinking water quality.

Selected asset disposal should be considered if land continues to be taxed.

Comment 15: The NSW Government should discuss land tax obligations with Revenue NSW. WaterNSW should take proactive steps to assess the policy as the drinking water catchments operate for the public good and should be treated akin to national parks.

6.4 Efficiencies

The application of efficiencies across the entities in both the WAMC and Rural Valleys pricing proposal are inconsistent. There is a mix of alternative approaches. This relates to the efficiency target and whether it relates to opex, capex or both.

Table 2 Review of proposed price increases for the Gwydir Valley (\$%)

Entity	Proposal	Comment
The Department	Around 1 percent per year	Unsure if cumulative
NRAR	NRAR has committed to a 3% per annum efficiency gain.	
WaterNSW	Efficiency target of 1% of total operating expenditure per annum starting in 2024-2025.	No application to capex

Notes: Various proposals.

These proposals are emblematic of the disparate approaches across the entities involved in water management and delivery. The efficiencies are at times imposed as capital efficiency targets tailored to valleys prior to the determination period whereas others are within period.

We would also like to point out that imposing an efficiency target after proposing significant step changes in opex is relatively easy. The base needs due consideration before discussing efficiencies that are a matter of course across the economy and are expected of agriculture sector.

Comment 16 Proposed efficiencies should be consistent and ambitious. They should be applied across the entire cost base.

Comment 17: Given the step change in operations costs IPART should rigorously review WaterNSW operating expenditure so that these costs do not become the new BAU cost.

7. Capex

7.1.1 Past capital expenditure

In aggregate, WaterNSW capital expenditure has been \$2.7 million (or 7%) higher than IPART's capital expenditure allowances over the current determination period.

We note that business governance and support was \$12.0 million higher than IPART's allowance due primarily to WAVE Projects (\$6 million for Water Market Systems, \$1 million for Water Data Program). This efficient expenditure of \$12.5 million became \$24.5 million, with \$13.7 spent in 2024/25 alone.

In line with its Water Regulatory handbook **we request that IPART conduct an ex-post capital expenditure review Business governance and support** as this is a significant capital project and WaterNSW has significantly overspent its allowed capital expenditure. Further the proposal does not compare the status this program against that which was planned.

Comment 18: The capital expenditure should not be included in the Regulatory Asset Base if demonstrably inefficient.

7.1.2 Proposed capital expenditure consultation

WaterNSW provide an overview of capital expenditure in various meetings with CAGs. WaterNSW essentially there are maintenance works (investment) related to:

- Must do - Compliance with policy and regulations
- Should do - Works to address the maintenance needs of existing assets
- Could do - Works to invest further in infrastructure assets.

These process as discussed previous have tended towards the middle estimate.

7.2 New investments

WaterNSW's has a history of under delivery of capital expenditure, in the last determination period this was an underspend of its approved expenditure envelope of 40%. This is not new.

It is apparent that customers directly affected by significant capex on core assets were not as involved in customer engagement as in the past with little opportunity to comment on approaches optimise investment.

We urge IPART to strongly consider WaterNSW's track record of delivery of capital expenditure when setting an efficient, deliverable benchmark for the upcoming regulatory period.

We suggest that IPART require WaterNSW to clearly outline local capital expenditure priorities, engage locally on these priorities to develop a capital plan under the **Alternative scenario 2 – Extend asset lives and remove major policy projects with a price ceiling of 15% per annum (plus inflation) to take account of affordability strategic direction.**

Comment 19: GVIA are of the view that that the proposed capital expenditure program is not deliverable. IPART should consider the wider market conditions and demand for resources across the regional NSW when assessing this issue.

7.3 Fishways

There are a range of new investments for environmental projects in the Gwydir Valley.

We have major issues with this type of capital expenditure as history has shown that entities commence this work and do not have adequate controls to check progress including appropriate stop/go decision points.

We have low visibility and confidence in these projects. We suggest that IPART consider deferring inclusion of capital expenditure until there is proof of concept and strong evidence of demand.

A typical capital planning process would seek to be efficient and minimise customer bills by:

- Meeting obligations by investing in solutions that have the lowest lifecycle cost (as demonstrated by

- detailed options analysis)
- Having robust investment and asset management processes to ensure efficiency and value for money including PCG structures and independent reporting to an oversighting group accountable for delivery
 - Delivering all investments through efficient procurement programs.

We are concerned that regulatory requirements developed over a decade ago are not fit for purpose and the requirements should be subject to significant review.

The fishways are also a regulatory requirement under section 218 of the Fisheries Management Act 1994, which requires fish passage through or over a dam, weir or reservoir to be maintained following any construction, alteration or modification to the structure.

It is not clear that there has been a meaningful review of these regulations, and the Strategic Fishway Implementation Program (SFIP) project aims at rectifying impediments to fish migration posed by in river barriers (such as weirs, dams or barrages) to see if they are working as intended.

We believe that the potential cost implications of these standards are unknown. We have assessed the existing proposal and it seems that the average costs could be in the order of \$21 million for each fishway.

The strategy has identified 165 high priority weirs, which will significantly improve native fish access to 8,885 km of mainstem rivers – a program budget of \$3.4 billion with unknown benefits.

Comment 20: The proposed capital expenditure on fishways should be the subject to external review. We call on the NSW Government to review the NSW Fish Strategy given the order of magnitude lift in costs of the program. We believe the NSW Productivity and Equity Commissioner should conduct this review.

8. Other elements

8.1 Future tariff discussions for bulk water - (Revenue Cap or a Price Cap)

We oppose any consideration of tariff structure reform at this time, such as increasing fixed charges from 40% to 80%, being introduced concurrently with significant price increases.

WaterNSW has flagged the notion of such reforms, but it has not carried out the appropriate analysis or consultation with water users. We consider WaterNSW has not conducted the required level of engagement with an inherent bias towards a revenue cap.

The concept of risk sharing between a monopoly and its customers was considered in the 2012 review of rural charging. We encourage IPART to seek additional information on how a revenue cap would result in a reduction in cost to water users.

As a note we do not consider the electricity sector as the applicability as an example of a way forward for this issue.

Comment 21 At this stage GVIA cannot unequivocally support the proposed revenue cap. While outlining the issues that the price cap places on WaterNSW the implication for water users has not been assessed appropriately.

8.2 Cost shares

IPART should review cost shares as a matter of course. We believe that many of the regulatory requirements are imposed on water users and they are either for a specific subset of users or relate to other impactor such as significant changes such as climate change which is the result of years of industrialization around the globe not water users.

Comment 22 While not calling for a review of the cost shares the GVIA consider that the cost share and cost drivers of significant cost increases should be reviewed. The categories include land use management and many of the costs associated with new regulation. We note that WAMC proposed a change to a planning cost share and we encourage WaterNSW to do the same for these activities.

8.3 Regional Pricing

WaterNSW outlined the following in:

Regional pricing is consistent with the IPART stated aim to allow the regulated utility to reprioritise expenditure within the allowance. It provides several benefits compared to valley-based pricing, including:

- *minimising price shocks within and between valleys in the future as expenditures are allocated across a wider customer base*
- *providing WaterNSW with flexibility to operate across the region to deliver its required investment programs while still focusing on the priorities of each valley*
- *providing opportunities for improved efficiency as the regionally based framework aligns to WaterNSW's regional structure for its maintenance and operational activities*
- *achieving other administrative improvements.*

WaterNSW states that it 'uniquely face the challenge of developing revenues and prices across 13 valleys, each with its own specific circumstances, which has stretched our internal resources and resulted in the need to leverage external expertise'.³ We do not see how this task would fundamentally change with a change in structure and encourage WaterNSW source the skills to develop pricing proposals in line with past performance in previous reviews.

We would contend that WaterNSW runs 13 sets of very different sets of infrastructure which provide a distinct service and have distinct set of customers for each valley. Infrastructure and operations planning must be focused on customers and staff should understand the water sources and infrastructure they manage.

Table 3 Regional Pricing - response to problems

WaterNSW	GVIA Response
1. There are pricing discrepancies by valley. Moving to a regional framework could help minimise price shocks within and across valleys. Currently small changes in costs can lead to large increases in smaller valleys under this valley-based approach.	This seems to be not reflected in a process that does allocate costs between valleys and over 5-year determinations. Moreover, capex is included in a RAB which dampens effects on prices over time.
2. Valley based pricing puts constraints on how we deliver capital projects. We currently can't shift asset management money between valleys. Customers have asked for example that we focus on repair works when a river is low rather than impacting customers when water availability is good. This accounting system doesn't reflect what happens on the ground.	This is incorrect. WaterNSW can shift asset management money between valleys (and it does exactly that). WaterNSW have misconstrued what IPART does by approving prices – it does not approve a particular capex program and changes are always at the discretion of the utility. Allowed IPART expenditure is not an accounting system
3. There are several areas where the current approach to valley based pricing already has a false precision. The rivers extend hundreds of kilometres and valley-based prices means some customers are already cross-subsidising others	This argument is essentially making a case that there is cross subsidisation so we should make it worse. This approach goes against the NWI and the benefits that a transparent user pays system brings to management.

Source: WaterNSW presentation to Gwydir .

Regional pricing has been developed by WaterNSW without any detailed discussion of problems, options and the benefits for each. If it could reduce prices significantly we may be supportive if an appropriate output measure around staff and cost reduction could be formulated.

WaterNSW has stated:

This idea has been discussed with the CAGs as a starting point. There are concerns of course about potential winners and losers by transitioning to two regions for pricing over time as existing water assets are depreciated. Overall, initial conversations have been tentatively positive.

³ WaterNSW Pricing Proposal, pg 105.

GVIA believe that this assessment is overly positive and reflects a bias from WaterNSW for a simpler system that results in less transparent costs and the avoidance of issues around the affordability of services in the North Coast, South Coast and the Peel. We are concerned that ultimately this will see a shift of these costs onto water users in other valleys.

We wish to point out that WaterNSW has not finalised this proposal as far as we are aware. We were informed that *'under this regional approach to pricing, this would result in a revenue shortfall to WaterNSW of between \$82 million and \$153 million over five years depending on whether transitional arrangements are in place.'* WaterNSW stated they would explore a range of options with its shareholders (NSW Government).

Until we are aware of what the longer-term ramifications of this proposal are including on prices, transparency and customer consultation structures we believe a move to postage stamp pricing is a regressive step.

Comment 23 **GVIA do not understand the articulated rationale for a move regional pricing. Given that WaterNSW is a capital intensive fixed infrastructure business it is unclear how 2 regions is a better structure than 3 or 4 regions.**

Comment 24 **At this stage GVIA do not support regional pricing unless benefits are assessed and risks of lower transparency and high risk of cross-subsidisation are addressed.**

9. Assessment Against the 3c Framework

9.1 IPART Framework

The 3Cs framework is centred around water businesses developing pricing proposals that promote customer value. It strongly encourages water businesses to actively engage with their customers, bringing customers into the decision-making process when they are setting outcomes. Involving customers to set outcomes that matter most to them, and align with their preferences, is essential if WAMC and WaterNSW are to identify better ways of delivering their services.⁴

We have reviewed the WaterNSW proposal to assist IPART in its consideration of the adequacy of proposals.

Table 4.2 Review of proposal

	GVIA Rating Comment	
Customers		
Are customer centric	Standard	No – a focus on response to a range of external costs drivers with no optimisation
Reflect customer feedback	< Standard	In parts – but not real engagement on opex
Promote better customer outcomes	< Standard	In part
Meet community needs	Standard	A focus on some improvements but very little link to each valley
Support environmental sustainability	Standard	Some improvement – limited scope
Promote choice of services	< Standard	Only service is price structure. Some water insights products but inefficient to date
Costs		
Robust costs	< Standard	No – high level
Balance of risk and performance	< Standard	No – little detail on risks and impacts
Commitment to improve value	< Standard	No
Equitable and efficient cost recovery	< Standard	No -
Credibility		
Delivering	< Standard	No – no link to past delivery issues
Demonstrating continuous improvement	< Standard	No – efficiency only on opex and minor

Source: NSW Independent Pricing and Regulatory Tribunal, Information Paper, pg 4 and GVIA response.

⁴ NSW Independent Pricing and Regulatory Tribunal, Information Paper, pg. 4.

10. Responses to the IPART Issues Paper

Table 4.2 Specific Responses to IPART Questions

WaterNSW Proposal	
13. How will WaterNSW's proposed prices impact customers?	We believe that the WAMC proposal conceals the impact on growers. The impact is significant and was not shared prior to submission.
14. What factors should we consider so that prices we set for WaterNSW are appropriate for different customer types? How well has WaterNSW considered these factors in the development of its proposal?	The factors that IPART considers is set by legislation. We believe that the key test should be is the proposed expenditure considered reasonable and efficient.
Customer engagement	
15. What do you think about WaterNSW's engagement process? Do you think WAMC has engaged effectively with customers and stakeholders?	An engagement process was undertaken, however the piecemeal approach to issues and expenditure is problematic. Further the approach seems to focus on justifying higher levels of investment rather than prioritising effort.
16. Did WaterNSW's consultation process target the right stakeholders, and was an appropriate level of content provided to stakeholders so they could meaningfully engage with it?	No – see comment above and limitations on price impacts.
17. Did WaterNSW consult sufficiently with Aboriginal peoples and communities? What First Nations priorities should be considered in IPART's determination?	NA
18. Are the WaterNSW customer outcomes and metrics appropriately ambitious yet achievable? Do they incorporate what stakeholders said was important to them?	No comment -
Expenditure	
19. Does WaterNSW's proposal represent a reasonable and efficient balance of costs and service levels, and does it align with customers' willingness to pay?	No
Other Issues	
20. Would you prefer prices to remain stable over the determination period or do you support WNSW's proposal for a revenue cap where prices adjust by up to 5% per year in response to changes in water sales?	At this stage we would like to see further information and also understand the reduction in cost that a revenue cap would generate – is the removal of a volatility allowance.
21. If you are a Licenced Environmental Water holder or Lachlan Valley customer, how will the proposed changes to price structures affect you?	NA
22. What are your views on WaterNSW's proposal to maintain the current cost share ratios? What do you think of the alternative options WaterNSW provided that could increase the Government share for some activities?	There are cost share ratios for land management and water quality actions that should have different user cost shares.
Is there any new information about WaterNSW's activities we should take into account when setting cost shares? For example, are there changes to:	See comment above and information on Local Water Utilities.
Source:	

11. References

WaterNSW (2024) WaterNSW 2025-30 pricing proposal.




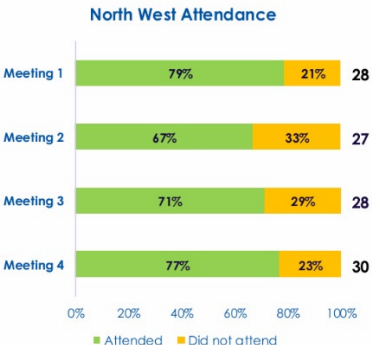
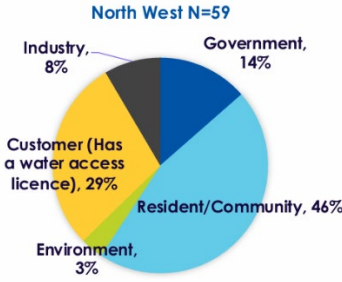
IPART (2023) Water Regulation Handbook July 2023.

12. Attachment 1: Review of Customer Engagement

The information below is provided to highlight the volume of reports re 500 pages over 4 reports and the relevant outcomes for the Gwydir Valley.

We believe there are significant issues with broad and tentative approval used to justify actions and key missing elements such as lack of prices implications and any analysis on opex increases, revenue caps and a lack of rational and procs and cons of regional pricing.

The WAMC Pricing Proposal also suffered from a lack of consistency between price options and the price included in the Proposal and FPH and Metering pricing being discussed post submission.

<p>Phase 1 Customer and Community Insights Report</p> <p>September 2023</p> <p>126 pages</p>	<p>Across the valleys</p> <p>Overall, the top issues raised in our conversations across the valleys were consistently the following:</p> <ul style="list-style-type: none"> Water security Water affordability Sustainable water and land management. <p>1. Water affordability, reflecting the shared worries about the rising costs associated with accessing and utilising water</p> <p>Gwydir</p> <p><i>While understanding the needs of big irrigators, it is crucial to balance their requirements with environmental considerations.</i></p> <p>Participants in this valley seek a balance between ensuring reliable access to water for local irrigators and maintaining a healthy river environment and ecosystem (including water quality).</p>	<p>Topics that CAG customers identified their preferred outcomes against</p> <p>Water Security and Delivery Including Delivery Rules Water Ordering Arrangements, Flexibility and Usage – Including Ordering Rules Good Customer Experiences Easy Access to Data and Information</p> <p>Key takeaways</p> <ul style="list-style-type: none"> Responses highlight the need to find a sustainable approach that ensures water availability for irrigation purposes while safeguarding the health and preservation of the environment. People want support for farmers during difficult times and ensuring they have access to water resources. It is suggested that this is achieved by better regulating water and having effective deterrents for people who choose not to abide by the rules. In surveys for the Gwydir Valley, Community Members or Community Group Members comprised the largest group of respondents overall. Sustainable Water and Land Management, and Water Security and Delivery were the first and second most selected issues chosen overall, Cultural Water and Water Ordering Flexibility and Usage tied as third most selected choices overall.
<p>Customer and Community Engagement Report - Phase 2 Outcomes</p> <p>April 2024</p> <p>138 pages</p>	<p> </p> <p>20 proposals considered by the Water Working Groups regarding WaterNSW Bulk Water delivery and WAMC</p> <p>5 cost share questions discussed by working group participants</p> <p>The remaining Phase 3 discussions will entail discussions regarding the complete revenue required, bill impacts, costs and other financial considerations in the context of activities proposed to be pursued by the water agencies.</p>	<p>6.5.1 To invest in asset maintenance – adopting a level of risk against 2025-3030 performance</p> <p></p> <p>Revenue Cap</p> <p>Real world examples and price impacts were requested in updated modelling on the pricing arrangements. Instead of hypothetical figures, members would like to see financial modelling that shows:</p> <ul style="list-style-type: none"> The 2012-2022 period <p>Policy and legislative changes</p> <ul style="list-style-type: none"> The cost implications of new requirements need to be evaluated. The implementation of each policy needs to be costed before it becomes final. The costs of each of the policies shown were requested as part of the IPART process.
<p>Working Groups</p>	<p>North West Attendance</p> 	<p>North West N=59</p> 
	<p>Emphasizing Environmental Conservation and Sustainability</p> <p>Ensuring Fair Water Allocation to the Environment</p> <p>Integrating First Nations Knowledge in Environmental Management</p>	

	<p>5.1.2 Select WaterNSW bulk water delivery activities – installing fishways and cold water pollution infrastructure</p> <p>The timing of decision-making about the cost shares between Government and customer</p> <p>Resolving the issue of cost shares in 2025-2030 was critical to participants, with frustration from some participants expressed that the question of proposed changes to cost shares was not finalised before the discussions regarding the various investment proposals that took place in October and November 2023.</p>	<p>Environmental Compliance Cost Share N=46</p> <p>Yes - It's about right 7%</p> <p>No - It should change 93%</p>																																											
<p>WAMC</p>	<table border="1"> <thead> <tr> <th>Activity</th> <th>19%</th> <th>60%</th> <th>21%</th> </tr> </thead> <tbody> <tr> <td>Customer engagement on water management and planning</td> <td>19%</td> <td>60%</td> <td>21%</td> </tr> <tr> <td>Managing groundwater boreholes</td> <td>15%</td> <td>46%</td> <td>40%</td> </tr> <tr> <td>Specialised equipment to improve safety</td> <td>17%</td> <td>48%</td> <td>35%</td> </tr> <tr> <td>New water storage information</td> <td>17%</td> <td>48%</td> <td>35%</td> </tr> <tr> <td>Protection of our equipment during flood or fire</td> <td>21%</td> <td>48%</td> <td>31%</td> </tr> <tr> <td>Increasing the extent of water monitoring</td> <td>4%</td> <td>60%</td> <td>35%</td> </tr> <tr> <td>Improving water meter data management</td> <td>10%</td> <td>48%</td> <td>42%</td> </tr> <tr> <td>Improving our online customer services</td> <td>17%</td> <td>50%</td> <td>33%</td> </tr> <tr> <td>Improving the way we store and manage data</td> <td>10%</td> <td>50%</td> <td>40%</td> </tr> </tbody> </table>	Activity	19%	60%	21%	Customer engagement on water management and planning	19%	60%	21%	Managing groundwater boreholes	15%	46%	40%	Specialised equipment to improve safety	17%	48%	35%	New water storage information	17%	48%	35%	Protection of our equipment during flood or fire	21%	48%	31%	Increasing the extent of water monitoring	4%	60%	35%	Improving water meter data management	10%	48%	42%	Improving our online customer services	17%	50%	33%	Improving the way we store and manage data	10%	50%	40%				
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**Phase 3
Customer
Engagement
Report – Price
proposals and
customer price
structures**

July 2024

86 pages

WaterNSW Bulk water proposals final support results					
Investment proposals	We don't do this/Minimal requirement	We do something	We make all improvements	Where participants landed	Where WaterNSW landed
To improve the Waterinsights website (and close down multiple existing customer information websites).	9%	53%	38%	We do something Up to ~\$7 million	~\$7.1 million CAPEX
Invest in more technology and cyber security for safe operating systems	11%	61%	28%	We do something ~\$4-6 million	~\$3 million OPEX
Invest in more WaterNSW telecommunications for a more reliable and resilient network.	11%	50%	39%	We do something ~\$17-22 million	~\$17.9 million CAPEX
To introduce a proactive pest and weed land management program	13%	63%	24%	We do something ~\$4.5 million	~\$4.5 million OPEX
To introduce a pro-active bushfire management program on WaterNSW lands	17%	50%	33%	We do something ~\$16.7 million	~\$16.7 million OPEX
To continue to invest in technology to optimize asset management activities	17%	77%	7%	We do something ~\$12.8 million	We do something ~\$12.9 million
To continue to maintain and update the CARM system (that is used to operate the river 'systems')	24%	61%	15%	We do something ~\$7.5 million	~\$5.3 million OPEX
To capture carbon and then sell carbon credits	24%	43%	33%	We do something ~\$2 million	~\$4.1 million
To invest in more local customer engagement staff with increased face-to-face contact	33%	37%	30%	We do something ~\$4.5 million	~\$4.5 million
To keep WaterNSW sites safe and open to the public	35%	43%	22%	We do something ~\$5.5 million	~\$4 million CAPEX
To invest more in reducing greenhouse gas emissions to help reach net zero	48%	39%	13%	Meet 50% reduction by 2030 ~\$2.5-3.5 million	~\$2.5-3.5 million
To extend WaterNSW call centre hours	72%	26%	2%	Do nothing	Do nothing

Financial proposals	Participant responses
Scenarios for government to accept cost sharing for items that resolve a high proportion of community benefit	Broad approval across most participants
New tariff structures - Revenue Cap or Price Cap	Broad tentative approval for a Revenue Cap from many groups once detailed discussions had occurred, other groups who have not examined the detail are uncertain.
Increasing the higher fixed portion of customer charges	A highly mixed response from customers. The potential impacts to water use and trade were discussed as possible outcomes of higher fixed charges, which could have unintended consequences for a valley. Separate discussions with Commonwealth and State Environmental Water holders show openness to this concept.
Cost reflective base case – recovery of the true cost of services provided by WaterNSW, by customers	It was recognised by both customers and WaterNSW that the true cost, the cost reflective base case, was not an affordable revenue amount for both customers and WaterNSW without intervention.
15% cap in price increases each year for five years (excluding CPI)	Broad acceptance that this may be the only feasible outcome, with customers noting a likely high negative impact to both small producers and customers with permanent plantings. It was recognised councils are not able to pass costs on and will struggle with the increased charges.
Regional pricing (two regions, northern and southern)	Tentative approval from introductory CAG conversations, with some concerns about the process and transparency of the prioritisation of works across a region also meeting individual valley commitments. Concerns regarding a lack of wider discussions on the proposal for cross water customers.

Issues	<p>The regulatory environment impacting on farm costs</p> <ul style="list-style-type: none">• Rural Valleys 43% increase over the current allowance (average across all valleys bill increase +63%) <p>February/March 2024</p> <p>Frustration was expressed that customers are bearing a burden of past government infrastructure planning they were not a part of – both efficient and not efficient.</p>
Gwydir Customer Advisory Group - Presentation - 22 October 2024	<ul style="list-style-type: none">• Due to timing constraints, a few WAMC items were unable to be discussed as part of our broad consultation process.<ul style="list-style-type: none">- Metering- Flood Plain Harvesting- Consent Transactions