



# IPART ISSUES PAPER: WAMC and WaterNSW pricing proposals

NSW Irrigators' Council Submission  
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# CONTENTS

<b>KEY ISSUES.....</b>	<b>3</b>
<b>INTRODUCTION .....</b>	<b>7</b>
<b>THE WATER PRICING MODEL IS BROKEN.....</b>	<b>8</b>
STRUCTURAL AND POLICY CHANGE IS REQUIRED .....	8
<b>AFFORDABILITY .....</b>	<b>10</b>
WAMC AFFORDABILITY: SMOKE AND MIRRORS.....	11
COASTAL COMMUNITY SERVICE OBLIGATION .....	15
COMMUNITY SERVICE OBLIGATION IN THE HUNTER VALLEY.....	17
<b>COST DRIVERS.....</b>	<b>17</b>
COMPLIANCE AND ENFORCEMENT .....	17
INEFFICIENT AND INEFFECTIVE PROGRAM DESIGN AND DELIVERY .....	19
SURGING COSTS FOR NSW NON-URBAN WATER METERING REFORM ROLLOUT.....	19
NEW RULES IN WATERNSW OPERATING LICENCE ADDING COST .....	22
REFORM OVERLOAD .....	23
CASE STUDY: REFORM AND CONSULTATION OVERLOAD - 2024.....	24
<b>COST SHARES.....</b>	<b>25</b>
THE IMPACTOR-PAYS PRINCIPLE .....	27
NATIONAL WATER INITIATIVE AND THE USER-PAYS PRINCIPLE .....	29
<b>SERVICE DELIVERY .....</b>	<b>30</b>
PROPOSAL TO UPGRADE ONLINE CUSTOMER PORTAL.....	30
INCREASING CONSENT TRANSACTION COSTS .....	31
STAFF DECLINE IN REGIONAL AREAS.....	32
<b>CUSTOMER ENGAGEMENT .....</b>	<b>33</b>
CUSTOMER ENGAGEMENT BY WATERNSW AND WAMC .....	33
CUSTOMER OUTCOMES AND PERFORMANCE MEASURES.....	35
<b>CONCLUSION .....</b>	<b>36</b>

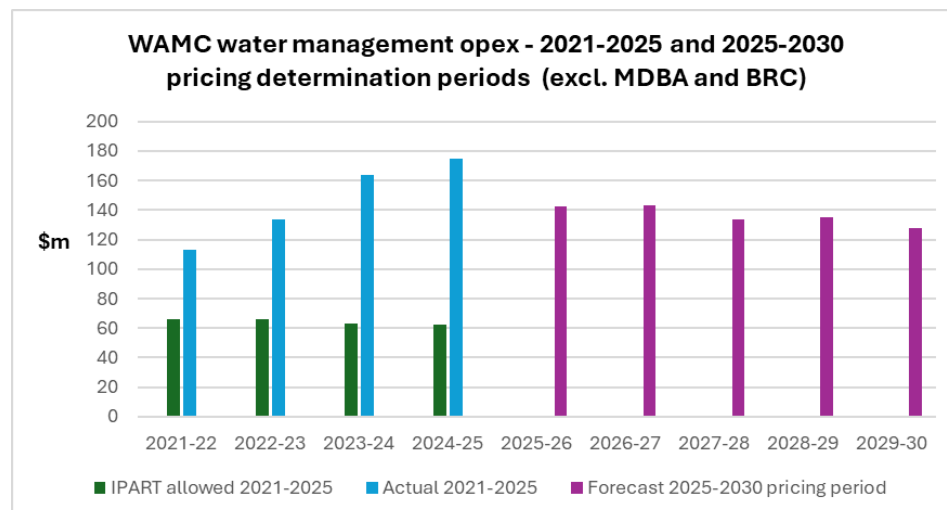
## Key Issues

- The NSW bulk rural water pricing model is fundamentally broken. It is in urgent need of review if farmers are not to be priced out of business in the IPART 2025-2030 pricing determination.
- Proposed combined WAMC and WaterNSW prices increases of 200% and more by 2030 are clearly exorbitant and unaffordable even for large water users holding 1000 ML.

Table 2.1 Proposed price increases by 2030 (annualised increases in brackets)

	Regulated rivers		Unregulated rivers		Groundwater			
	High security	General security						
Border Rivers	245%	(28%)	207%	(25%)	179%	(23%)	98%	(15%) <sup>b</sup>
Gwydir	167%	(22%)	170%	(22%)	95%	(14%)	98%	(15%)
Namoi	146%	(20%)	152%	(20%)	95%	(14%)	98%	(15%)
Peel	341%	(35%)	312%	(33%)	95%	(14%)	98%	(15%)
Lachlan	271%	(30%)	150%	(20%)	99%	(15%)	98%	(15%)
Macquarie	173%	(22%)	179%	(23%)	99%	(15%)	98%	(15%)
Far West	-	-	-	-	54%	(9%)	98%	(15%)
Murray	192%	(24%)	184%	(23%)	96%	(14%)	98%	(15%)
Murrumbidgee	142%	(19%)	130%	(18%)	99%	(15%)	97%	(15%)
Lowbidgee	-	-	111%	(16%)	-	-	-	-
North Coast	26%	(5%) <sup>a</sup>	29%	(5%)	101%	(15%)	101%	(15%)
Hunter	120%	(17%)	118%	(17%)	101%	(15%)	101%	(15%)
South Coast	16%	(3%) <sup>a</sup>	21%	(4%)	89%	(14%)	101%	(15%)
Fish River Water Scheme	55%	(9%)	-	-	-	-	-	-

- WaterNSW's revenue requirements are ballooning faster than farmers' capacity to pay. This is compounded by IPART's impactor-pays principle forcing the lion's share of the costs onto rural water users, with WaterNSW customers covering 80-100 per cent of operating and capital costs.
- Similarly, WAMC's revenue requirements are ballooning faster than farmers' capacity to pay.



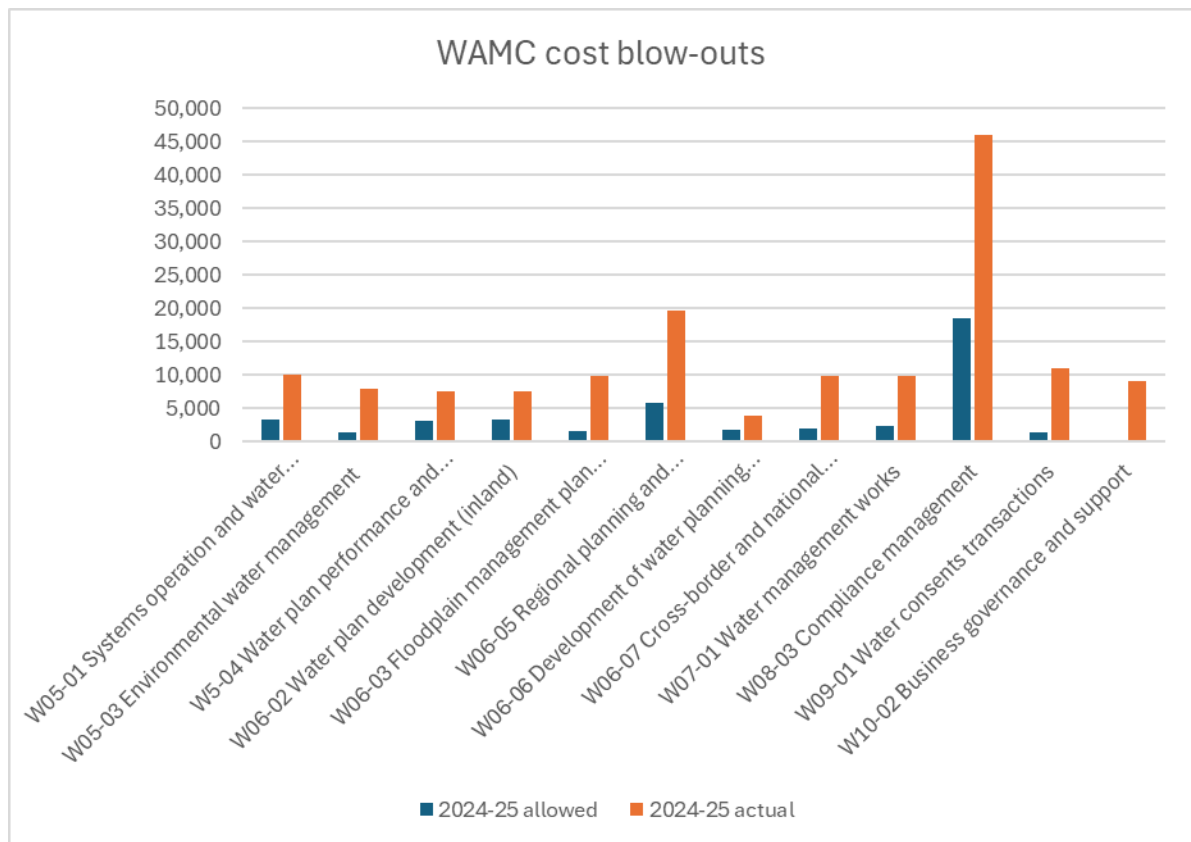
- While WAMC is proposing to reduce customers' notional share of its increased revenue requirement in the 2025-2030 determination period from 79% to 42%, this is not the generous concession it sounds like.

A 42% customer cost share of WAMC's revenue requirement translates to \$371.6 million, an 88% increase on the \$197.3 million raised from customers that was ~77% of the IPART-allowed expenditure in the 2021-25 period.

This substantial increase in revenue sought from customers is why WAMC is seeking to more than double its charges by 2030 for about a third of water licence. WAMC's affordability analysis to support this proposal is, to say the least, superficial.

- NSWIC does not support WAMC's proposed change to a two-tier pricing structure in order to increase the revenue recovered from water users. NSWIC notes NSW is the only state collecting Water Management and Planning costs in this way through WAMC. (Victoria and South Australia have a levy). This leaves NSW water users at a financial disadvantage.
- NSWIC firmly supports maintaining the Community Service Obligations (CSO) subsidy payments by the NSW Government for the North and South Coast, and asks that the CSO be extended to unregulated coastal water sources as well as regulated.
- NSWIC asks IPART to undertake a capacity-to-pay study across commodities in the Hunter Valley, similar that in 2017 for the North and South coasts. NSWIC considers Hunter agricultural water users have the same profile of primarily small operators who IPART recognised were being priced out of irrigation in the North and South coasts. The study should be used to determine how to support Hunter primary producers, such as through a community service obligation.
- The transfer of functions from WAMC to WaterNSW and the merger of WaterNSW with Sydney Catchment Authority has not delivered efficiencies and added cost and complexity which rural users are paying for.
- IPART should examine the cost shares, government regulation and community drivers, as many have changed scope and increased costs.
- IPART's 3Cs (Customers, Costs, Credibility) framework is flawed. Customers have no say in the services WAMC and WaterNSW choose to provide, their scope or prioritization. Costs do not consider affordability. Credibility is strained when, for example, the non-urban metering policy was not "fit for implementation" and this failing has imposed significant additional and ongoing costs on industry and the Department.
- The information provided in the WAMC and WaterNSW pricing proposal was not sufficient for stakeholders to drill down and fully understand cost drivers. IPART and its consultants need to forensically analyse opex and capex (WaterNSW and WAMC) to determine the efficient costs.

- However, it was possible at a high level from WAMC Attachment F to identify which WAMC coded activities had the largest costs blowouts. IPART must forensically examine the cost drivers.



- Compliance management in particular stands out. IPART must consider whether NRAR's objective of increased compliance rates in 2025-2030 is justified by current compliance rates.
- NRAR says in the WAMC proposal it took more than 1500 enforcement actions, including directions, enforceable undertakings, formal warnings, official cautions, penalty infringement notices and 18 prosecutions over the 2021-2025 pricing determination period. That translates to 375 on average each year, which amounts to action being taken against only 0.009% of 40,000 water licences. It is hard to imagine additional expenditure resulting in a materially improved compliance rate off such a low base.
- IPART should consider whether the WAMC work program is excessive, and whether WAMC needs to review statutory deadlines to avoid the bottlenecks driving up costs. Similarly, IPART needs to consider whether the WAMC's water planning and policy work program is excessive.

For example, DCCEEW appears to be trying to do more through statutory planning to comply with the Basin Plan, such as Water Resources Plans (WRPs) which were five years late being submitted to the MDBA. The delay, with some WRPs are still not complete, reflects inefficiency.

Now, DCEEW is telling water users the delay and resources tied up in WRPs is why it is now late getting started on water sharing plan reviews, which are being rushed with less than six months

for public exhibition and consultation. Key work such as ground-truthing proposed new prescribed wetlands on private properties is not being done because the department says it has neither the time nor resources to do this work by the statutory deadline.

Water sharing plans are the single most important regulatory and legal documents that control what happens at a valley level, but the Department is prioritised Basin Plan Water Resources Plans – which have no operational purpose – over its core business of water sharing plans.

- IPART needs to make sure projects funded by other sources are not included in revenue required from water users.
- Irrigation customers should not have to pay for new WaterNSW licence obligations, as they are neither the drivers nor beneficiaries.
- Agricultural water licence holders, particularly small to medium family farms, have been under increasing financial pressure post-2022 and COVID, with rising input costs in interest rates, fuel, insurance, machinery, wages and energy, and higher water allocation prices due to State and Commonwealth environmental water recovery.
- Farmers have very limited to no capacity to pass on increased costs to consumers here and overseas, and have very limited to no capacity to keep absorbing increased costs. Media has reported food imports surging to \$40 billion a year while a host of Federal and State policy 'reforms' including water are driving up Australian farmers' input costs, making them less and less able to compete against cheap imported dairy, fruit and vegetables, meat and cereals. The WAMC and WaterNSW price proposals will only make our farmers even less competitive.
- NSW's water is managed for multiple purposes, including the health of the environment and wellbeing of communities. Increasingly, there is also an expectation water will be managed to improve the social, economic, cultural and spiritual wellbeing of First Nations.
- WaterNSW's water working groups, with a majority of participants representing community/ resident and environmental interests, expressed a 'desire for a pricing model that more fairly allocates costs among all users, including the wider NSW population, government contributions, and specific industry sectors'.<sup>1</sup>
- Timeframes are critical: in 2021, IPART was slow to hand down its pricing determinations, which led to WaterNSW releasing its pricing too late for Independent Irrigation Operators (IIO) to meet the ACCC water market rule deadline. In some cases, this forced IIOs to publish schedules of charges using the previous year's NSW Government charges – absorbing the first quarter increase – before republishing a new schedule of charges effective 1 October.

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<sup>1</sup> WaterNSW, SECNewgate Engage, 2024. Water Working Groups 2025-2030, Final Report of the Process. June 2024, p88

- WaterNSW customer service levels are perceived to be declining while costs are increasing. Customers report WaterNSW services being centralised, reduced customer contact hours in regional branches and inadequate communication and information sharing with customers.
- Expensive transaction costs for low-risk administrative tasks have made them cost-prohibitive, particularly for low-volume water users.
- Customers desire transparency on how fees are determined, demonstrating value.
- Customer engagement should be prioritised to promote better customer services and outcomes, before considering broader community needs informed by consultation with the community and other stakeholders.
- Engagement was often a time burden and lacked water user involvement in agenda setting. Materials presented during engagement activities were only made available during sessions, required a high level of water management literacy to understand, and required immediate feedback through a poorly implemented data collection tool.

## Introduction

NSWIC is alarmed by the WaterNSW and Water Administration Ministerial Corporation pricing (WAMC) proposals outlined in the IPART Issues Paper. The rural bulk water pricing model is in desperate need of review, if irrigators are not to be priced out of business.

The impactor pays model is unjust, as it forces water licence holders to pay for public goods enjoyed by the wider community. Water in NSW is managed for multiple purposes, including environmental health of and the wellbeing of communities, but licence holders are expected to pay the lion's share of this cost.

The WAMC budget has exploded in many parts due to failures in the design and implementation of government reforms. Despite efforts of irrigators to comply with new rules, failed rollouts are ultimately being paid for by irrigators through increased charges.

The fundamental problem here is not how pricing is structured, but the fact that WaterNSW and WAMC revenue requirements are ballooning faster than the capacity of its customers to keep paying more, while IPART's impactor-pays principle shifts an ever-greater proportion of those ballooning costs onto rural water users, primarily farmers. This is not a sustainable business model by any measure.

In this submission, we highlight several key issues, but also refer IPART to submissions by our members at a valley level that examine other key issues in detail that we have touched on above. We also refer IPART to NSWIC's August 2024 Pricing Report<sup>2</sup> for discussion on the impactor pays model and other issues with the current pricing model.

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<sup>2</sup> [2024-PRICING-REPORT-FINAL-August-2024.pdf](#)

## The water pricing model is broken

WaterNSW has been transparent about the intense pressure on its revenue requirements in this next 2025-2030 pricing determination period in its exhaustive engagement with customer advisory groups and water working groups over the last 20 months.

Cost drivers outside WaterNSW's control include rising capital expenditure costs for infrastructure; rising operational costs including interest rates, energy, insurance and construction costs; and, additional requirements IPART has added to the WaterNSW operating licence such as data sharing between agencies, floodplain harvesting related functions, communications and monitoring.

Drivers inside the NSW Government's control include land tax; WaterNSW dividends to Government; and expecting rural water customers to pay the costs of public good policies, programs and projects such as fish passageways and cold-water pollution.

At the same time, the lion's share of costs are apportioned to rural water licence holders under IPART's impactor-pays principle. The WaterNSW 2025-2030 pricing proposal still has customers covering 80-100 per cent of operating and capital costs.

Similarly, WAMC's revenue requirements are ballooning faster than farmers' capacity to pay. Even with WAMC's proposed reduction in the customers' notional share of costs from 79% to 42%, WAMC is still seeking to raise \$371.6 million from customers over the next pricing determination, compared with about \$197.3 million over the 2021-25 determination period<sup>3</sup>, an 88% increase.

WaterNSW has sought to reduce the bill shock of its 21-24% per year plus CPI pricing proposal with alternate scenarios to cap prices at 15 per cent a year plus CPI, if the NSW Government agrees to some cost saving measures. However, 15% per year plus CPI still amounts to WaterNSW prices more than doubling on average across the State; this is still unaffordable for most water licence holders.

## Structural and policy change is required

**The fundamental problem here is not how pricing is structured, but the fact that WaterNSW and WAMC revenue requirements are ballooning faster than the capacity of water users to keep paying more, while IPART's impactor-pays principle requires rural water users, primarily farmers, to pay the lion's share of the costs. This is not a sustainable business model by any measure.**

Instead of trying to find ever more creative ways to make exorbitant hikes in rural water charges more palatable, the NSW Government and IPART need to go back to basics to review the WaterNSW and WAMC business models, work programs and cost-sharing arrangements.

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<sup>3</sup> IPART WAMC 2021 Pricing Determination, p236



Water working groups convened by WaterNSW and representing industry, water licence holders, environment, community/resident interests across regional NSW expressed overwhelming support for an increased government cost share to achieve greater equitable cost distribution. NSWIC can add that water users overwhelmingly expect great efficiency and effectiveness in Government program design and implementation, and prioritization of core operational activities such as water sharing plans to reduce WAMC's workload and therefore costs.

Notably, most participants in each working group represented environmental and community/resident interests, but sided with industry and water licence holders on the issue of Government covering an increased share of costs, particularly for environmental planning and protection activities.

*Most participants raised issues of equity and fairness in funding the system, requesting increased government funding and responsibility for water management and water infrastructure.*

*They are mindful of the significant public benefit of some of the investment proposals and consider government should be responsible for a larger portion of these costs, and that this would result in a more equitable spread of costs.*

*Participants expressed concern regarding the increasing number of regulatory requirements that resulted in new costs and subsequent costs to customers and the community (as part of the Government's share).*

*Participants suggested that Government should provide a much greater investment in water infrastructure to support both customer and community needs and both ongoing and new environmental initiatives.*

*There is a desire for a pricing model that more fairly allocates costs among all users, including the wider NSW population, government contributions, and larger industry users.<sup>4</sup>*

A structural review of the rural water pricing model must consider, among many issues:

- Increasing the Government share of the costs of water infrastructure, management and planning where the benefits are shared across the whole community.
- The IPART impactor-pays principle applied to WaterNSW and WAMC pricing.
- Removing rural water users' contributions to WAMC costs. NSWIC notes NSW is the only state collecting water management and planning costs in this way through WAMC. (Victoria and South Australia have a levy). This leaves NSW water users at a financial disadvantage.

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<sup>4</sup> WaterNSW, SECNewgate Engage, 2024. Water Working Groups 2025-2030, Final Report of the Process. June 2024, p13

- Water users not paying for new activities and obligations added to the WaterNSW operating licence, adding to costs (e.g., \$15.6 million a year extra to deliver new operating requirements IPART imposed in the 2024 WaterNSW operating licence review); nothing is ever taken away.
- Water planning and management has expanded beyond what is required for water storage and delivery systems, to include climate change adaptation, fish passageways, environmental flow management, recreation and other public good services. These additional costs should be borne by the users, or beneficiaries, of those additional services, not rural water customers.
- Rural water customers in past pricing determinations have been told that increased IT spending would deliver greater administrative efficiencies that would drive down costs and therefore water charges in future pricing determinations. This promise has not been delivered.
- Rural water customers were told the non-urban metering rollout would ultimately reduce water charges through increased uptake of new technologies such as telemetry. Instead, the Government costs of implementing this policy are ballooning due to poor policy design and implementation.

## Affordability

Agricultural water licence holders' capacity to pay and the implications for their businesses' profitability is a critical issue for the IPART WaterNSW bulk water and WAMC pricing determinations for 2025-2030.

The combined, cumulative WAMC and WaterNSW price increases summarised in the IPART Issues Paper Table 2.1 (p10) below are exorbitant by any measure.

	Regulated rivers				Unregulated rivers		Groundwater	
	High security		General security					
Border Rivers	245%	(28%)	207%	(25%)	179%	(23%)	98%	(15%) <sup>b</sup>
Gwydir	167%	(22%)	170%	(22%)	95%	(14%)	98%	(15%)
Namoi	146%	(20%)	152%	(20%)	95%	(14%)	98%	(15%)
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Lowbidgee	-	-	111%	(16%)	-	-	-	-
North Coast	26%	(5%) <sup>a</sup>	29%	(5%)	101%	(15%)	101%	(15%)
Hunter	120%	(17%)	118%	(17%)	101%	(15%)	101%	(15%)
South Coast	16%	(3%) <sup>a</sup>	21%	(4%)	89%	(14%)	101%	(15%)
Fish River Water Scheme	55%	(9%)	-	-	-	-	-	-

The proposed price increases dwarf the steep price increases and higher customer cost shares imposed in the 2021-25 pricing determination, when WaterNSW bulk water charges were increased by an average 29 per cent for entitlement charges and 31 per cent for usage charges over the four-year period, plus CPI. Additionally, many water users also experienced significant WAMC price increases in 2021, compounding the pressure on their profitability.

IPART analysed the affordability of the 2021 pricing determination, and determined the rises *reasonable*. This was based on analysis of bills for comparable services in other jurisdictions, prices compared with the gross value of farming businesses' irrigated agricultural production (GVIAP), and the market value of allocations and entitlements traded on the water market over the 2019-20 period.<sup>5</sup>

The NSWIC Pricing Report August 2024<sup>6</sup> examined these analyses and found them to be flawed proxies for affordability. We refer IPART to the NSWIC report for further detail. The issues with the 2021 affordability analyses remain relevant now with the WAMC pricing proposal again relying on high-level and generalised information on farm profitability to justify substantially higher charges.

In this submission, we highlight flaws in the methodology and apparent assumptions in the WAMC affordability analysis in its 2025-2030 pricing proposal.

The unaffordability of the proposed 21-24% year-on-year average increase in WaterNSW rural water charges, and the alternative affordability scenarios assuming a 15% per year (plus CPI) price ceiling can be understood in the context of WAMC's superficial affordability analysis. The discussion in NSWIC's August 2024 Pricing Report is also relevant, as WaterNSW had already flagged its price proposals to IPART in consultations throughout 2024. While the alternative scenarios reduce the WaterNSW water bills for rural water users, it must be emphasised that 15% per annum increases plus CPI still add up to a >100% cumulative price rise over the five years and is still unaffordable.

We also make the case for a Community Service Obligation (CSO) subsidy payment by the NSW Government to come into effect for the Hunter Valley, consistent with the CSO that came into effect during the 1 July 2017 IPART pricing determination for the North and South coast regions.

## WAMC affordability: smoke and mirrors

WAMC proposes that the capped 2.5% increase from the 2021-2025 pricing determination be maintained only for those licences paying the Minimum Annual Charge (MAC). It proposes a 15% per year (plus CPI) increase for WAMC's water entitlement and water take prices applying to 'large' water licences on the assumption those holding larger licences can afford to pay so much more.

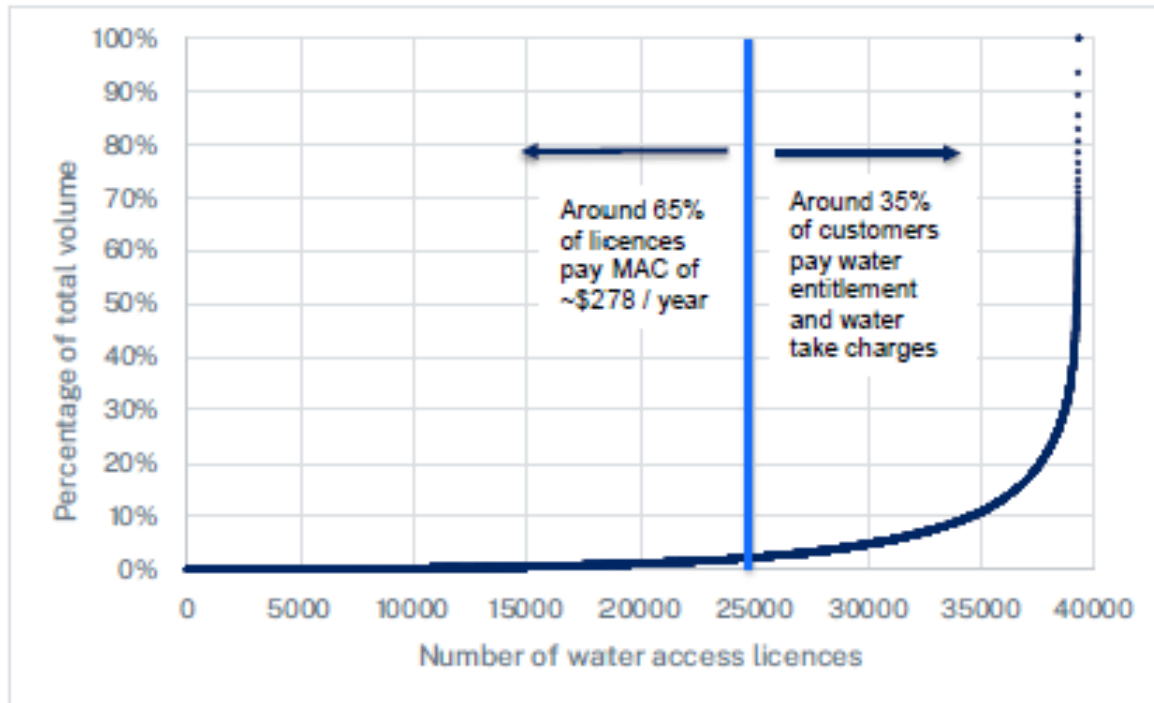
However, the farm profitability metrics used in the WAMC are not aligned with the WAMC definitions of very small, small, medium and large customers by licence volume.

<sup>5</sup> [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF) [P 14].

<sup>6</sup> [2024-PRICING-REPORT-FINAL-August-2024.pdf](#)

It is extremely difficult for NSWIC to do this alignment with the limited information available in the WAMC proposal and the IPART Issues Paper, particularly when each presents water licence metrics differently. But we will try to step this through.

The 2025-2030 WAMC proposal states NSW has 40,000 water licences. Of these, it says about 27,000 are paying the Minimum Annual Charge that is proposed to increase by only 2.5% a year. Implicitly, pricing in Tables 97 and 98 on p216 in the WAMC proposal suggest all 27,000 licences can be categorised as very small water customers with a 10ML entitlement and 10ML take.



**Figure 8: Volume of entitlement by number of licences (2024-25)**

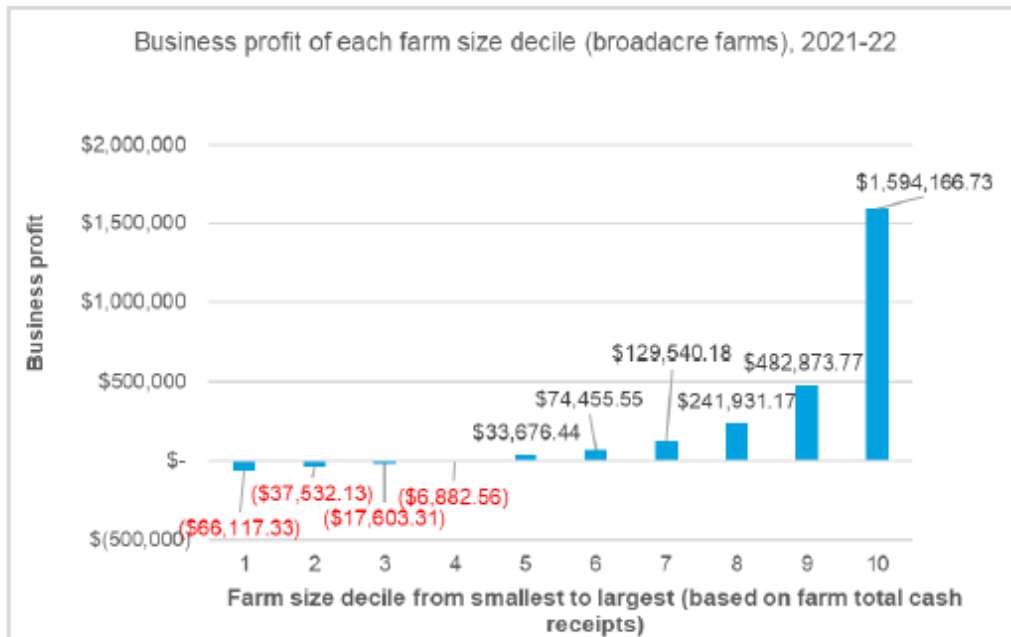
This leaves 13,000 licences (~30%) that WAMC says control 97% of the total licensed water volume.

WAMC deems these all to be ‘larger’ water users that can afford to pay a 15% per year increase plus CPI, although they are actually defined as small, medium and large customers in Tables 100-108 (pp218-223). Based on the bell curve in Figure 8 above, at least two-thirds of WAMC’s ‘larger’ water users may in fact be small water customers with only 100ML entitlement and 60ML use.

Nonetheless, WAMC says ‘larger’ users (i.e. the 13,000 licences, most of which are defined as small customers) have a greater capacity to pay than those on the MAC, on the basis of 2021-22 ABARES data dividing broadacre farm profitability into deciles (Figure 12, p213).

This data shows that the largest 60% of broadacre farms across Australia produced a profit, but with stark differences between the top decile generating an average \$1.6 million in profit, and dropping away rapidly to the second decile at just under \$500,000, and third at just under \$300,000.

WAMC's implication is that these 13,000 water licences must be in the top three deciles of Australia's broadacre farms making a profit, and therefore can afford to pay higher WAMC (and WaterNSW) water charges.



**Figure 12 : Profit by farm size, ABARES disaggregated farm performance statistics by size, all broadacre<sup>25</sup>**

This correlation does not stand scrutiny.

Firstly, WAMC should be using more recent data. The ABARES data in the WAMC pricing proposal is from 2021-22, during a wet period with good crop yields and before the post-COVID surge in interest rates and other input costs. It should not be used as a guide to profitability now, as was acknowledged in the WaterNSW pricing proposal, which states that 'historically profits have been volatile and, even within a specific commodity group and in a 'bad' year, relatively moderate bulk water prices could have a substantial impact on margins in certain market segments'<sup>7</sup>.

The idea that farmers can readily absorb additional costs masks the impact on vulnerable industries (dairy, rice) and the effect of drought on profitability. These price increases would leave many farmers vulnerable and incapable of managing the impacts of reduced water allocations during a dry period. As WaterNSW notes, 'profits were 38% of revenue in 2021/22; however, were negative just two years earlier'.

The WAMC price increase for 'larger' water licences cannot be justified until proper modelling is done that fully outlines its impacts on irrigators in lean years and the resulting impacts on rural communities and food security. The need for cost recovery should not force irrigators out of business and in turn, weaken Australia's position to grow its own food.

<sup>7</sup> WaterNSW, Pricing Proposal 2025-30, pp. 50

Secondly, WAMC should be using relevant metrics. In this case, the affordability of rural water charges would be analysed against the profitability of irrigated broadacre cropping in NSW broken down by deciles, not aggregated dryland and irrigated broadacre cropping across all of Australia.

Thirdly, a robust analysis would break down the 13,000 licences WAMC claims can afford to pay 15% per year plus CPI into the small, medium and large customer categories in Tables 100-108 (pp218-223), to provide a clear line of sight on many of the 13,000 licences fall into each category.

The next step would be to align these small, medium and large customers with the ABARES profitability deciles. This would likely demonstrate that most of the 13,000 licences are held by small and medium customers who are definitely not in the top decile, and probably not even the second, third or fourth. On this measure, perhaps only the top 1% of licences controlling 65% of the water volume may fall into that top ABARES profitability decile; we just don't know because WAMC has not done the work.

Lastly, the profitability of irrigated broadacre cropping is not a suitable proxy for the profitability of all other irrigated agricultural production, and therefore the affordability of WAMC's 15% increase for the 13,000 licences it deems to be 'larger' water users. Just because a large cotton grower with a large water entitlement over 1000 ML may be highly profitable, doesn't mean a small water customer with 100 ML or a medium customer with 500ML growing fruit, vegetables, pasture, dairy and a range of other products can similarly afford higher charges.

The paragraphs above serve to highlight that WAMC and WaterNSW have paid lip service to determining the affordability of their pricing proposals. Robust analysis would align the WAMC/WaterNSW customer categories of those holding very small, small, medium and large licences, against the profitability and other metrics relevant to the agricultural production linked to those licences.

Affordability analysis would also take account of the additional costs imposed on rural water customers to comply with WAMC and WaterNSW reforms such as the non-urban metering policy roll-out. Water users are not only paying through their water bills for the blowout in Government's costs due to impractical and efficient reform design and implementation, but additional costs incurred through delays, supply chain and technical issues rooted in the policy's poor design. The costs have run into the tens and hundreds of thousands of dollars, further eroding profitability.

Farmers also have very limited to no capacity to pass on increased costs to consumers here and overseas, and have very limited to no capacity to keep absorbing increased costs.

Media<sup>8</sup> recently reported food imports into Australia surging to \$40 billion a year. Australian farmers are at a disadvantage when a host of Federal and State policy 'reforms' including water are driving up their input costs, making them less and less able to compete against cheap imported dairy, fruit and vegetables, meat and cereals. And that's before we factor in WAMC and WaterNSW's combined proposed 200% and higher increases in rural water charges, in part to pay for the design and implementation of policies that are making water users less competitive.

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<sup>8</sup> [Food imports hit \\$40 billion: local manufacturers struggle to compete | The Weekly Times](#)

## Coastal Community Service Obligation

### Case Study: 2017 Willingness to Pay Study

During the 2017 IPART Rural Bulk Water Pricing Determination, consultancy AITHER noted that proposed fixed and variable charges for the Peel, North Coast and South Coast valleys were considerably higher than other valleys. They identified the causes to be comparatively lower average annual water use and lower customer numbers in these valleys.<sup>9</sup>

**Table 4 Water Allocation Licences on issue and historic average water usage by scheme (20 year rolling average)**

	Scheme												
	Border	Gwydir	Namoi	Peel	Lachlan	Macquarie	Murray	Murrumbidgee	Lowbidgee	South Coast	North Coast	Hunter	Fish River
HS WAL's on issue (ML)	3,122	26,840	8,874	17,367	57,514	42,707	261,883	438,331	N/A	1,175	137	70,408	N/A
GS WAL's on issue (ML)	263,238	511,609	256,212	30,428	633,256	632,466	2,081,716	2,267,963	747,000	13,946	9,681	138,109	N/A
Average annual water usage (ML)	147,829	264,774	168,133	11,291	205,079	258,621	1,537,145	1,743,637	N/A	3,781*	619*	123,211	N/A

Source WaterNSW, 2016  
Notes \*North and South Coast valleys figures have used the rolling average of actual water usage from the previous 8 years due to data quality issues.

To achieve full cost recovery, WaterNSW proposed continuing a capped 10% per annum nominal price increase in these valleys. Water users deemed the proposed increases unaffordable. NSWIC members from North and South Coast met with IPART representatives to raise these concerns and were advised to develop a submission requesting IPART to limit increases to an amount that was aligned to the ability of licence holders to pay.

Agripath consultants were contracted to carry out a Willingness to Pay study focused on the dairy industry in the North and South Coast valleys<sup>10</sup>. Willingness to pay is defined as the readiness of stakeholders to utilise irrigation water, up to a point or range (in \$/ML of water), above which irrigation is deemed too expensive and use of irrigation water declines in favour of not irrigating.

Initially, Agripath used substitution approach to identify when the cost of producing home-grown feed under irrigation and the cost of feeding the herd using bought-in feed converge. Following consultation on the IPART Draft Report, water user associations pushed back on this approach. Toonumbar Water Users Group provided an alternate breakeven methodology by Marginal Return Analysis.

Consequently, Agripath altered its willingness-to-pay approach to calculate the breakeven point of irrigating to determine the marginal return of using one megalitre (ML) of water. The results of the study determined that the North and South Coast had a low willingness to pay for irrigation water<sup>11</sup>. This decision was made based on the 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,

<sup>9</sup> <https://aither.com.au/wp-content/uploads/2019/04/Aither---IPART---WaterNSW-Prices-for-Rural-Bulk-Water-Services---Cost-recovery-scoping-study.pdf>

<sup>10</sup> WaterNSW Prices for NSW Rural Bulk Water Services from 1 July 2017: Willingness to Pay Study, January 2017

<sup>11</sup> Capacity to Pay submissions review: Analysis of stakeholder response to willingness/capacity to pay as part of WaterNSW's (rural) 2017 Determination, May 2017

and poor water markets. Underlying drivers for this behaviour include the coast's modest profitability, current debt levels and uncertainty about the future cost of water.

IPART used this study to calculate customers capacity to pay, that is “the dollar value up to which they would pay for a unit of a good or service, in this case, a ML of bulk water supply”. In the IPART Final Report 2017, North and South Coast had their fixed and variable charges rebalanced to stimulate demand and maximise WaterNSW revenue. The upper limit of the efficient pricing band was lowered, signalling to WaterNSW and NSW Government that full cost recovery is “*unattainable, and that they need to assess long-term options and viability in these valleys.*”<sup>12</sup>

The NSW coast is rapidly changing. Water planning and management reforms are becoming more complex, land use competition is increasing, and the mix of critical industries is shifting. Agricultural water users along the coast are concerned that the 2025-203 proposed price rises will cause water licences to become a liability and not an asset.

Capacity to pay remains an issue on the NSW coast in 2024, and as proposed water bill increases exceed agricultural water users' capacity to pay, primary producer businesses will become unviable. Farm closures will have effects felt in local communities through job losses and loss of local food suppliers. Dams and infrastructure in coastal area will become stranded assets, and agricultural land will be lost to other uses, further limiting food and fodder production in the region.

Deloitte Access Economics (Deloitte) conducted an analysis on the NSW farming sector gross margins<sup>13</sup>, calling on WaterNSW to consider “*the financial capacity these customers may have to absorb water price increases*”, as water prices are a key variable cost that can reduce the profitability. Deloitte reported data collected from 2015-16 to 2021-22 and 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 coast's negative profit margins as a share of revenue, coastal regions face high financial vulnerability to price increases.

Despite this vulnerability, areas of the NSW coast continue to face significant water price increases. WAMC proposes an increase of 2.5% each year, plus CPI, for minimum annual charge (MAC) customers. We assume a reasonable proportion of small coastal water users would fall into this category, who would consider this price increase to be reasonable. However, the 15% each year, plus CPI, increase for remaining ‘larger’ water users, which includes ‘small’ water users holding 100ML entitlement, will double WAMC charges by 2029. This is not a sustainable proposal in coastal regions many customers are small, and water use is low.

WaterNSW 2024 Pricing Proposal acknowledges that “declining customer numbers and average water sales and the increased cost of compliance and infrastructure” remain an issue in the North and South Coast. Consequently, WaterNSW proposes the continuation of the existing CSO arrangement for the North and South Coast from 1 July 2025.

<sup>12</sup> [WaterNSW Review of prices for rural bulk water services from 1 July 2017 to 30 June 2021](#)

<sup>13</sup> [Attachment 30, WaterNSW gross margins analysis, 20 September 2024](#)



NSWIC firmly supports maintaining the CSO subsidy payments for The North and South Coast and asks that the CSO be extended to unregulated costal water sources as well as regulated.

## Community Service Obligation in the Hunter Valley

The Hunter Region was not included in the Willingness to Pay study in 2017. At the time, the Hunter served as a successful case study to demonstrate how changing the pricing structure of water allocation to fixed and usage prices achieved cost reduction that maintained irrigation and lower operation costs for services, allowing the Hunter to achieve cost recovery.

However, during the 2021-25 IPART pricing determination period, entitlement charges were increased by 40.9% for high security, 41.1% for general security, and 40.7% for usage charges. This swiftly nullified all cost savings achieved by the pricing structure changes in 2017-2021. Under the current proposal, water bills in the Hunter Region are estimated to increase by 17 per cent each year, plus CPI, for high security and general security, and 15 per cent each year, plus CPI, for unregulated and groundwater.

NSWIC considers that the Hunter region agricultural water users have the same profile of primarily small agricultural water users who are being priced out of irrigation, similar to that of the North and South Coasts in 2017. We recommend that a willingness to pay study be performed to identify the capacity to pay of agricultural water users across a range of commodities in the Hunter region. This should be used to determine how to support Hunter primary producers, such as through a community service obligation.

## Cost Drivers

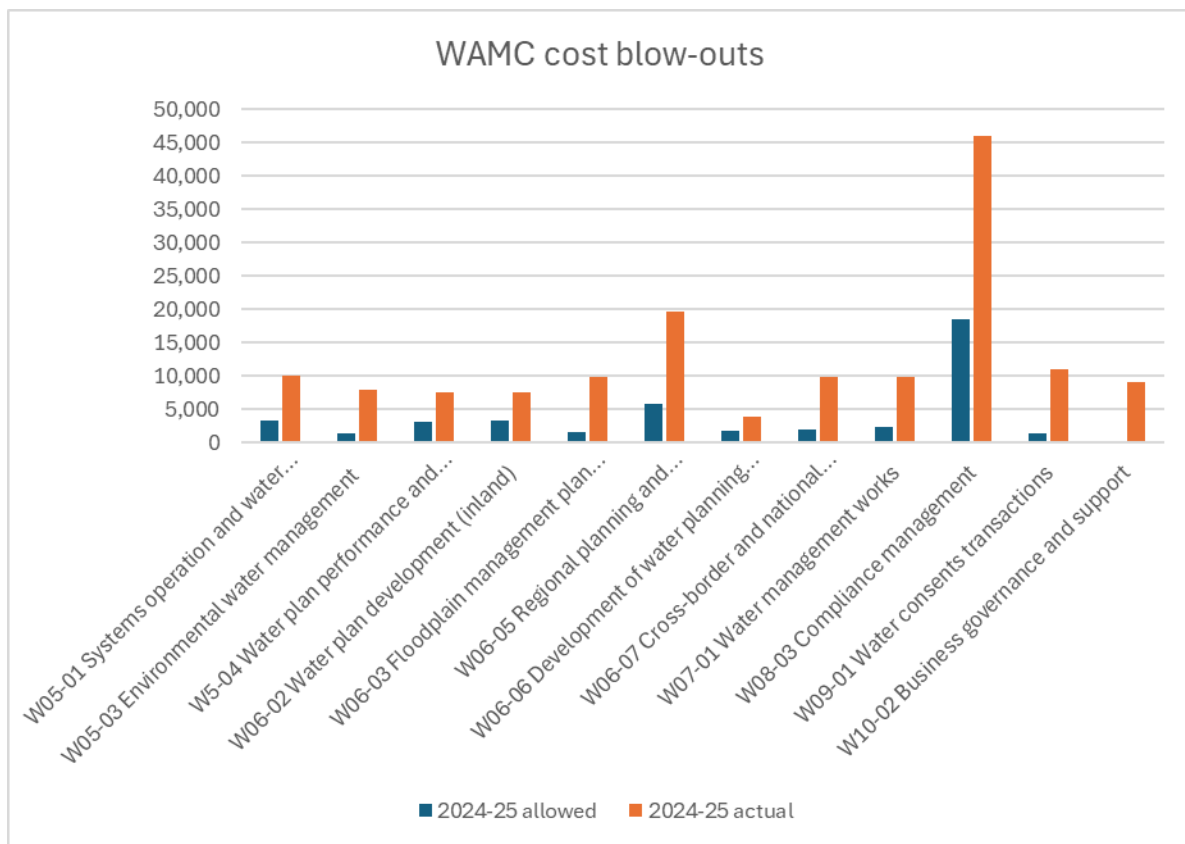
### Compliance and enforcement

The 2017 Four Corners episode 'Pumped' highlighted the now NSW Department of Climate Change, Energy, the Environment and Water's failure to undertake metering reads on an unregulated section of the Murray-Darling Basin, despite water users being charged for these compliance activities.

As a consequence of this and the Mathews inquiry, licence holders had new metering standards imposed across the State through the non-urban metering reform, with water users paying for the cost of the reform's design and implementation, as well as the high cost of compliance with new standards.

The independent Natural Resource Access Regulator (NRAR) was also set up for compliance and enforcement of water access rules; the increased cost of this new set-up was also passed through to water users.

NSWIC supports any drive for accountability and takes a zero tolerance for water theft, however we are concerned that NRAR costs appear to be ballooning at a faster rate than other WAMC activities.



Delay in the non-urban metering rollout led to the Government almost doubling NRAR's 2024-25 budget to \$45.4 million, with a one-off \$21.3 million boost to tide the agency over for one year until the 2025-2030 Pricing Determination. NRAR is now seeking to maintain its near-doubling in expenditure at \$45 million per year over the 2025-2030 periods, with \$33.5 million recovered from water users.

According to NRAR's modelling, it 'prevents an additional 200 GL per annum of water theft across NSW', at a value of \$6.7 million per annum<sup>14</sup>, apparently by its mere existence as a deterrent. Spending \$45 million dollars a year to prevent \$6.7 million of modelled potential theft that might (maybe?) occur, seems expensive. But while NRAR's presence may deter some users, the results of NRAR's work so far has shown that the overwhelming majority of licence holders do the right thing anyway.

For example, NRAR says it took more than 1500 enforcement actions, including directions, enforceable undertakings, formal warnings, official cautions, penalty infringement notices and 18 prosecutions during the 2021-2025 pricing determination period. It sounds like a lot but translates to only 375 actions on average each year, or 0.9% of 40,000 water licences annually.

IPART must consider whether NRAR's objective of increased compliance rates in 2025-2030 warrants the substantial increase in expenditure sought. It is hard to imagine additional expenditure resulting in a materially improved compliance rate off such a low base.

<sup>14</sup> Attachment F, Summary of expenditure and services by WAMC activity, 30 September 2024, pp.189

While NRAR notes that ‘84% of the community believe more should be done to address unlawful water take’, and that 70% think illegal water take is still occurring,<sup>15</sup> that does not justify an unquestioned doubling in the budget with higher cost recovery from licence holders when compliance rates are so high.

We believe more needs to be done to communicate that compliance is high, as the public has a distorted view of how water is managed in NSW. NRAR must bear some responsibility: its communications tend by omission to reinforce the public misconception that water theft is rife, perhaps to justify NRAR’s pursuit of ever more resources. The public should be able to feel confident that its natural resources are being managed fairly, but it should also be well informed about the true scale of compliance.

As it stands, licence holders are paying \$10,182 per landholder interaction for investigation and enforcement, yet the perception that water theft is occurring remains.<sup>16</sup> There needs to be some scrutiny on these costings, to ensure that NRAR has the budget to effectively do its job, but similarly to ensure that it represents value for money for tax and water charge payers alike.

## Inefficient and ineffective program design and delivery

The number of overlapping reforms is causing unnecessary cost burdens. This was noted by WAMC in acknowledging that they need ‘on-the-ground support to help water users navigate the complexity of water regulations, to assist voluntary compliance.’<sup>17</sup> NSWIC members have expressed frustration that despite their best efforts to comply with all new regulations, it is often unachievable.

This is reflected in the 2023 Community Insights Voice survey, with 59% of NSW respondents saying that water regulations are too complicated and 47% expressing difficulty complying with all water laws, numbers higher than in other states.<sup>18</sup> NSWIC supports laws that sustainably and transparently manage water, but we believe more could be done to coordinate and streamline numerous concurrent reforms.

Numerous reforms that have been undertaken since 2017 have suffered from cost inefficiencies and blowouts. IPART’s 2021 determination stated that government delays in undertaking metering reform ‘should not be paid for by users through its water management prices’.<sup>19</sup> NSWIC supports this notion and outlines a number of areas where mismanagement of reforms has led to increased costs.

## Surging costs for NSW non-urban water metering reform rollout

The 2017 non-urban water metering reform (metering reform) has encountered numerous delays due to short-sighted planning and poor policy design that has resulted in barriers beyond the control of water users. Critical personnel shortages, inconsistent policy tools, faulty and expensive equipment, time consuming database management, and an overly complex set of rules have plagued policy roll out

<sup>15</sup> Attachment D, WAMC Engagement Outcomes Report, pp. 48

<sup>16</sup> Attachment F, Summary of expenditure and services by WAMC activity, 30 September 2024, pp.163

<sup>17</sup> Water Administration Ministerial Corporation 2025-30 pricing proposal, pp. 10

<sup>18</sup> Attachment F, Summary of expenditure and services by WAMC activity, 30 September 2024, pp.154

<sup>19</sup> Attachment F, Summary of expenditure and services by WAMC activity, 30 September 2024, pp.197

across NSW. If nothing changed, it would have been a further 15 years before compliance rates were acceptable, far beyond the five-year rollout originally envisaged.

The metering reform review in 2024 identified that correctly identifying metering exempt works would result in a reduction of 55 per cent of works requiring metering. A reduction of this magnitude decreases administrative and in-field workload for WaterNSW, which has oversight of customer services. This frees up resources for WaterNSW, along with other water agencies (i.e., NRAR), to focus on other core business.

However, it is unlikely this will lead to reduced costs over the next pricing determination period, when the mistakes made in the design and implementation of the metering reform are now being repeated in the floodplain harvesting measurement program.

The Department has again designed a highly complex set of technical requirements that it has been unable to make work even in its own demonstration sites. This poor design is leading to implementation delays, increasing the Department's costs which are passed back to water users through WAMC charges, as well as increasing costs for water users trying to comply with measurement standards that are neither practical nor operable in the field. The Department has steadfastly refused to work with water users to come up with a simpler, more practical way to accurately measure floodplain harvesting take.

Metering reforms were driven, in part, due to public desire for more transparency in water management. The Government responded to the loss of public confidence due to its own failures by setting a higher standard of metering regulation (above the national standard, and any other standard globally) with which water users must now comply. The 'impactor' or driver of this reform is the public interest pursuit of confidence in government water management, including enforcement and compliance.

While the current review of metering rules seeks to improve the practicality of several barriers to metering compliance, recommendations from the Department have not yet been implemented, nor their proposed impacts realised. Costs should not be recovered from water users until the Government can demonstrate the reform is being delivered effectively and efficiently, such as through the suspension of cost-recovery. The issues raised demonstrate this is clearly not the case at present.

NSWIC recommends a review of the cost-sharing associated with this reform, to reflect this public interest through public funding of this reform, and to suspend full-cost recovery.

#### **Case Study: NSW metering reform: a costly failure of policy design and implementation**

NSWIC's submission to the Departmental review of the metering reform in November 2023 identified that a shortage of duly qualified persons (DQP) to certify, repair and replace water meters had delayed the roll-out of the non-urban water metering reform<sup>1</sup>. The cost and time required to undertake training, the heavy physical and administrative workload to complete each installation and certification, and the lack of financial incentive to prioritise DQP work over other paid services culminates in poor DQP retention across NSW.

DQPs also report that the DQP Portal is not fit-for-purpose, making administrative work harder. The process of certifying data requires a DQP to clean inaccurate geographical and water take data. WAMC has recognised this issue of data accuracy: *'Unforeseen errors in the data submitted to WaterNSW by duly qualified persons (DQPs) have caused a significant amount of unforeseen work at all stages of the process. These errors mean that sites could not be made compliant as required, the usage data had to be collected manually and several unanticipated contacts with DQPs were required.'*<sup>2</sup>

NSWIC does not consider it fair that licence holders must continue to pay for the failed administration and delivery of this policy with another price rise in the 2025 determination period.

AS4747 meters have burdened water users with expensive costs of purchase and faulty meter repair (or replacement) due to unsuitable in-field meter design. For example, AS4747 meters are not designed to measure turbid irrigation water, and favour high accuracy over practicality. NRAR's responsibility to enforce replacement of failed meters and local intelligence devices (LIDs) accounts for a forecast increase to 375 investigation and enforcement cases per year, a 30% increase to NRARs current case load, representing a major cost driver.<sup>3</sup>

Shortfalls of the telemetry system have resulted in a projection of 'an additional 8,800 suspicious activity reports', further increasing NRAR's workload for issues beyond the control of water users.<sup>4</sup>

Like the selection of impractical meters, telemetry alarms have been faulty and the associated software unreliable. The Department has released a Recommendations Report outlining a range of practical steps to address issues and progress metering reforms outcomes.

Indicative timeframes suggest that high priority recommendations will be actioned throughout the end of 2024 into mid-2025. Water users remain skeptical of the efficacy of these recommendations due to the complexity of barriers being experienced.

<sup>1</sup> NSW Irrigators' Council, Addressing Metering Compliance Barriers, November 2023, pp.33

<sup>2</sup> Water Administration Ministerial Corporation 2025-30 pricing proposal, 30 September 2024, pp.195

<sup>3</sup> Attachment F, Summary of expenditure and services b WAMC activity, 30 September 2024, pp. 180

<sup>4</sup> *ibid*

### Case Study: Floodplain harvesting reforms

Floodplain harvesting (FPH) regulation has been effective since 2019, yet few irrigators have achieved compliance, despite their best efforts. Much like the metering rollout, the FPH reform has experienced personnel, regulatory, and technical issues. NSWIC acknowledges the complexity of the reform but believes that shortfalls in the Department's planning and policy design have exacerbated delays.

During the Department's review of non-urban water metering reform, NSWIC provided a range of recommendations in response to overland flow measurement pathways, including<sup>1</sup>:

- Revisit the Floodplain Harvesting measurement policy to ensure it is effective practically.
- Improve private and government-installed secondary devices that are not fit for purpose.
- Permit license holders to take FPH or overland flow water with approved, certified secondary meters until such time that specific barriers are addressed.
- Continue water user consultation to find solutions to policy failures to allow water users to irrigate from one water storage while enabling a measurement period in another.

These recommendations demonstrate the complexity of barriers beyond water users' control.

WAMC proposes to introduce new charges for FPH licensees using the Gwydir regulated and unregulated river, Macquarie regulated river, Border regulated river, Far West (Barwon Darling) unregulated river, and Namoi regulated and unregulated river water sources.

NSWIC recommends IPART examine whether these charges reflect forecast costs that are efficient and genuinely additional to those covered by revenue that FPH would generate from other water management charges. NSWIC also urges IPART to investigate cost savings for the Department and water users by identifying effective and practical methods to accurately measure floodplain harvesting take, instead of the current complex and technically difficult requirements.

<sup>1</sup> NSW Irrigators' Council, Addressing Metering Compliance Barriers, November 2023, pp.33

## New rules in WaterNSW operating licence adding cost

WaterNSW has advised that new activities and obligations added to its operating licence by IPART in its 2024 licence review adds \$15.6 million a year to its costs. A number of these costs are driven by changes in expectations around water management by the public.

These changes include obligations to monitor environmental flows, installation of fish passageways, increasing knowledge of climate change and better environmental, social and governance (ESG) reporting, among others<sup>20</sup>.

<sup>20</sup> For more detail, see P15 in WaterNSW Attachment 25. The impactor is local government for many obligations but WaterNSW has included in all licence holder costs for inland valleys.

These new obligations pose a significant cost burden on WaterNSW, which is passed onto licence holders. IPART must stop adding new obligations that are in themselves a significant cost driver, and require that public good licence obligations are met through another funding source.

## Reform overload

While WAMC's responsibilities have undoubtedly expanded, NSWIC feels that the pace of reforms has been hasty and poorly coordinated at State and national level, with little time allowed for proper consideration and reform design. In short, the Department is trying to do too much, too quickly, and not doing any of it well. The result is ballooning costs that water licence holders are expected to cover.

It is evident the work program over the next five years must be reviewed, with low priority programs being delayed so that essential operational activities such as water sharing plans are properly prioritised and resourced. Further, in recent years, NSWIC has witnessed state and national reforms being introduced one on top of another, without first assessing the impacts of previous reforms.

As part of this pricing determination, WAMC must re-assess its work program and prioritise the most important reforms. Cost blowouts of the magnitude seen in the latest budget can be better managed by triaging its program and not attempting multiple, at times, overlapping reforms.

### **Case Study: Independent Connectivity Expert Panel**

In August 2023, the NSW Minister for Water commissioned the Independent Connectivity Expert Panel to undertake work on the adequacy of NSW water regulations in achieving connectivity between the northern and southern Basin. This report was unable to assess the impact of the recent floodplain harvesting (FPH) regulations, as not enough time had passed since the regulations were implemented. Its findings were therefore incomplete, despite spending significant resources on modelling.

## Lack of clear line of sight on expenditure

'The majority (85%) of WAMC's notional revenue requirement (NRR) is comprised of operating expenditure, primarily related to labour (remuneration and salary on-costs), travel, consumable equipment and the contracting of services'. There is little detail on how this money is allocated so it is difficult to assess efficiencies.

### **Case Study: Wetlands inclusion in water sharing plans**

The mapping of wetlands on private property as part of a current remaking of several unregulated water sharing plans is another example of the Department attempting too many reforms, with little thought for implementation.

Having identified thousands of proposed new wetlands through desktop reviews including spatial imagery, the Department says it does not have the time or resources to undertake the all-important

ground-truthing before the water sharing plans' 30 June 2025 statutory deadline. This is despite landholders identifying many errors, such as depressions in cropped field being deemed wetlands.

Rather than taking the time to do the work properly, including groundtruthing, with a view to implementing the reform at the five-year review of the water sharing plans, the Department is now trying to administer and enforce new rules surrounding works approvals on these areas.

It is another example of poor prioritisation and planning by NSW DCCEEW, as these wetlands are inevitably going to create another lengthy and expensive process for landholders, all while other important reforms are being implemented.

### **Case study: reform and consultation overload - 2024**

1. Submission to PC 2024 review of national water reform (February)
2. Feedback to NSW DCCEEW on NWA consultation paper (February)
3. Submission on proposed 450 GL recovery framework (March)
4. Submission on MDBA 2025 Basin Plan Evaluation (March)
5. WaterNSW operating licence review submission (March)
6. Submission PC interim report on NWI progress (May)
7. Submission to NWA discussion paper (May)
8. Murray Floodplain Management Plan (May)
9. National Water Agreement's draft 302 principles (September)
10. Upper Murrumbidgee Improvement Strategy (September)
11. Australian Government draft drought plan submission (September)
12. Murrumbidgee Floodplain Management Plan (September)
13. Proposed EPBC Act listing of SA Murray River (October)
14. Landholder Negotiation Scheme (November)
15. IGWC northern toolkit inquiry (November)
16. Billabong Creek Floodplain Management Plan (November)
17. MDBA five-year environmental watering strategy review (6 December)
18. IPART water pricing determination (9 December)
19. Non-urban metering policy review – regulation (8 December)
20. DCCEEW Water Sharing Plans (submissions and consultation Dec 2024 – 2 Feb 2025): Barwon Darling unregulated; Gwydir unregulated; Lachlan unregulated; Belubula unregulated; Macquarie unregulated; Murrumbidgee unregulated; Namoi/Peel unregulated.
21. NRC water sharing plan reviews (during 2024) (NSWSIC unable to engage due to workload): NSW Murray and Lower Darling regulated; Gwydir regulated; Murrumbidgee regulated.
22. NRC water sharing plan reviews 2024-2025 (submissions Dec 2024- Jan 2025, consultation Feb-March 2025): Namoi regulated; Lachlan regulated; Macquarie regulated

#### Upcoming in 2025

1. Murray Floodplain Management Plan – second public exhibition (early 2025)
2. NSW response on connectivity rules changes
3. NRC water sharing plan reviews continue
4. DCEEW water sharing plan remakes continue
5. Lachlan Floodplain Management Plan



## Cost shares

NSW's water is managed for multiple purposes, including the health of the environment and wellbeing of communities. Increasingly, there is also an expectation water will be managed to improve the social, economic, cultural and spiritual wellbeing of First Nations.

However, rural water customers (primarily farmers) carry a substantial burden of these water management costs under the so-called 'impactor pays' principle. IPART defines this principle to mean water storage and delivery infrastructure and associated water management would not be necessary if not for regional towns, industry and farmers.

On this basis, IPART in 2021 determined that rural water customers pay 80-100 per cent of WaterNSW operating and capital costs<sup>21</sup>, including an increased share of the following activities:

- water quality and monitoring (increase from 50% to 80% user share).
- environmental planning and protection (increase from 50% to 80% user share).
- dam safety and compliance (increase from 50% to 80% user share).
- flood operations (increase from 50% to 80% user share).

Similarly, water entitlement holders pay 80-100 per cent of 20 out of 35 Water Administration Ministerial Corporation (WAMC) activities<sup>22</sup>. IPART also increased water users' share of WAMC's notional revenue from 72.3 per cent in 2017 to 77.9 per cent. This drove the more modest 2.5% annual increase in WAMC water charges.

In this pricing determination, WAMC is proposing to reduce customers' notional share of its increased revenue requirement in the 2025-2030 determination period from 79% to 42%.

**Table 116: Proposed WAMC cost shares for the 2025 determination period (\$'000, \$2024–25)**

	2024–25 (current)	2025–26	2026–27	2027–28	2028–29	2029–30	% of NRR (2026–30)
WAMC's total NRR*	99,132	179,231	182,203	176,344	179,676	165,315	100%
Notional customer share	68,464	141,411	143,604	139,024	141,153	129,485	79%
Notional NSW Government share	30,512	37,821	38,599	37,320	38,523	35,830	21%
Proposed customer Share	55,240	59,697	65,665	73,180	81,760	91,290	42%
Proposed NSW Government share	119,400	119,534	116,538	103,164	97,916	74,025	58%

\* This includes MDBA and BRC

<sup>21</sup> [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF) [P103]

<sup>22</sup> [Final-report-Review-of-prices-for-the-Water-Administration-Ministerial-Corporation-September-2021.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-report-Review-of-prices-for-the-Water-Administration-Ministerial-Corporation-September-2021.PDF) (nsw.gov.au) [P 95].

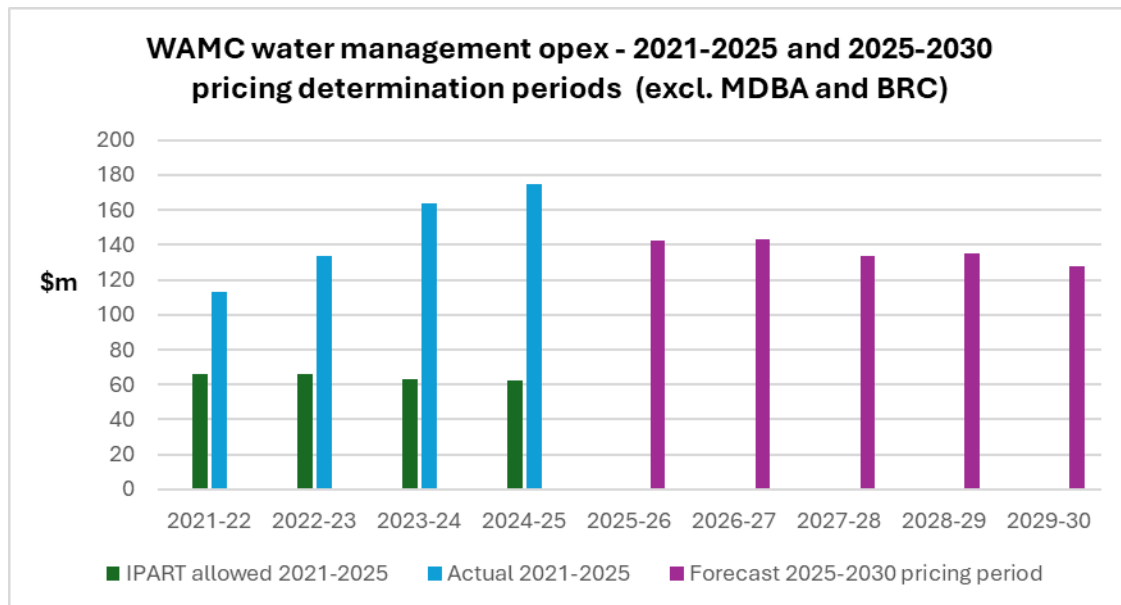
This is not the generous concession it sounds like. A 42% customer cost share of WAMC's revenue requirement translates to \$371.6 million<sup>23</sup>, an 88% increase on the \$197.3 million raised from customers that was ~77% of the IPART-allowed expenditure in the 2021-25 period.<sup>24</sup>

This substantial increase in revenue sought from customers is why WAMC is seeking to more than double its charges by 2030 for about a third of water licence holders, rather than maintain the 2.5% per cent a year cap on price increase for all licence holders in the 2021 pricing determination.

NSWIC strongly disagrees with the current WaterNSW cost-share ratios, as costs are heavily recovered from rural water customers, primarily farmers, for public interest items. Please refer to the NSWIC August 2024 Pricing Report for a more detailed discussion on this issue.

As for WAMC's proposed change in cost-share ratios, this is a smokescreen to try to claw back even more money from water users to cover WAMC's ballooning costs. It is notable that none of WAMC's four customer outcomes on p14 of the IPART Issues Paper involve efficient and cost-effective delivery of water services to drive down WAMC charges. Without this, it is not possible for the people being charged to have confidence that the WAMC is genuinely driving greater efficiency to save costs.

Given WAMC's poor service and lack of budgetary discipline over the last pricing determination period, NSWIC does not support WAMC's proposed change to a two-tier pricing structure in order to increase the revenue recovered from water users. The 2.5 per cent cap IPART imposed in the 2021 determination for all water licence holders should be maintained.



<sup>23</sup> WAMC Pricing Proposal, Table 40, p129.

<sup>24</sup> IPART 2021 WAMC pricing determination, p236.

## The impactor-pays principle

WAMC and WaterNSW costs are shared between water customers and the NSW Government (on behalf of the broader community) based on the ‘impactor pays principle’.

IPART defines this principle as those who created the need for an activity should pay the costs, based on a counterfactual of: ‘a world without high consumptive use of water resources’.<sup>25</sup> IPART justifies using the impactor pays principle as:

*“We prefer the impactor pays approach over alternative approaches (such as a beneficiary pays approach) as we consider it achieves better efficiency outcomes, as it results in customers facing the full costs of the services they receive. In addition, it is a more practical and transparent method for allocating costs and is consistent with the funding hierarchy that we have used previously for other services.”<sup>26</sup>*

WaterNSW in 2018 described IPART’s interpretation of the impactor-pays principle as very strict, and queried whether the counterfactual of a world without high consumptive use of water was correct.

*It is possible to have a high consumptive use of water without regulated infrastructure and services. For example, in NSW unregulated rivers, there is still a substantial level of consumptive use of water, it is just that the water is stored in on-farm storages rather than state owned dams and other infrastructure.*

*Without a dam on the State’s rivers, there would undoubtedly be less consumptive use as a system of on dam storages would likely lead to higher losses and not have the benefit of coordinated storage/usage as is found under the current arrangements in regulated river systems. However, high consumptive use would still undoubtedly occur.*

*Therefore, the best that the counterfactual can state for WaterNSW’s bulk water services is that there would be a world without a “higher” consumptive use of water and without regulated infrastructure.<sup>27</sup>*

IPART’s narrow impactor pays definition is highly problematic for the management of a public good in a developed society which necessarily requires consumptive use of water, and where changing expectations in the broader community impact resource management decisions and therefore costs.

<sup>25</sup> [https://www.ipart.nsw.gov.au/sites/default/files/cm9\\_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF](https://www.ipart.nsw.gov.au/sites/default/files/cm9_documents/Final-Report-Review-of-Water-NSWs-rural-bulk-water-prices-September-2021.PDF) [P 107].

<sup>26</sup> <https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-rural-water-cost-shares-february-2019.pdf> [P 2].

<sup>27</sup> WaterNSW submission to IPART Draft Report on Rural Water Cost Shares, October 2018.

<https://www.ipart.nsw.gov.au/sites/default/files/documents/online-submission-waternsw-y.-chora-29-nov-2018-074900000.pdf>

IPART's impactor pays counterfactual – a world without high water consumption – does not hold for many WaterNSW and WAMC activities, as it assumes the benchmark is a river system with no management or infrastructure requirements to deliver water to people living in the catchment.

We note that for W06-05, WAMC was willing to lower the customer share as 'some of this activity relates to understanding and managing the impacts of climate change and we consider the broader community rather than customers are the 'impactors' of this work.'

This understanding can be broadened even further, as under the current arrangement, irrigators are expected to pay for many reforms that benefit the wider public (including climate change adaptation).

Historically, water management infrastructure was built to 'drought-proof' town water supplies and to develop inland regions in the national interest through improved river navigation and irrigated agriculture.

Many irrigation networks were built or expanded to provide opportunities for soldier settlers as a reward for their service to the nation after WWI and WWII. The current 'impactor pays' pricing structure fails to account for the public good provided by irrigation, in the form of food security. It also appears to ignore the fact that food production and irrigation development was not caused by irrigators, but rather through government initiatives that recognised the importance of food security and local food production

Responses from Customer Advisory Groups (CAG) are instructive on this issue. Seventy per cent of participants said they wanted to share the regulation of water between users and the environment and 69% supported increased funding for water management.

CAG participants were for the most part, members of the general public (not licence holders) and therefore unlikely to incur these costs. If the public wishes to see better water management, they should contribute their share.

### **Impactors-pays principle in climate change adaptation**

IPART has stated that the costs associated with climate change would not be incurred in the absence of high consumptive use. Therefore, water users are the impactors, and should pay for the costs of infrastructure and water management adaptation to climate change.

As stated above, this thinking assumes the counterfactual of a pristine river system requiring no infrastructure or management if not for all those towns, farms and industry that have been built up over 200 years requiring water.

Given those towns, farms and industry are there to stay, in the modern era, there is no such thing as a world without high consumptive water use. There is only a world requiring adaptation to changing modern community expectations and climatic conditions.

IPART also fails to recognise that the everyday actions of billions of people across the globe are impacting our climate, through burning fossil fuels for power, transport, heating and cooling homes, goods and services. All people are therefore the impactors when it comes to climate change, driving the need to adapt water management and infrastructure.

Therefore, costs associated with climate change adaptation in water management and infrastructure should be shared across all society, as they are in so many other sectors affected by climate change.

Even if there were no farmers and therefore the absence of high consumptive water use, the existing infrastructure would still have to be maintained and managed to secure water supplies to towns and manage evolving community expectations on environmental flow regimes.

As it stands, irrigators are asked to pay for reforms that benefit everybody. However, infrastructure originally constructed in the name of nation building last century is now also maintained, upgraded and managed for multiple public interest purposes, including ecosystem functions and services, recreation, cultural and managed environmental flows.

The impactors are no longer only the towns, industry and farms relying on the service of delivering water, but all stakeholders demanding a say in the how and why of water management and infrastructure. Many of these non-customer stakeholders do not even live in the river valleys where they demand change.

Yet under the current cost-share ratio, customers who access only 28 per cent or less of total inflows for agriculture, towns, and industry use, are having to pay to meet the impact of broader community expectations. In simple terms, those expectations are having a substantial impact on costs, but the costs are not being assigned to 'impactor', being the broader community, via the public purse.

Logically, if anyone across any community can now have an impact on decisions and priorities, then the impactor-pays principle requires that the costs are shared accordingly, rather than burdening a small sliver of society with the costs to meet the broader community's changing expectations.

Considering the changing contexts of water management and infrastructure, NSWIC calls on IPART to revise its definition of an 'impactor', and to review how costs are shared between rural water customers and the NSW Government on behalf of other users and the broader community.

## National Water Initiative and the user-pays principle

The 2004 National Water Initiative (NWI) is the blueprint to Australia's water reform, agreed to by all states and territories. The NWI includes 'Best Practice Water Pricing', which specifically says to "give effect to the principles of user-pays" (note: not impactor-pays).

User-pays, also used interchangeably as beneficiary-pays, is generally defined as a person who uses a particular service or resource should bear the associated costs. For water-users, as described in the National Water Initiative Clause 64 above, that would mean paying only for the service of delivering water and its associated costs in the maintenance, operation and replacement of infrastructure, and for water planning and management only to the extent needed to deliver the water.

When water planning and management expands beyond what is required for water storage and delivery systems, to include climate change adaptation, fish passageways, environmental flow management, recreation and other public good services, then those additional costs should be borne by the public beneficiaries of those additional services.

## **Best Practice Water Pricing and Institutional Arrangements**

### **Outcomes**

64. The Parties agree to implement water pricing and institutional arrangements which:
- i) promote economically efficient and sustainable use of:
    - a) water resources;
    - b) water infrastructure assets; and
    - c) government resources devoted to the management of water;
  - ii) ensure sufficient revenue streams to allow efficient delivery of the required services;
  - iii) facilitate the efficient functioning of water markets, including inter-jurisdictional water markets, and in both rural and urban settings;
  - iv) **give effect to the principles of user-pays** and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management;
  - v) avoid perverse or unintended pricing outcomes; and
  - vi) provide appropriate mechanisms for the release of unallocated water.

*2004 National Water Initiative – best practice water pricing.*

For example, strictly speaking, fish passageways are not required to deliver water to WaterNSW customers; rather, a fish passageway is a public good infrastructure that meets the demands, the impact if you will, of changing community expectations around improving feeding and breeding conditions for fish. All of society benefits from this investment.

All other Australian States apply the user-pays principle to water pricing. NSW is the only one that applies the impactor-pays principle, and very narrowly defined by IPART at that.

## Service delivery

### Proposal to upgrade online customer portal

WaterNSW is proposing to invest \$28.3 million for upgrades to the Water Market System (WMS) Program from 2025-2030. Proposed benefits include an efficient customer experience for online licence access, submitting applications, water ordering, water trading, water use recording, and account management.

These upgrades are proposed to streamline and reduce the cost of basic administrative processes. For example, in the upcoming determination period the application to mark a work as active/inactive is proposed to decrease from \$625 to \$105). Upgrades are required as the current system used by WaterNSW is ageing, experiencing growing capacity limitations and vulnerable to cyber security risks.

However, ambiguity remains on the efficiency savings this investment will return for customers. WAMC reports that digital customer system upgrades known as the Water Added Value Environment (WAVE) program have experienced significant technical and program delivery challenges to date. Within WAMCs

pricing proposal, the proposed technology upgrades program capital expenditure over the 2025-2030 pricing determination period is \$103.60 million.<sup>28</sup>

This is a significant investment and water users are carrying a financial burden to see it realised. While WAMC assures customers of streamlining of services, it is unclear what financial benefit or cost-savings in WAMC water management prices will be achieved to reduce consent transaction charges, metering charges or proposed floodplain harvesting charges.

A further concern is education and support for the usage of the WaterNSW WMS. While the upcoming generation of farmers has experience navigating online customer portals, this is not the situation for all water users. Without proper support for water users across all demographics, the benefits of this system will not be realised.

## Increasing consent transaction costs

Consent transaction charges are separate fee-for-service charges designed to recover the efficient costs of WAMC activities. The WAMC pricing proposal states the adoption of the Water Licensing Improvement Program will result in expected savings of \$1.13 million, or 20%, over 10 years, and Digital business improvement strategies like the Water Market System (WMS) will result in 12% efficiency saving for relevant transactions.

WAMC proposes that consent transaction charges be cost-reflective. As they have fixed costs, the volume of customers accessing the transaction affects the efficient average cost. As prices become cost-prohibitive, less customers will engage in the transactions (where possible) resulting in ongoing increases in transaction pricing, if pursuing full cost recovery.

WAMC has proposed two reductions to consent transaction charges that affect customers; one for inactive work fees, and the other for extension approval fees after the due date. All other charges (18) have been increased by a minimum of 2%, in addition to the proposed addition of six new transaction charges.

Concerningly, WAMC did not directly consult on these charges with Customer Advisory Groups, despite these costs being a key concern for customers. Water users reflect that the fees WaterNSW are applying for basic services fall completely out of line with other comparable asset transfer costs. For example, to transfer a car in NSW it costs \$37 (excl. GST) with ServiceNSW, and to transfer a property title in NSW it costs \$156.55 (excl. GST).

NSWIC recommends that all low-risk administration-based fees and charges should be made affordable and transparent; this may mean moving away from full cost-recovery. Costs must not be prohibitive for agricultural water users who want to comply with their licence requirements. Customers also call for transparency on what their transaction fees cover. Within the water access licence dealing category, there are notable differences between costs for regulated, unregulated and groundwater sources.

Information regarding how fees are determined should show how fees are demonstrating value.

<sup>28</sup> Attachment K, NSW Water Sector Shared Technology Ecosystem Roadmap, 30 September 2024, slide 38

### Case Study: Transferring water on Dry River, Bega

Water users are frustrated at the inefficiency of the WaterNSW licence cost structure and processes. A farmer in Bega is currently trying to buy 4ML of water in the Dry River water source from a landholder selling their property, but the new buyer does not want the water. The farmer's property is located downstream of the landholder in the same water source, and they would like to add the 4ML to their 97ML licence.

They were initially advised the cost of this transfer would be \$1,278.83. However, the 4ML transfer of water downstream is no longer considered low risk and has been revised to \$2,822.15. The reasoning provided WaterNSW is: "As WaterNSW application fees are determined by the Independent Pricing And Regulatory Tribunal, there is no flexibility or discretion for WaterNSW to reduce the set fees".

The cost of this transaction at \$1,278.83 is expensive, but when doubled to \$2,822.15 it is unviable. In addition to the administrative layers required to submit the application, the associated costs highlight the inefficiency of WaterNSW's management of a desktop transfer of assets. In this situation, the landholder wanting to sell the water is in a position where they may not be able to afford to sell the water and they are stuck with perpetually paying for water that they have never used and never will once they sell their property.

On the NSW coast, there are many small 'sleeper' water licences like this. Transaction costs contribute to the reason why water markets continue to be difficult to establish in these regions. If transaction costs were cheaper, these dealings would become affordable for farmers and would have flow on effects to help simplify water agency data as there would be less water users on the system.

## Staff decline in regional areas

While the WAVE program is slated for upgrades, customers perceive it is more difficult to get WaterNSW representatives out on the ground in their area to address customer questions and unresolved issues.

The current customer service charter outlines that WNSW provides licence regulation and dealings information via its Customer Service Centre (a phone number) and the WNSW website. Several local offices are listed, however, WNSW states "our local offices are currently closed for walk-in services and are only open on Tuesdays for pre-booked in-person appointments".

The closure and diminishing availability of customer service centres in regional communities has left customers feeling that they have lost their point of contact to assist with inquiries and that WNSW staff located at a distance lack local knowledge. This level of service does not meet customers' expectations.

Regional communities are often affected by internet and phone reception blackspots, and farmers may not be technology natives. This is an issue when WNSW relies on its website, e-mails, social media and customer portal to distribute information about its operations and customer services. When engaging in other means of communication like the phone, water users report longer than desired wait times, and



frustrations over having to communicate with different staff members when an issue requires multiple calls to resolve.

While WaterNSW has communicated with some water user groups that the reason for the decline in physical customer service provider locations is to improve efficiencies by reducing property/leasing costs, water access licence holders and water users accessing basic landholder rights are still present in river catchments across NSW. WNSW's presence in regional areas is regarded by water users as a priority service, and it is particularly galling to watch that service declining while being charged higher costs in the name of improved services.

#### **Case Study: Meter reading on unregulated coastal rivers**

On the unregulated system, WaterNSW charges \$400 per year for government meters. A water user, who has a government owned meter on her property, reports that she has been repeatedly called by a WaterNSW representative asking her to take a photo of the meter numbers for verification as WaterNSW had conflicting numbers on their records.

This water user has only recently begun managing the farm due to the passing of her husband. She was unaware of the location of the meter or where to find the required numbers. Due to the persistence of the WaterNSW representative, she paid a local pump supplier locate and take a photo. This work should have been carried out by WaterNSW, not burdened the landholder.

WaterNSW are paid to manage the Government meters and have a contract in place with a local provider to maintain them – it is unclear why are they pushing the work onto the landholders.

## Customer Engagement

### Customer engagement by WaterNSW and WAMC

NSWIC recognises that WaterNSW and WAMC intentionally carried out a range of engagement activities throughout NSW during the development of their 2025-2030 Pricing Proposals. The efficacy of these engagement activities from the perspective of agricultural water user customers are outlined below:

<b>Engagement Activity</b>	<b>Did the activity effectively engage customers?</b>	<b>Did the activity present an appropriate level of content for meaningful engagement?</b>
WaterNSW newsletter	Customers needed to subscribe to receive the monthly email newsletter; it only reached customers who were interested. Once subscribed, customers would	Pricing proposal content typically appeared as a brief information item with an invitation to meet with WaterNSW staff at Field Day or walk-in sessions, participate in a survey or read a newly published engagement report.  The content provided helped keep customers informed about engagement opportunities. Content did not include the specific details of the WaterNSW water proposal.

	receive newsletters monthly.	
WaterNSW Pricing Proposal website	Customers could access this website at any time to find general information about the WaterNSW pricing proposal.	Pricing proposal content was high level, providing an overview of the purpose, timeline, engagement activities, and customer priorities. Content did not include specific details of the WaterNSW water proposal.
Stalls at Regional Field Days	While some customers attended Regional Field Days, their willingness and/or ability to engage in meaningful conversations varied.	WaterNSW had a range of resources on hand to discuss a range of customer inquiries on water planning and management.  WaterNSW were unable to answer some customer questions about the Pricing Proposal, particularly when asked about the details of what WaterNSW was proposing. This prevented meaningful engagement on the topic.
Presentations at Water User Association (WUA) meetings	High engagement with customers, many of whom may not typically interact with WaterNSW directly. Typically occurring on a date and at a time of the day favourable to the customers within that region.	Customers noted that WaterNSW would present detailed information on content being considered within the pricing proposal, often tailored to the interested (or concerns) of the WUA.  Sessions often had opportunity for question-and-answer time which allowed customers to clarify information and share feedback with WaterNSW staff.
WaterNSW Customer Advisory Group (CAG)	High engagement with a small group of highly informed customers, usually representing a local water user association. These group meetings involved participants travelling to a location or joining online. Meetings are a half-day commitment.	Customers report that CAG meetings contained a large volume of content presented by water agencies, with varied opportunities for discussion.  Customers felt like they had limited opportunity to influence meeting agendas, and occasionally the issues they wanted to discuss were not covered, or not in the detail expected which made meetings feel somewhat irrelevant.  Regarding the pricing proposal, customers noted the large volume of content present.
Water Working Groups (WWG)	High engagement with a group of participants including agricultural water user customers.  Water agencies explained the large time commitment participating in this group would be.	Customers report that WWG meetings were detailed and long. They appreciated the depth of discussion on some ideas, but also found that content was presented rather than an idea open for discussion.  Some customers were frustrated at the content covered in each meeting, as the issues being raised were not the topics they were most concerned about (e.g., dam safety vs. affordability and cost-shares).

	<p>Customers noted that meeting online for a few hours was challenging.</p>	<p>Customers were frustrated that content for each session was not distributed pre-meeting to improve familiarity with novel ideas. They noted that for some topics it was hard to fully grasp the implications.</p> <p>Customers were frustrated at the poor implementation of the data collection tool Slido. After the presentation of content, WWG participants would take a survey on the issue. The range of answers to select were pre-written, without the option to write something different. Customers felt that answers did not represent their thoughts or feedback they wanted to provide.</p> <p>Customers note that Slido did not record if the participant was a customer or not. This is a concern as all stakeholder answers were weighted the same. We believe that customers, who have the experience and knowledge of what these decisions mean for their businesses, should have their feedback weighted more heavily.</p>
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NSWIC considers that customer engagement should be prioritised to promote better customer services and outcomes, before considering broader community needs informed by consultation with the community and other stakeholders. Customers understand that decision making outcomes directly affect their future water bills and business viability and have personal experience of these changes. Community members participate without this mindset or threat of having to pay these costs.

## Customer outcomes and performance measures

There is opportunity for WaterNSW and WAMC to further improve their engagement processes to prioritise the views of agricultural water user customers who carry a wealth of knowledge on the impacts of water pricing increases. Regarding customer-centric engagement, WAMC and WaterNSW have proposed customer outcomes based on stakeholder engagement. We have included our thoughts in the table below:

<b>Outcome</b>	<b>NSWIC Feedback</b>
<p><b>WaterNSW outcome 5:</b> WaterNSW will provide customer and community access to data and information</p>	<p>NSWIC considers the 'agreed activities' for 'wider community engagement' too broad. As illustrated above, different engagement activities have varying levels of engagement with customers. WaterNSW must be discerning about what gives the most meaningful engagement with customers as a priority. We support WaterNSW prioritising Water User Association meetings as this is a targets communication with customers.</p> <p>NSWIC agrees that data on water sources and water management should be accessible and easy to navigate, particularly when in low coverage areas as is often the case in regional communities.</p>

<p><b>WaterNSW outcome 6:</b> WaterNSW will provide good customer experiences (enabling our customers to run their businesses)</p>	<p>NSWIC agrees that having an online presence is essential in today's operating environment and acknowledges the performance measures to improve customer engagement with the customer portal. However, we are concerned that goals do not act on feedback for the regular presence of staff in regional communities to improve customer experience.</p> <p>NSWIC has also been informed of situations where a lower level staff have provided advice via phone call, which under further investigation has been 'over-ruled' by a more senior staff member. This causes concern for WaterNSW target to have 80% of problems resolved by the call centre on the first call. WaterNSW should provide customers with the correct answer in a timely manner.</p>
<p><b>WAMC outcome 1:</b> Enhanced customer experience</p>	<p>WAMC performance measures for this outcome provide clear, achievable, customer-centric goals.</p>
<p><b>WAMC outcome 3:</b> Confidence in water resource management</p>	<p>WAMC performance measures for this outcome provide clear, achievable, customer-centric goals.</p> <p>NSWIC suggests that improved public confidence in water resource management could also incorporate an outcome related to customers reporting a satisfactory level of customer engagement about WAMC activities.</p>

## Conclusion

The NSW bulk rural water pricing model is fundamentally broken. The answer does not lie in trying to find ever more creative ways to make price hikes more palatable by rearranging the deck chairs to make the averages look less exorbitant.

The answer lies in a root and branch:

- review of the sustainability of the WaterNSW and WAMC business model under the current pricing framework.
- review of the cost-sharing between rural water customers and the NSW Government, particularly when it comes to public activities and obligations
- review of the work programs to better stage and prioritise the workload to avoid bottlenecks blowing out costs.
- Hard-nosed efficiency review to avoid WAMC duplication of effort, poor program design and implementation and delays blowing out costs.

Without an urgent, transparent and honest review, many agricultural water users – particularly small inland and coastal water users, and small family farms – face being priced out of business in the IPART 2025-2030 pricing determination.