

Author name: K. BRAY

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Your submission for this review:

On behalf of Hunter Wine Country Private Irrigation District Ken Bray Operations Manager [REDACTED]

[REDACTED] We support the submission of The Hunter Valley Water users association.



E: huntervalleywaterusers@gmail.com
W: hvdua.mailchimpsites.com

SUBMISSION:

IPART ISSUES PAPER: IPART IS REVIEWING PRICES FOR WAMC AND WATERNSW 1 NOVEMBER 2024

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Introduction

Hunter Valley Water Users Association (HVWUA) thanks IPART for the opportunity to provide feedback on the Issues Paper outlining proposed water price changes for WAMC and WaterNSW from 1 July 2025.

Water users in the Hunter that hold water licences are generally beef, horse, poultry, dairy, cropping, horticulture and grape growers. Each of these industries value water; however, as the costs of a range of inputs continue to rise, farmers have a price at which continuing to use water is not possible.

The Hunter Region has experienced ongoing increases in high and general security entitlement costs and usage charges. During the 2017 IPART determination period, changes to the Hunter pricing structure resulted in lower charges, and full cost recovery was achieved. However, this reduction was short lived, with significant price increases in the 2021 IPART determination period driven by operating expenditure and capital expenditure increases.

IPART Determination	High Security Entitlement charge % increase	General Security Entitlement charge % increase	Usage charges % increase
2009/10 – 2013/14	16.5%	19%	8.9%
2016/17 – 2020/21	-49.6%	15.1%	-14.6%
2020/21 – 2024/25	40.9%	41.1%	40.7%
2025/26 – 2029/30	120% (17% annualised)	118% (17% annualised)	101-131% (15-18% annualised)

Total entitlements in the Hunter are reported as 138,109ML general security (1.8% of total GS entitlements in NSW) and 70,690ML high security (7.6% of total HS entitlement in NSW). The volume some entitlements has declined over the last 15 years; in 2010 there were 147,909ML general security entitlements.

In 2017, utilisation of water system capacity in the Hunter was calculated at between 57% and 75%. While not as low as the North (5%) and South (23%) Coasts, it is lower than inland NSW. Smaller entitlement volumes, lower utilisation of water, poor water trading markets, and the reluctance by water users to upgrade infrastructure due to uncertainty over the future costs of water are worrying trends in the Hunter region, calling into question the regions capacity to pay for irrigation water.

It is becoming more common for primary producers reliant on on-farm income to consider whether water price increases are beyond their willingness to pay. Farmers are considering how to modify their water use practices and operations to adjust to these increased costs. As noted in Deloitte's study of affordability and farmers' ability to absorb price increases, data collected from 2015-16 to 2021-22 found that coastal profit margins as a share of revenue were -27.4 per cent on average, with a range from -1 per cent to -67 per cent, the lowest out of all NSW regions. Due to the coasts negative profit margins as a share of revenue, coastal regions are highly vulnerable to changes in water price.

The capacity to pay for agricultural water users in the Hunter must be evaluated to make sure prices sit within the efficient pricing band and do not exceed the dollar amount that customers would not purchase water.

HVWUA holds several concerns regarding WAMC and WaterNSW proposals outlined in the IPART Issues Paper. This submission provides answers to IPART Issues Paper and raises the concerns held by our membership. HVWUA also endorses the submission made by the NSW Irrigators' Council.

Feedback on IPART Information Paper

IPART Questions 1 & 13: How will WAMC and WaterNSW proposed prices impact customers?

HVWUA sought feedback from members about the impact of proposed WAMC and WaterNSW costs:

Case Study: Beef Cattle Farm, Patterson River

This farmer runs a 211 acre beef breeding enterprise with +60 breeders. Water is used to irrigate around 40 acres of mixed pasture used for grazing (i.e. no value-add crops).

The proposed price increase would significantly change their operations. They would reduce stock holding to around 40 head to reduce grazing pressure. As a breeder operation, herd size is not something you can fluctuate easily with season changes (i.e. dry spells). They would operate a conservative herd size to ensure proper grazing principals can be maintained for the sake of soil health.

They also considered their water use patterns and would reduce irrigation use to extreme dry spells only due to the sale price of beef not increasing with these increase variable costs. Reduction in stock by 30% would significantly impact profits, so an increase in water price would result in them selling back half their 150ML water entitlement. The ongoing fixed cost is too much just to maintain the right to irrigate, and the price of beef cattle cannot justify the cost of the water

Considering the community, they note that other farmers will likely following the same pattern. This will impact other larger/more water dependent irrigators as they will be subject to price pressure as there will be fewer users for the same amount of water.

Case Study: Beef Cattle Farm, Hunter River

This farmer runs a beef cattle farm, relying on the Hunter River for stock water and for the irrigation of pasture and fodder crops that are grazed, or baled as hay/silage and stored for use during winter and dry periods.

For them, an increase in annual water bills of 15-17% would have a significant impact on the profitability of the farming enterprise. Over the 5-year period, their water costs would more than double. As a beef cattle grazier, they have very little ability to influence the sale price of cattle given that they operate in an environment where they are price takers, dictated by the market. Any increase in the cost of inputs is absorbed by their business directly, thereby reducing any potential margin.

Case Study: Dairy Farm, Patterson River

This farmer runs a dairy farm, milking 340 cows (Jersey and Holstein Friesians) and producing 2 million litres of milk annually. He irrigates pastures for grazing.

They note that if they decided not to irrigate following the proposed price increase, their annual water bill will go from \$24,890 /year currently to \$51,840/year in July 2029, excluding CPI

In a drought year, they would need to use all their water allocation, their annual water bill would go from \$47,000 currently to \$104,000 July 2029, excluding CPI.

They observe that if they do not irrigate, the price of water increases from \$68/day currently to \$142/day in July 2029. On the days they do irrigate, the price increases from the current \$282/day using 6ML/day to \$624/day in July 2029. These price increases are causing them to evaluate the viability of continuing to run their operations.

They are also concerned about his current contracts with milk companies. He will not immediately be able to pass the water costs increases to them, placing his operations under financial stress.

Case Study: Dairy Farm, Hunter River

This farmer runs a dairy farm, which milks 900 cows three times a day, employs 26 staff, and supplies 32,000 litres of milk daily which equates to 12 million litres of milk per annum. 1300 acres of river flat are irrigated using 9 irrigation systems consisting of pivots, linears, and side roll irrigators to grow fodder to maintain our herd.

Currently WaterNSW costs this farm \$65k per year. An increase of 17% every year for 5 years would increase this cost to \$100,000 per year. They consider that the increasing cost of electricity and all other charges will make this farm harder to make ends meet. They are concerned about the flow on effects this may have, such as the ability maintain staff that they have employed for a significant number of years.

They are also concerned about milk companies deciding to cut costs. This farmer would need to pass on the water pricing increases through the cost of the milk. However, they are limited by what prices milk companies consider as a reasonable cost.

The farmer considers it “unjust for a state government department who want these outrageous charges when the annual inflation rate is around 3%. I am a fifth-generation farmer at Scotts Flat and it's plain to me that the WaterNSW wants to price farmers out of the market in order to use water for urban development.”

Case Study: Turf farm, Hunter River

This farmer runs a cropping farm in Jerrys Plains with an entitlement volume of 420ML general security water.

When comparing the cost of his water licence from 2015/16 to 2024/25, his average bill fixed charges increases from \$4,867.80 to \$9,290.40 (+91%), variable charges increased from \$5,203.80 to \$7,893.90 (+52%), and the total bill increased from \$10,071.60 to \$17,269.65 (+71%).

He notes that the “current water price is really unsustainable. We are currently not able to extract the same price per tonne for hay as we were able to achieve in 2018/19. The Hunter Regulated, I think it has to go to a price cap like the North and South Coast.”

Case Study: Private Irrigation District

This irrigator helps manage a Private Irrigation District (PID) in the Hunter. It services 385 vineyards, golf courses and tourism facilities. The PID has improved quality and quantity of production, increased employment in the region and improved tourism. The project was financed through a bank loan, and annual water charges charged to users repay this loan.

The PID has a large water entitlement. It is estimated that the proposed water price increases will double the typical water bill of the PID, and account for around 20% of business costs in 2029/30. This is in addition to rising electricity costs which increased by 63% in the last year, and other infrastructure maintenance costs.

There are concerns for PID members that if these cost increases are passed onto wine growers that under other input cost pressures, that their operations will not remain viable, also threatening the operations of the PID.

The proposed water price increases in the Hunter Valley affect a range of agricultural industries. Impacts will be felt on and off farm, affecting business profitability and viability, farmers ability to pay off debt, maintenance of contracts, maintenance of staff, and levels of production. As a result of these proposed increases, many farmers in the region share the view that “agriculture is just not appreciated by the NSW Government”.

In addition to water users who regularly irrigate, some farmers holding ‘sleeper’ licences and licences for drought proofing purposes. It is increasingly likely that they will view their entitlements as a liability rather than an asset and sell them off. If unable to sell the licence to a willing buyer, they will surrender the licence.

It is important to note that transferring or surrendering a licence incurs consent transaction fees, despite this being a seemingly simple desktop administrative task. To surrender a water access licence is proposed to cost between \$373.05 to \$510.10, and to transfer a license in an unregulated river is proposed to cost \$2,878.59. This is an added burden to water users or landholders who are already under financial strain. These cost-prohibitive consent charges are also an inhibitor to the establishment of effective water markets in the Hunter.

These impacts on farmers suggest that WaterNSW and WAMC prices in the Hunter have been set above the capacity of primary producers to pay. Without resolution, water users' numbers will decline, the utilisation of water system capacity will drop, and the remaining number of water users will have to bear an increased financial burden.

IPART Questions 2 & 14: What factors should we consider so that prices we set for WAMC and WaterNSW are appropriate for different customer types? How well have WAMC and WaterNSW considered these factors in the development of its proposal?

IPART Question 3: Do the proposed WAMC 2.5% and 15% caps on prices strike the right balance between cost recovery and impacts on customers?

IPART Question 8 & 19: Does WAMC's and WaterNSW proposal represent a reasonable and efficient balance of costs and service levels, and does it align with customers' willingness to pay?

IPART Question 20: Would you prefer prices to remain stable over the determination period or do you support WaterNSW's proposal for a revenue cap where prices adjust by up to 5% per year in response to changes in water sales?

HVWUA supports the provision of the WAMC Minimum Annual Charge (MAC) cap of 2.5% per year, plus inflation, for very small water users. The MAC cap is slated to impact 62% of licencees across NSW, of which some (unclear the number) will be from the Hunter Region.

However, WAMC proposes a cap of 15% per annum plus inflation for remaining larger customers. While this rate remains below full cost-recovery, this is a significant increase. With WaterNSW also proposing a 17% per annum plus inflation increase in the Hunter under their cost-reflective base case, or a cap at 15-17% per annum plus inflation under an alternative scenario. The cumulative impacts of these increases have significant impacts on water users as demonstrated in question 1.

Although spread over the five years determination period to "avoid bill shock", the total water price increase lays between 100-130% - doubling the cost of a typical water bill. This follows a 40-42% increase during the 2021 determination period in the Hunter. From actual prices in 2020/21 to proposed prices in 2029/30, regulated river water charges will at effectively quadruple in cost for 1 megalitre of water:

	Current price 2020/21 (\$/ML)	IPART Determination from 1 July 2021 (\$/ML)	Current price 2024/25 (\$/ML)	Proposed price from 1 July 2025 (\$/ML)	Proposed price 2029/2030 (\$/ML)	Increase from actual 2020/21 to proposed 2029/30
High Security	14.50	19.94	27.30	31.65	57.19	394%
General security	10.98	15.49	22.12	25.64	46.27	421%
Usage charge	13.60	19.13	25.06	29.64	57.98	426%

HVWUA views both the WAMC and WaterNSW caps as excessive and unsustainable for irrigated agriculture and business viability, and requests that IPART scrutinise the efficient costs of WAMC and WaterNSW to lower the proposed 15% caps. We do not support the WaterNSW revenue cap with up to 5% price adjustment per year. It should not be the responsibility of remaining water users to make up shortfall when increased water prices result in lowered water usage. If WaterNSW has observed that less water sales occur when water prices increase, it should be addressed in an alternative strategy without further burdening water users.

HVWUA is concerned that increases in water pricing are driven by inefficiencies with water agencies. For example, WAMC reported five times increase in water management activities like statutory water plan reviews and amendments that the Department of Climate Change, Energy, Environment and Water (the Department) will need to undertake this determination period. Water Sharing Plans economic objectives include encouraging “economic efficiency in the management and use of water”. We are concerned that The Department has burdened itself, and water users engaged in consultation, with a poorly prioritized, complex system which requires more resources than necessary.

We observe that WaterNSW IT upgrades are not yet being passed through to water users in the form of reduced fees and charges, while wait times and time elapsed before issues are resolved seem to increase. The poor customer service and increasing cost of basic transactions is frustrating. HVWUA are also concerned about NRARs resourcing for compliance and enforcement activities. On-ground presence is often only achieved with field officers driving in from other valleys. Their location outside of the Hunter, limits their efficiency and time on the ground with water users.

HVWUA note that its agricultural water user demographic are like that of the North and South Coast. During the 2017 determination, a Willingness to Pay study was commissioned and IPART determined to establish a Community Service Obligation in these valleys based on their low willingness and capacity to pay. This decision was made based on:

- low current and projected water usage levels at water pricing rates in regulated rivers,
- reluctance or inability to invest in irrigation infrastructure to improve water efficiency
- poor water markets within the regions
- Underlying drivers including the coast’s modest profitability, current debt levels and uncertainty about the future cost of water.

At the time, Hunter Valley was not included in the Willingness to Pay study due pricing restructures that saw the valley experience some cost reductions and reach full cost-recovery. However, savings were quickly reversed during the 2021 pricing determination, as discussed earlier.

HVWUA recommends that IPART commission a willingness to pay study of the Hunter Region, focussing on the agricultural primary producers across a range of commodities. This can be used to evaluate the valleys capacity to pay, and consequently establish a Community Service Obligation to cover WaterNSW charges.

IPART Question 4 & 15 : What do you think about WAMC and WaterNSW engagement process? Do you think WAMC and WaterNSW engaged effectively with customers and stakeholders?

IPART Question 5 & 16: Did WAMC and 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?

Members of HVWUA participated in the WaterNSW Hunter-Coastal Customer Advisory Group (CAG) and the Water Working Groups (WWG) throughout 2023/24. WaterNSW Engagement staff provided updates on their pricing proposal and facilitated Q&A discussions with our membership during our 2023 AGM and 2024 general meetings. Members felt that these sessions primarily consisted of an information-based presentation followed by a survey or brief Q&A session. While WaterNSW was able to answer some questions, the discussions did not enable consideration of new ideas.

We observe that more effort has been made to connect and seek feedback from stakeholders, particularly though Field Days. We understand that interested stakeholders were asked to participate in a one-time survey, however longer term-engagement beyond this interaction was often not achieved. Members report that they would have water pricing related questions, but water agency staff at the events were unable to provide information as the Pricing Proposal had not yet been released. This hindered the opportunity for engagement in discussions and feedback to water agencies on their strategies.

We are concerned that water agencies did not go to enough effort to reach out to the broader water user community to communicate about opportunities to engage with the pricing proposal. Many of water users engaged throughout the whole process already had connection with WaterNSW through the WaterNSW CAG or HVWUA. As a water user association, we are happy to assist but are volunteer based and have limited time and resources for outreach. The responsibility rests with WAMC and WaterNSW to communicate directly with their customers.

The Water Working Groups had a range of stakeholders in the group, encompassing water users, other industry and community members with varying levels of water literacy. While water users came with personal experience of the impact of water pricing increases, community members did not have that experience. Yet, surveying methods meant that all views were held at the same weight and were undistinguishable. Water users approached sessions understanding that decision making outcomes would directly affect their future water bills and business viability, community members participated without this mindset or threat of having to pay these costs.

We are also concerned that not all information was consulted on. Members of the Coastal-Hunter CAG noted that WAMC consulted on the price-caps for the 2025 determination period discussion options 10% and lower. However, within the pricing proposal a cap of 15% has been put forward, an option not discussed, or supported, by water users. WAMC also acknowledges that it did not consult on changes to consent transaction fees – yet this directly affects water users. This reflects poorly on the engagement process – why engage and provide feedback when it does not make a difference to the decisions that are made?

In the future, HVWUA would recommend WAMC and WaterNSW utilise water bill mailouts to provide succinct information on pricing proposals to all customers. A mailout campaign could including a pamphlet that says “In five years’ time, your water bill could be \$XXX.XX”. This could be followed by a brief overview of the of the WAMC and WaterNSW proposals, and instructions on 2-3 ways to get engaged with consultation. Distributing a plain English pamphlet with key information and a call to action to all customers could improve the breadth and depth of engagement.

HVWUA also recommends that WaterNSW and WAMC prioritise customer feedback and achieving customer outcomes over the feedback and outcomes for the broader community in their future engagement efforts.

Question 9: How would the proposed metering charges affect you?

During a presentation by The Department at the 2024 HVWUA Annual General Meeting, it was reported that in the Hunter Regulated and Unregulated Water Sharing Plans, three high risk (500mm+ pumps) approvals are required to comply now, 716 larger volume approvals will be required to comply by 1 December 2026, and 533 approvals will be required to comply between 1 December 2027-2034 under the amended metering regulations. While not all these works are currently active, there will be many water users in the Hunter taking steps towards compliance during the 2025-2030 determination period.

HVWUA does not support WAMC increasing costs for non-urban metering charges. Inadequate metering and compliance service delivery by the Government in the past has led in part to this reform, despite charging water users for these services. We believe that it is the Government’s responsibility to rectify this poor service delivery and cover the costs of doing so, including costs associated with addressing the barriers to water user compliance that have been acknowledged by The Department.

Question 10: How would the proposed consent transaction charges affect you?

HVWUA does not support the general principle of increasing the costs of fee-for-service charges related to water access licences, water allocation assignments and works and use approvals to reflect cost-reflective levels. We believe these applications and charges have become overly complex due to changes in WaterNSW processes and IT upgrades. The use of these additional resources get passed through to customer bills. We are also concerned at how difficult it can be to access the correct service (perhaps due to the lack of face-to-face customer service) and the time it takes to have these services completed.

HVWUA supports the reduction of approval for application to inactivate/activate a work/works on a water supply work approval from \$624.95 to \$105.00. This is a positive outcome from feedback provided during the non-urban water metering review. Other WaterNSW consent transactions should be reviewed to ensure that all cost-saving strategies are in place, for example partnering with ServiceNSW to facilitate some of these services.

Conclusion

Hunter Valley Water Users Association hopes that our feedback and recommendations provide industry insight and assist with the review of the WAMC and WaterNSW Pricing Proposals.

For issues we have not addressed, we refer to the NSW Irrigators' Council submission.

HVWUA and our committee are available to answer questions if you would like further information.

Yours sincerely,

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About Hunter Valley Water Users Association

Hunter Valley Water Users Association (HVWUA) represents over five hundred water users who access groundwater, regulated and unregulated water sources across the Greater Hunter region. Industries represented by our membership include the thoroughbred industry, dairy, viticulture, horticulture, beef and cropping.

Founded in 1994, HVWUA seeks to ensure the future of water use and industry in the Greater Hunter region by supporting the sustainable and productive use of water resources. We engage in advocacy to promote secure water rights for water users, advocate for best practice water policy, and encourage industry profitability and sustainability.

HVWUA is a member of the NSW Irrigators' Council. We partner with the NSWIC Coastal Forum to develop locally relevant state and national policies and strive to provide advice to all stakeholders and decision-makers.