



Independent Pricing and Regulatory Tribunal
New South Wales

Rural Water Pricing

Session B

Review of WAMC's prices

Public Hearing – Transcript

Tuesday, 30 March, at 11:15am

Tribunal Members

The Tribunal members for this review are:

Ms Deborah Cope, Acting Chair
Ms Sandra Gamble, Tribunal Member
Mr Mike Smart, Acting Tribunal Member

Members of the Secretariat

Ms Liz Livingstone, Mr Matthew Mansell and Maricar Horbino.

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1 Session B: Review of WAMC's prices

1.1 Welcome

Ms Livingstone: For today's session I'll just quickly go through our housekeeping again so we're all on the same page. But please during this session, keep your microphone muted unless you're speaking. That helps us manage the background noise. Secondly if you can keep your camera on, that also helps us to connect with you as we discuss the issues that we've got on our plate today.

And I'll also remind you that we are recording this session to YouTube and it will be in a few days placed on our website, and be publicly available, as will a transcript of today's proceedings. I'll now hand over to our acting Chair Deborah Cope, to introduce Session B the review of WAMC's prices.

Ms Cope: Thank you Liz and good morning again everyone. As I said before my name is Deborah Cope and I'm the Acting Chair of the Independent Pricing and Regulatory Tribunal (IPART). With me today are my fellow Tribunal Members Sandra Gamble and Mike Smart. And we're also assisted by secretariat staff including Matthew Mansell and the members of the pricing review teams.

We are joined for this session by representatives from each of the WAMC agencies, the Department of Planning, Industry and Environment (DPIE), the Natural Resource Access Regulator (NRAR) and Water NSW.

The purpose of this session is to present IPART's draft decisions and prices, and give stakeholders an opportunity to ask us and WAMC agencies questions. The public hearing is very important part of our consultation process, we will consider the views you provide today in making our final decisions on costs and prices for WAMC and Water NSW rural bulk water services.

Submissions on our Draft Reports can be made up until the 16th of April and our final determination will be released in June 2021 with prices that will apply from July 2021. So I'll now hand back to Liz, to get the session underway.

Ms Livingstone: Thanks Deb. We're going to have a presentation now from one of our IPART staff, to talk through our draft recommendations and determination. Please remember that if you've got a question, just let us know via the chat box or by using the raise hand function in Zoom. And after the presentation we'll get to you in turn. But I will hand over to Maricar now, to take us through a summary of IPART's draft decisions, thanks Maricar.

1.2 IPART Secretariat presentation

Ms Horbino: Thank you Liz. We have prepared a few slides on our draft decisions on prices and customer impacts, costs, and how these costs are shared. As Liz said we will open for more discussion about our draft decisions after this presentation.

Let me start with the key themes we've identified for this review, starting in the light grey quadrant. Firstly the government has made reforms since our last review of WAMC's prices. These reforms are in response to independent inquiries and they are aimed at improving water management across the state.

WAMC's pricing proposal outlined its plan to respond to these reforms and lift its performance.

For our draft findings, we consider that additional funding is needed to pay for the investments being made to lift WAMC's performance. This will help WAMC to provide a more sustainable and reliable water resource management system.

The NSW Government will pay for some of these additional funds and water users will also make a contribution to these costs through higher prices. I'll talk more about the Government and user contributions in the next slide.

Our draft decision is to set WAMC's total revenue requirement over the next 4 years at around \$280 million. For context this is \$25 million higher than 2016 allowance and \$68 million lower than WAMC's proposal.

Under our draft decisions contributions from water users would be capped at around \$184 million. This means that their draft prices do not recover the full user share of efficient costs. We've made this draft decision because we want to achieve a balance between setting prices that recover WAMC's efficient cost and mitigating price impacts on water users.

Meanwhile, total contributions from the NSW Government would be around \$134 million. This is lower than WAMC's proposal by about \$16 million. I'll talk in more detail about the government contribution to compliance costs, when it comes to the slide on opex.

Let's now look at our draft decisions on prices and price structures. We have unbundled the existing water management charges into 3 components: a WAMC charge, an MDBA charge and a BRC charge. We've done this to enhance transparency and ensure all water users pay their fair share of efficient costs. This is also consistent with how we set charges for rural bulk water services.

Overall, this means water uses in 3 water sources will incur all 3 charges. Water uses in 17 water sources will incur WAMC and MDBA charges, and the remaining 7 water sources will only pay the WAMC charge.

In relation to small water users, currently they only contribute to WAMC's administrative costs and do not contribute to MDBA and BRC costs. Under our draft decision, small water users will incur MDBA and BRC charges, based on their water source. Our draft decision, aimed at improving the sharing of costs between all water users. To mitigate price impacts, we are constraining increases for the WAMC water management charge to 2.5% per year or until full cost recovery is achieved.

For MDBA and BRC charges, our draft decision is to set these at full cost recovery. This means that prices are increasing for most of the 27 water sources. Overall, we found that these prices are due to several reasons. These include higher costs being allocated to the different water sources. I'll talk more about this soon. Another reason is maintaining the cost share set by our 2019 review, and the final reason is because we are transitioning prices towards full cost recovery.

Over the next 3 slides, I will briefly show you the prices for the 27 water sources. You will see that prices vary across the water sources.

For the 11 regulated water sources, the average price increased from FY21 to FY 2025 is 12%.

Under our draft decisions, prices will decline in Namoi, and increase in the other 10 water sources. The substantial increase in Border is largely due to the MDBA and BRC costs allocated to this water source.

For the 12 unregulated water sources, the average price increase from FY21 to FY25 is 6%.

Under our draft decisions prices will decline in 2 water sources, and increase in the other 10 water sources. For Lachlan and Macquarie, changes in entitlement and water take forecasts result in a downward movement in prices.

For Inland and Border groundwater, higher entitlement and water take forecasts also result in a downward movement in prices.

Murrumbidgee prices are transitioning towards full cost recovery and will converge with Inland in the future.

Meanwhile prices for Coastal are increasing because allocated costs are higher.

Turning to the costs that underpin these price changes, this chart compares our draft decisions on opex against the allowance in the 2016 review and WAMC's proposal. The light blue bars in this chart relate to the opex allowance in the 2016 review. The line above these bars represent the actual opex during this period. Then, the dark blue and grey bars are draft decisions on the opex allowance, and on compliance cost.

Overall, this chart shows that our draft decision is to increase the opex allowance by \$4.5 million or around 2% from last review. However, our draft opex allowance is 25% less than what WAMC proposed.

We recognise that some additional expenditure is required in areas like water management planning, compliance and enforcement and customer management.

In relation to compliance costs we consider there is a need for NRAR to perform more compliance and enforcement activities to address historical issues in the short term.

Therefore NRAR requires more funding to management this intensive phase.

However, we consider these intensive phase costs should be recovered from the NSW Government, rather than water users. The light grey bars on the chart indicate the amount attributable to the government for the compliance costs, which is around \$39 million in total over the next 4 years.

By excluding this cost from the opex allowance, we are ensuring that water users do not pay for past inefficiencies in compliance and enforcement. On the other hand our recommendations also facilitate NRAR obtaining sufficient funding to perform its functions.

In relation to capex, this chart indicates that WAMC's efficient historical capex is higher than its allowance. WAMC incurred capex for its corporate support systems over the 2016 period to deliver its functions. We have made a draft decision to recognise some of these costs.

This chart also highlights our draft decision to set 2021 capex allowance higher than 2016 allowance, but less than what WAMC proposed. We consider this provides WAMC with adequate funding for its corporate support systems and water monitoring capex.

I'm now going to talk about the MDBA and BRC costs. Starting at the total level across WAMC and Water NSW's determinations. DPIE proposed increases of around 8% for MDBA cost and 25% for BRC costs.

We made efficiency adjustment which reduced these proposed total cost. This resulted in a 7.3% decrease to the MDBA proposal and a 2.5% decrease to the BRC proposal.

We then looked at how this efficient cost should be allocated between WAMC and Water NSW, and made changes to what DPIE had proposed.

The most significant change was reallocating \$13 million in Salt Interception Scheme costs from Water NSW to WAMC.

We consider it is appropriate for this cost to be recovered from water license holders generally and not just from Water NSW's customers in regulated rivers.

The last change we did is to apply the building block approach. This means that efficient MDBA and BRC capex will be recovered over the life of those assets.

If you look at the two blue boxes in this page you will find a summary of the results for WAMC. This means that MDBA contribute contributions are almost \$12 million higher than the price proposal, but this is still 11% lower than 2016 allowance.

Meanwhile, WAMC's BRC contributions are slightly more than DPIE's proposal and \$1.8 million higher than 2016 allowance.

We have made a draft decision to generally maintain the cost shares set by our 2019 review.

In 2019, we comprehensively reviewed our rural water cost shares framework, including the cost shares for each of WAMC's 33 activities.

Under our draft decision WAMC's cost will continue to be allocated to those who create the need to incur those costs. Based on this and our 2019 review, we have allocated around 78% of the total revenue requirement to water users, compared with 72% in the 2016 review.

Some stakeholders in their submissions to our Issues Paper also suggested our cost shares framework needed adjusting to take into account climate change.

We consider that if the costs associated with climate change would be incurred without high consumptive water use, the costs should be paid for by the NSW Government on behalf of the broader community.

However, at this stage, costs related to climate change are unlikely to occur in the absence of high consumptive water use. Therefore we consider that it is appropriate to allocate this cost to water users.

That said, we will continue to monitor this issue going forward. If there is evidence that climate change costs would be incurred without high consumptive water use, we would factor this in when setting user shares in future price reviews.

We note that our draft decisions are consistent with cost shares proposed by DPIE and NRAR except for regional planning and management strategies, where we have decreased the user share from 70% to 60%. While water users are still the primary drivers for WAMC developing water management strategies, we note that government policy has shifted resulting to this change.

And that's it for our presentation on our draft report for the WAMC review. I will now hand over to Liz for the Q & A session.

1.3 Stakeholder Q&A session

Ms Livingstone: Thank you very much Maricar for that. And questions are starting to come through, but there's not too many yet. So if you do have one please add it to the chat box or raise your hand and we'll come to you as we get through them.

Christine Freak from NSW Irrigation Corporation has a question though. So Christine we'll start with you, thank you.

Ms Freak: Yeah thanks Liz. Hi everyone, so as we've raised through our submissions at the previous hearing, the view of the industry around cost shares and the impact to pays principal is something that we quite strongly disagree with.

We feel that the impactor pays principle is not appropriate to be applied to water management, and that leaves the industry paying a disproportionately higher share of costs, for what are ultimately public interest items.

And as was raised by Maricar through that presentation, the case that we put forward to that through our draft submission was around, you know climate change has been such a key driver of a lot of the water policy and planning, of particularly the last 20 years. But it's also driving this changed social expectations around the value of water management and what level of service is required by people external to the system.

And the decision that IPART's come to which it's on page 69 of the WAMC draft report, that IPART considers that the costs associated with climate change would not be incurred in the absence of higher consumptive use.

That's something that we disagree with, and the reason for that is because in those extreme drought situations which we're referring to that a lot of these policies being focused on and driven by, during those extreme periods. There isn't actually a lot of consumptive use. And that's the way that our legislation works, because entitlements are the first to be switched off during those particular periods. And as we saw in the most recent drought, general security allocations were right down to zero percent for a number of years.

And I guess we're not really following that logic, that there is that high consumptive use, and that the cost would not otherwise have to be incurred. So I guess we'd certainly encourage IPART to sort of continue considering that one for the final report.

Ms Cope: Christine, can you please sort of just talk in a little bit more detail about which particular types of costs around drought, do you see as being not related to water use, that would be in incurred anyway?

Ms Freak: Well during those extreme periods, of like general security entitlements for example, which are switched off and the focus of water management becomes on river operations, particularly for stock and domestic users and for environmental purposes, which are things that aren't incorporated into this framework.

And I guess it's the increasing water scarcity which has driven this social expectation around pushing towards this gold standard of water management. And we you know we accept, and welcome having high standards of course, but when it comes down to how those costs are then shared, we feel that the public needs to have a greater involvement in you know carrying that cost burden. If we are going to be having such a gold standard with our systems.

Ms Cope: So you mentioned general security, so there's then high security and town water. Do you think because there's a question in my mind at the extent to which the issue actually varies depending on the type of water use that you're talking about?

Ms Freak: Yeah I guess, I mean it's something that we'd have to work through. But I guess ultimately it comes down to, we need to look at who the beneficiaries and who the drivers of this are and I guess you know we've got concerns that the current framework leaves you know the cost share ratios on water users, it just looks completely disproportionate from our perspective.

Ms Cope: So thank you very much for that, and as I said we have this is one that I think is an issue that is changing over time and so it's something that we're going to need to continue to watch as we go through. As I said, we had when we looked at it this time we felt that the costs that we were incorporating into the prices were things that were related to water use.

So we felt that we hadn't hit that flip point that you're talking about just yet. But yeah very happy to have a look in detail at your submission, to see whether there are issues there that we think we need to shift, depending on when we hit that point.

Ms Freak: Thanks Deborah.

Ms Livingstone: Thank you and we have another question now from Michael at Murray Irrigation. Michael would you like to speak now?

Mr Pisasale: Yeah thanks Liz. I got two comments. The first one I guess just related to what I understood was an IPART recommendation or a principle about the water price for users were maintained at a ratio of 40% fixed and 60% usage ratio. I guess what we noted was under the WAMC costs, the MDBA component appeared to be closer to about 80% fixed and about 20% usage. So I guess just a comment about the fixed versus usage recommendation or principle about that one.

We notice we see that with the WAMC costs kind of honoured. 41% versus 59% but certainly the MDBA component of that was closer to 80% versus 20%. So I guess if you're able to explore that in further, don't answer that now, but explore that that would be very much appreciated, to weight that more towards usage.

Ms Cope: If I just make a bit of a comment on that then I'll let you get on to your next point. The mix between fixed and variable is something that we do quite a bit of work on and we have actually got slightly different ratios in different valleys. Which has been a reflection of the preference of the people in the different valleys.

So as you'd be aware a lot of these costs, the actual cost structure is very much weighted towards fixed costs in terms of what the utility, or what the water of where the costs sit and for regulatory costs, they don't they don't vary very much depending on water use.

So what that means is, if we've got a situation where we've got more focus on the variable cost. Then we put we end up with a risk that if we get the estimates of the water use wrong, we will under compensate the utility or the providers for the cost that they incur, because we've got more of it fixed to the volume rather than being fixed.

What we've done in the past is that we then incorporate, for those areas where we've got higher variable cost and lower fixed cost, we incorporate in, like an insurance product the cost of an insurance product in their to adjust for that. So that you can manage that risk of volatility. So we have talked about that and done that in a lot of areas and we're happy to have those conversations, but there is a trade-off you kind of get high fixed cost low variable cost, or you get more variable costs but you need to pay for the insurance product.

Ms Livingstone: Thank you.

Ms Cope: Michael did you have another question?

Mr Pisasale: I did yeah. No thank you Deb. My second question was I guess I was interested in understanding a bit more detail about the Salt Interception component of those costs that were shifted.

We've got one of Australia's largest Salt Interception Schemes that we've inherited from government and in urgent need of repair. And I'm particularly interested in that if you can comment further details on where those costs go towards.

Ms Cope: I might throw to Matt on that one to talk about the detail of that, or it may even be that somebody from the Department or WAMC want to speak to that?

Mr Mansell: I can certainly talk about it at a higher level, but more than happy for someone from the Department to add more details. So our understanding of those schemes or those costs, is really about extracting salt from groundwater and we basically, the our decision on that was that the inception of salt into those water sources, was the result of all extractive use, and you know intensive water use on land, not just in regulated rivers. And that's really the decision behind re-allocating this cost over from Water NSW which just applies to reg rivers, over to WAMC which allows those costs to be funded by all water license holders.

Ms Livingstone: Just checking whether there's anyone from DPIE who wanted to provide further comment on the salt interception schemes and where they're targeted.

Mr Bentley: Hi Liz, Jim here. Look I don't have the specific detail to hand and rather than delay everybody, we'll get an answer and include it in the chat.

Ms Livingstone: Great, thanks Jim. Just while we're on salt interception though, I think Jenny McLeod might have another question related to that which we'll go to now, before we move on to some other points.

Ms McLeod: Thanks Liz. Yes I have a couple of questions. One is the cost share between government and water users for salt interception and secondly, the drivers of salinity in the rivers, dry land farming is also a driver for salinity in the river system, which is why I asked the question about what percentage is government contributing. And the next question is extraction is a contributor to salinity but with the basin plan and the former recoveries from water for environmental use, that's actually dramatically reduce the sustainable diversion limit, or reduce the diversions. What consideration have you given that, to the percentage of costs for salt interception that you're passing on to extractive users?

Ms Cope: So when we were looking at this, we did ask the question about what drives the salinity and therefore what activities are causing the need for those costs to be incurred. And correct me Matt if I've got it wrong, but I think we asked the Department that question was it, and the response that we got back was that it was water use at this stage. So Matt have I presented that correctly?

Mr Mansell: Yeah and just to confirm our draft decision on the user's share of those costs is 80%, so 80% users 20% government. And yeah more than happy to chat offline just in terms of the rationale for that.

Ms McLeod: If I could just comment certainly from the perspective of the Murrumbidgee catchment. One of the drivers is dry land salinity in the Murrumbidgee, is a major contributor. And the other point that I would make is because the extractive use compared to the basin cap is substantially less, because we're extracting less water, we're having less impact from a salinity point of view because there's more water in the river. So I think that it does potentially present an argument that the 80% 20% should perhaps be slightly higher from the government contribution point of view, because of the public benefit and we're actually having less impact than we previously were.

Ms Cope: We will have a look at that.

Ms Livingstone: Thank you. Jeremy I understand you've got your hand up, would you like to ask a question now Jeremy Morton?

Mr Morton: Yes look I sent a question in this morning and Matt's made contact, and wants to have to chat to me and I'll catch up with him afterwards. But I just wanted to make a point about the proportionality of how these WAMC charges are portioned against different you know entitlements, in different valleys, and different yeah whether they're regulated unregulated.

Now if you if you think about the NSW Murray and the unregulated water that as an unregulated water source. And you look at the actual charges and it's levied, it's a bit of a mix so I'll try and keep it simple, I won't go into the detail, but obviously the charges are set on a combination of single part tariff and two-part tariff depending on circumstances of the license holder.

But in general, if we look at the recovery from those 50,000 odd mega litres of entitlement, and the prices that are charged. And then you look at the actual utilisation of those licenses. What you end up with is on a per mega litre of actual use, you end up with a charge that's up at around \$70 odd per mega litre.

Now when you think about the actual impact, because this is the whole principle of all of this is about impactor pays. Most of the time water users in this Murray unregulated catchment, don't have access to water. Rarely have access to water, historically had more access but because we've got a drying climate, and less flooding and everything else, because that's when these water users get to use water.

We've seen a massive blowout in the actual the costs for these irrigators, to be able to use or, to be to be an irrigator basically. And it's all WAMC charges, because you're not talking about any infrastructure, the only time these people get access to water is in a flood, and in that scenario, nothing's being managed, nothing is, it's all out of control. And the opportunities to actually access are few and far between these days.

And if I look at, I can give you my own example, of my I have one of these licenses. And for the mega litres of water that I've used, and I've used every drop that I can when it's been available over the last 20 years, with the charges that I've been charged. It's costing me a \$120 a mega litre in WAMC charges. I just, it is not proportional to the impact, but anyway I'll follow up with Matt afterwards.

But I just can't see how Water NSW, in any way shape or form and the Department previously, could actually justify the level of charges that are being charged against, in this case NSW Murray unregulated water users.

Ms Cope: Yeah is this people that are on the minimum charge is that?

Mr Morton: So you, so there's either a one-part tariff or two-part tariff. Yeah so if you go to a two-part tariff, obviously it's a mix of fixed and variable, and that can change it. But the other thing is it sort of goes back to the metering thing, but there are anomalies within the system as well, where and again I'll give my own example, where I have multiple sources of water, at the where I actually divert from.

So I can actually put regulated water supply into that which has already been metered, and then and I do have a meter I was required to fit a meter, back when they went to water sharing plans in 2012. Interestingly Water NSW turned up the other day to have a look at it, and work out you know what's going to happen with the new metering. They didn't even know I had a meter, even though I was instructed to put one on 9 years ago. No one's ever been back to read it.

Yeah but anyway, so I suppose my point is, I can't go on to a two-part tariff because I've got, I'm pumping my own water. Also all my tail water, my recycled water ends up in the same point as well, and that's an unresolved legacy issue, which I've never been able to resolve.

So my only thing I can do is go on to the one part tariff, single tariff which means I'm paying in this proposal, about \$7 dollars per mega litre and the last time I had access to water was 2016. The last the time before that was in 2000. So I've had two opportunities in 20 years to access water, and I've had bills over that period of time of \$120,000. It's just obscene.

Ms Cope: Yep okay thank you.

Ms Livingstone: Thanks Jeremy. Louise we'll get to you in a moment. We'll go to Sally Dye first, and then come to you after that. Sally?

Ms Dye: Yes thank you for that. I apologise my connection is unstable, so if I drop out I hope you're continuing the discussion. It's around the MDBA pass through fees and charges. I've got great concerns about the transparency of those, and I know the counter argument is that NSW Government agrees the level of those charges.

But I don't see why irrigators should be paying for something that we have no transparency around. Particularly in relation to river operations, because the need for the management of environmental flows, seems to be being put into which is the, greater good of the great community, since you've been just put into river ops, and been borne by irrigators.

We need some transparency around the MDBA fees and charges, particularly if they're going to be passed through to a greater extent to irrigators.

Ms Cope: Thank you Sally. We had that comment with our last review and we heard it. One, what we've done this time is, we've set we've done a number of things to try and improve that transparency. But I suspect yes, it could be even better going forward.

So we've separated the charges out, so it's clear which bits of the charges relate to those prices. We also have our consultant's report available, which has looked at the efficiency of those charges, and there's quite a bit of detail in that around that, so we've done what we can at this stage, in order to be able to get a lot more transparency around that, but I agree I think going forward it is something that can be improved.

Ms Livingstone: Louise, I think you've got some questions, you're on mute.

Ms Burge: Thank you Liz. Sorry just further to what Sally said. With the MDBA lack of transparency on fees. I just want to reinforce that river environmental flows have taken a greater priority in terms of water policy.

At the same time, it is also true that highest high security reliability has increased over time. While no, NSW Murray general security has reliability has decreased, and a lot of this comes back to policy changes. And yet NSW Murray general security entitlement, sorry fees and charges have not been proportionate with the reduction in reliability.

So the first question is can IPART identify the changes in reliability, and the relationship between, no changes in charging ratios, because for example rules might determine that high security entitlement provisions are put away for say two years in advance, which is a change, it's a rule change. Whereas NSW Murray general security reliability is going down.

And the other quick question I've got too is on salinity charges. It is a recognised issue that larger more frequent flooding will mobilise salinity. And if you look at issues further down, at some of the major wetlands towards South Australia or within South Australia.

Those salinity fees are coming back through MDBA charges and yet environmental flow decisions may well be mobilising that salt. That is not, you know has been relatively brought under control through both on-farm strategies and also salt interception schemes. So we are at high risk of salinity mobilisation because of the Basin Plan decisions. It's you know, it hasn't been accounted for.

So 2 questions are should it be, and should the environment pay a higher proportion for salinity costs, salinity management costs, and also MDBA charges for general security, decrease in reliability, higher charges being incurred.

Ms Cope: So I might, I'll start with the second of those one which is around the difference in security water. So we did review the premium that we put into the prices for high security versus general security when we did this. But I think your question is going to something different and that is how the value of the water is changed over time because of the chance of you, what the probability of you actually receiving the water.

And at the moment we set prices based on the costs of delivering water. We don't actually put the value of water into our prices. The value of water is reflected in the water trading market, not in the prices that we set. So it's a slightly different question you know, and as you would be well aware, the value of the water actually varies quite a lot depending on availability. But that comes through in the water market, not in prices that reflect the cost of delivery.

Ms Burge: Just on that question though, the cost the actual general security water entitlement is not being delivered, and that is recognised through the reliability impacts. So I accept what you're saying about the cost of water in a market situation, but equally the delivery of general security i.e. the yield or reliability impact has gone down, so we are still being charged for a water delivery that does not eventuate.

Ms Cope: And that is an issue which is probably beyond what our pricing, because that's around the planning, and a choice of, and a choice of how you actually plan the system I think, rather than the pricing because we've still got to recover the cost of the system, if the system exists.

Part of the question is I think, is there enough value in you holding that license with the different variabilities to warrant you continuing to hold that license.

Mr Mansell: And I think Louise, could I just add to Deb's comment there. So on the Water NSW side, which is the next session today on those prices. We do have a high security premium, which is basically calculated and takes into effect, takes into account the relative reliabilities of high security entitlements versus general security entitlements. So that is factored into the relativities of those prices on the Water NSW side.

On the WAMC side, our prices are more based just on entitlements and don't discriminate between high security versus general security. But the view there is that the costs that WAMC incurs, are not affected by those different levels of reliability. And so that it's reasonable that everybody that holds an entitlement contributes to those water management costs. So that hopefully that helps clarify things.

Ms Burge: I am aware of those pricing differences, but it really probably doesn't come down to or effectively answer the loss of reliability, and yet the costs remain the same.

The other question I asked was in relation to salt mobilisation because of how environmental works, sorry environmental water will be managed. And a good example of salt mobilisation will, and a high risk area is down at Curlwaa, and you know how the MDBA addresses salinity in the future, if and when that salt mobilisation becomes more prevalent.

Ms Cope: I think that one that's one we're going to have to take away and have a look at Louise, because it's quite as you would be well aware, a very detailed and complex issue, so thank you for raising it. And as I said before, the issue around the environmental issues going forward is something that we we've got we're monitoring and working through as it changes over time, so we'll put that one in, and look at that with when we look at the rest of it.

Ms Burge: The other quick question I had too was customers paying for flood mitigation, when in fact there is none, or very little. So is that appropriate that customers pay, irrigation customers pay for flood mitigation, when in NSW Murray there is and Basin Plan changes that will increase flooding risks.

Ms Cope: Matt, you might correct me if I'm wrong, but my understanding was that the flood mitigation costs were paid for by the government.

Mr Mansell: Yeah so the flood, and again just to be clear, this is on the Water NSW side, where we're talking about the operation of dams, and the costs associated with that. So the you know going back to impactor pays, is the flood mitigation that would exist, works that would exist without the existence of dams, that is funded by the government. But the flood, managing the flood risks, that are associated with the fact that the dams are there, those costs go predominantly to water users.

Ms Livingstone: Thanks, and we can ask more questions about that in the next session when we look at Water NSW's prices specifically. I know that Jenny McLeod and Claire Miller also have questions around impactor pays. So we'll go to Jenny, then Claire and then I think Jim Bentley has some overarching comments from a DPIE perspective. So jenny could we go to you now.

Ms McLeod: Thanks Liz. Tribunal would be well aware that irrigators don't necessarily agree with the impactor pays approach for sharing costs. You know I've read IPART's rationale for why they believe impactor pays is an appropriate regulatory form for sharing costs. And I just have a more overarching question specifically in relation to the WAMC charges for regulated water users, which largely relate to planning and planning and in policy planning and implementation.

Is it standard practice for when you're regulating utilities that those costs are actually captured and passed on by an impactor pays approach, because the view that many irrigators would have is a lot of those costs, are costs that are being incurred by government, to do what is essentially government's job of sound policy development and implementation let me comment from that perspective.

And I also note when the ACCC in their water charge review were reviewing planning and management charges, it was really clear that there was quite disparate extent to which those charges were even able to be clearly disclosed, and were collected from water users. So it's not it's an overarching question specifically in relation to WAMC and regulated charges.

Ms Cope: Yeah so there are a few bits to that Jenny, and thank you very much for the question. When we look at the things that are really very much government policy, we don't think they should be covered paid for by irrigators. And we actually, in this one some of the costs that were proposed we've moved out, and said that no they're government costs not irrigators costs, because they we thought they were directly policy related.

I think the second bit of your question is around the industry paying for the costs of the regulatory system that's supporting the activities in that industry being able to continue. And there are a number of cost recovery schemes, although I do agree they're not universal. There are a number of cost recovery schemes that are around fees and on particular industries, in order to pay for the costs of regulating those sectors.

Ms Livingstone: Okay thank you, and Claire Miller from the Irrigation Council, would you like to make a comment or ask a question at this point?

Ms Miller: I think it's already been covered by others beforehand including Christine Freak, that sort of you know our concerns around that NSW signed up to the national water initiative, which adopted a user pays model as the fairest and best you know best practice.

For cost recovery and yet NSW continues to persist with an impactor pays policy that very narrowly casts, as if the only oh, so basically we've set up all this infrastructure, and none of it would have been set up if it wasn't for irrigation in the past. But however a lot of that over time, that infrastructure that's there and a lot of the regulatory frameworks and so forth, are benefiting multiple water users, including towns with flood mitigation, gauging and so on which we saw the value of in the recent floods up in the on the coast, and in the northwest of the state.

And yet there's this assumption that if there weren't irrigators none of that would be there and that's just not true. So we're sort of bearing the burden of many costs, which are in fact the public a general public good and a general benefit.

Ms Cope: Just to clarify that and again Matt you can correct me if I've got the detail wrong, but there are a number of these systems which do service towns, and towns have licenses and they pay these fees. So it's not correct that it's only irrigators that pay the costs. It is it's about the broader system of water users from these systems. And is that correct for WAMC as well Matt?

Mr Mansell: Yeah that's right so the WAMC charges apply to all entitlements, on all licenses including where the environmental water holder has purchased entitlements, and so they're treated just like any other, whether it's town water, high security or general security entitlement holders.

Ms Cope: So there'll be town water, there'll be some industrial uses, potentially the environmental water holders, and the irrigation waters all pay these charges

Ms Miller: But there's a question there about the you know the share of the costs of you know what towns are contributing towards their own water security, and what irrigate and the share of the costs that irrigators are contributing. I guess we would argue that it's disproportionately the cost burden is falling on what mostly, a farm family farms.

Ms Cope: And is that because the costs are allocated per license, rather than water use is that?

Ms Miller: Well that would be part of it. I mean if you think about a town, you know you know obviously in irrigation you know one person will use more water to irrigate a crop, whereas in a town you can actually diffuse the costs against the multiple benefits of thousands of people in that town, who are for whom that water licence that that town holds benefit.

Ms Cope: I understand what your point is yeah thank you.

Ms Livingstone: Thank you and Jim Bentley can I go to you now for some comments from DPIE's perspective.

Mr Bentley: Yeah thanks Liz, and thanks to everyone who's contributed questions and comments because they're incredibly valuable. I just wanted to make a few cost a few comments overall.

I think one of the most important is there are many costs that we don't consider should be passed on to customers users through the WAMC pricing and that is one of the reasons why NRAR and the Department actually excluded \$74 million over the 4 years from our cost projections.

So those costs are things that we've decided cannot be put into our pricing submission. So the charts that were presented to us earlier by IPART demonstrated significant increases in our costs. And we weren't even seeking to recover a good chunk of what we believe our ongoing costs to be. And some of that we're setting to ourselves as efficiency challenges, we've got to do same things more efficiently, and other things will have we have to find other ways of being able to get done.

The other thing I think I'd like to say is that the government contribution that we were recommending in our submission does increase very significantly. So in the last determination a government contribution of \$76 million over the four years and in our proposal there was a government contribution of \$150 million.

So I whilst I understand and agree and sympathise with many of the comments we've made this morning, I think we should put this in the light of the fact that government is recognising that a significant share of the costs of providing the water management services that we need to provide, need to be provided by the government, and so it is a very significant increase in that contribution.

You know one can argue whether the 5% per annum cap that we were recommending in our submission or the 2.5% increase that the IPART draft determination gives. We can argue which of the 5% or 2.5% is right, either of them mean a big chunk of the increasing cost is being paid by government, and that's government's position that that should be the case.

I think the other thing I wanted to say is that we agree that NRAR and the Department should become more efficient over time, which is one of the reasons that we didn't seek to pass on what we believe to be the full costs of us carrying out those services in our submission.

I don't think we agree with the position and rise our IPART's landed on how if much more efficient NRAR should become, and so whilst I'm not particularly arguing with whether government should pay more of the costs of NRAR in this determination.

I think we should be clear that just because we're not making a we're not really pushing back on that particular point, doesn't mean we agree that IPART should be 62% more efficient by the time we get to the next determination.

We agree directionally the Department and NRAR should be striving to be more efficient, that's why we didn't include some of the costs that we were projecting, but I wouldn't want it to be understood by me not commenting on it that we're just we're accepting that the level of resource or the level of cost that the draft determination appears to suggest, we're not agreeing with that level, we are agreeing with the direction, it should become more efficient over time.

I feel like I'm waffling and repeating myself so I stopped talking now Liz.

Ms Livingstone: Thanks Jim, and just Deb did you have any comments or questions for Jim on that?

Ms Cope: No I don't think so. Yes we understand your position on it. At this stage you know you're well aware that IPART's view that we think that there are potentially efficiency savings that can be driven. We we'd like to challenge you to try and achieve it.

Ms Livingstone: Great, thank you. Michael from Murray Irrigation, I just wanted to draw your attention to a response that's been posted by Duncan from DPIE to your earlier question about salt interception schemes, and make sure that you can see that it's there, and check that it satisfies the question you had earlier.

I think then we've just got one more question from Jeremy Morton at this stage, and then we might close shortly after that for it for a lunch break. But Jeremy would you like to ask your question?

Mr Morton: Yeah thank you, and it's and it's not necessarily a question, it's just goes again to the comment that a number of people have made around the impactor pays principle and that whole concept of, you know the impact to user versus the public good, and the common good.

And just another example we think about you know part of this these WAMC charges the development of things like water sharing plans, which I would have thought that's actually very much in the public interest to be actually developing a plan that actually regulates and controls the amount of water that's used for consumptive purposes, but also how rivers are operated how and natural environments manage to get you know to protect that environment and get good outcomes and, so I think again that's an example of I'm not sure that the whole this this weighting of impactor, seems to be very heavily weighted to the to the users of water, but I think there's, I think we would argue there's a general public good to a lot of the things that we're being asked to pay for, so it's just a comment.

Ms Cope: Yeah thank you. And there is an allocation of a lot of some of those costs to the government to reflect that, and I do take I think Jim's point was an important one. There are there is government costs factored in a number of points of this determination across WAMC and Water NSW.

So they're the costs that the Department or the agencies didn't put in their original proposals, because they didn't think that they should be part of the government cost. There is the government share, which we take out as part of the process, there is efficiency savings and phasing in, which has increased the government share also, and then there's some quite large costs around drought-related projects, which relate more to this afternoon which have also been excluded and there's several hundred million dollars' worth of cost there, which haven't been factored into this, so there is quite a big government contribution to this across the board.

Mr Morton: I'll just make another one a comment just based on again on my own experience. So talking about drought relief and drought support, you'd recall that the NSW government made concessions on charges for water users.

Now they had a bucket of money and they had to portion it, however they saw fit. Now unregulated water users in the Murray Valley got no concessions on their water charges, so just as I said to you before, I've had two opportunities in 20 years to access water.

So that's sort of life as usual life is normal and yet when the government turned around and said we're going to provide some relief for you, your unregulated water users got nothing. There you go that's just a comment.

Ms Cope: Yeah the drought costs, I was referring to was not actually those programs but the investment in infrastructure projects as a result of managing drought.

Ms Livingstone: Now Louise you had your hand up so, we'll go to you and but we'll close shortly after that.

Ms Burge: Thanks, thank you Liz. One of the things that I'd like to encourage IPART and NSW Government to recognise, is that we believe as customers significant savings can be made if there is greater participation by stakeholders in the high-level decisions on investment strategies and policies.

We believe efficiencies could be made and that may those may or may not be identified you know in in our major capital cities. So as a principle can IPART encourage governments and departments to refocus on more collaborative strategies to bypass some of the wastages in in process, and to identify you know improved opportunity for cost efficiencies in future investment planning etc.

We seem to have a continuation of more remote decision making even though there are plenty of you know CAG meetings etc. etc. We're not actually getting into the policy setting framework, where we can adequately influence high level decisions, to avoid costly mistakes.

Ms Cope: So you've probably heard us some beat on about the importance of customer engagement and I know Jim and I had quite a lot of discussion about it at the last public hearing, so yes we think that engagement with customers is a critical important part of the processes of water management, and designing the delivery systems yes.

Ms Burge: Thank you. The question is really can we how can IPART you know move this conversation forward, because it's this issue that comes up at every IPART hearing that I've been associated, with I think I've raised the same question over and over again.

Ms Cope: I might flip to Jim on this one given that, it's kind of his projects that you're talking about consulting on.

Mr Bentley: Thanks Deborah and look I think before when I had my put my physically put my hand up, I was trying to put my thumbs up to your comment about the need to improve customer engagement and customer service and so on Deb so I'm fully supportive of that cause.

And just in the thing about engagement on projects, the regional water strategies that are currently being various stages of public engagement, we have committed to wider and deep engagement with stakeholders, on there's a very long list of options in each of those regional water strategies, which through a period of process of engagement and assessment, need to be reduced to a smaller more workable group of options.

Our original plan was that we would do some analysis to take the long list to a short list but rightly, customers of various types pushed back on us and said no we want to be involved in that broader wider process, and we've agreed to that. So that's going to take more time, it's going to take us more resource but we agree with that direction and customers have the right to be involved much more deeply and much more broadly in those selection processes or assessment processes.

So that's what I would say about the about the project thing and directionally what you're saying about customer service, I 100% agree that is our challenge we have to get much better at that.

While I'm on I might just comment on the waiver that was provided to water users in the in the last drought. It was available to all water users regulated or unregulated, so if something went wrong in the process there, I'm not quite sure what happened, but that was the design of the scheme that should have been available.

Ms Livingstone: Thank you Jim. It doesn't look like we have any more questions or comments at this stage, so we'll wrap this session up.

I'll just hand over to Deb to close, with a reminder that we'll restart at 1:30pm. So we only gave you a short break earlier, but that you'll have plenty of time if you're re-joining us for the session on Water NSW, to have a break before we commence again at 1:30pm. Thanks Deb.

1.4 Closing remarks

Thank you and on behalf of IPART I'd like to thank you all very much for your participation in Session B of today's proceedings. It's been a great benefit to hear your views, and we really appreciate the effort appreciate the efforts and contributions made by everybody here today.

We'll consider all that has been said today and we'll make our, when we make our final decisions on WAMC's prices to apply from 1 July 2021. If you'd like to talk to someone from IPART about the WAMC review, you're welcome to contact one of the team members whose contact details are on the website or on the inside of the front cover of our draft report. We are now going to take a lunch break, and so what time was that?

Ms Livingstone: It it's till 1:30pm Deb. So we'll return at 1:30pm for the Water NSW session.

Ms Cope: Thank you very much.