Lachlan Valley Water Inc
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Sustainable, productive and efficient water use in the Lachlan Valley

Submission to IPART

on WaterNSW Regulated Charges 2021 - 2025

October 2020

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[redacted]

EXECUTIVE SUMMARY

WaterNSW's expenditure

Lachlan Valley Water considers water delivery services have been managed well, particularly under recent drought conditions, but questions why WaterNSW's operating costs for 2017-2021 have been so much higher than budgeted, to what extent these increased costs were due to external factors, and why the merger of WaterNSW and Sydney Catchment Authority in 2014/15 has not delivered savings in overhead costs.

WaterNSW has indicated that the main driver for increased capital costs for 2017-2021 was the reprioritisation of renewals but without further detail it is hard to understand what this increased expenditure was related to and whether it was efficient.

There has been very limited consultation between WaterNSW and customers on preferred levels of service for operating activities and the cost of such levels of service. It is therefore difficult to comment on whether the proposed activities are meeting customer requirements and whether the costs are reasonable.

Lachlan Valley Water believes it would be useful for WaterNSW to engage with customers more actively on revenue volatility and the appropriate mix of fixed and variable charges to allow consideration at an individual valley level on whether the fixed:variable charge ratio should change.

Lachlan Valley Water considers that where fish passage requirements are triggered by a dam safety upgrade these must be considered part of the dam safety upgrade cost and that the cost share applied should be the same as for the upgrade. There is also an opportunity for WaterNSW to investigate less expensive options to improve fish populations and health in the river overall.

Where Government decides to commit funds to the capital cost of increasing water security and availability without consulting with customers, then Lachlan Valley Water believes that Government should bear these capital costs. Projects which improve water security and reliability benefit not only licence holders but also towns, regional communities and businesses, and this must be taken into account in the business case and in setting prices.

Price structures and price setting

LVW supports a 4-year determination to provide longer term certainty for customers.

LVW agrees that the recent drought and drought-related projects have made the forecast of costs more difficult because of the additional projects undertaken and the workload on WaterNSW staff. However, we do not consider that COVID-19 has significantly hampered WaterNSW's customer consultation as there has been opportunity for online consultation.

LVW considers that the impacter-pays approach and cost share ratios for Environmental Planning and Protection, and Water Delivery and Other Operations are not consistent with the best practice pricing principles of the National Water Initiative, which include the principles of user-pays and pricing transparency in respect of water storage and delivery, and cost recovery for water planning and management.

LVW considers it is essential to assess whether the increased level of forward costs proposed by WaterNSW are efficient, and if the costs are not efficient, then customers should not be paying for them.

If customers are seeking higher levels of service, LVW believes it is necessary to inform customers in advance of the increased costs attributable to the higher level of service, so that the customer can make an informed choice.

SUBMISSION ON WATERNSW CHARGES - 2017 DETERMINATION

1. Introduction

Lachlan Valley Water (LVW) is the peak valley-based organisation representing 550 individual irrigator members in the Lachlan Valley, including irrigators within Jemalong Irrigation Limited (JIL). This submission has been prepared on behalf of all members and represents an overall valley position, however, our members also reserve their right to make their own independent submissions. Lachlan Valley Water is a member of NSW Irrigators Council (NSWIC) and supports the NSWIC response in general, and provides additional responses on the issues from a Lachlan perspective.

We have addressed the questions IPART has asked in the issues paper.

2. WaterNSW's expenditure

1. How well has WaterNSW delivered its bulk water services since 2017?

Lachlan Valley Water considers on-ground river management has been delivered well, with drought conditions having placed additional pressures on WaterNSW since 2017. However, it is difficult to assess how well other operating services have been delivered when there is little clarity on why the costs of these have increased so much.

With regard to operating costs, the level of expenditure allowed by IPART in the 2017 Determination closely reflected what WaterNSW itself proposed to spend on operating costs in the 2017-2021 period[1] ($155 million in $2016-17), except for the $3 million efficiency savings applied by IPART. However, WaterNSW's actual operating expenditure over the period ($208.2 million in $2020-21) is far higher than their budget. WaterNSW claims that this increase in costs is due to a range of reasons including increased FTE's and additional staff numbers, higher insurance costs, changes in cost allocation across the business, and higher overhead costs allocated to rural valleys, water management reforms and so on, but has not identified which of these account for the largest proportion of the increase.

LVW also expected that the merger of WaterNSW and Sydney Catchment Authority in 2014/15 would have enabled more efficient administration and management operation and lower net overhead costs, but this does not appear to have occurred and costs have increased instead.

We question why the WaterNSW forecasts for 2017-2021 costs were so far out, why the merger did not deliver cost efficiencies, and what proportion of the increase in operational costs was a result of different cost allocation methods or poor forecasting of costs, as opposed to unavoidable cost increases due to external factors.

2. Was WaterNSW's capital expenditure over the 2017 determination period efficient?

Of the $69.7 million increase in capital expenditure between what was planned for 2017 determination period and what WaterNSW now forecasts will be spent, $30 million is categorised as dam safety compliance for pre-1997 capital projects. It is not clear what proportion is dam safety upgrades and what proportion is Dam Site Security Safety Studies, but if these are both regulatory requirements then we concur the work must be undertaken.

[1] P 62 WaterNSW Rural Regulatory Pricing Proposal to IPART for 2017-2021.

A further $9.2 million of the overspend is designated as Asset Management and Planning[2], but it is not clear what this expenditure achieved and whether it was efficient. Also, Table 13 shows an overspend of $9.4 million on Corporate Systems but on page 65 the submission states that the actual overspend was only $629,000 because funds allocated for the rewrite of the licensing system were allocated to Water Delivery activities instead of Corporate Systems. In that case, does this mean that the overspend on Water Delivery was higher than shown in Table 13? WaterNSW says that the main driver for increased capital costs has been reprioritisation of renewals but without further detail it is hard to understand what this increased expenditure was related to, what it achieved and therefore whether it was efficient. We also recommend that the need for these projects should be assessed by IPART to determine whether it is appropriate to include these increased capital costs on the Regulatory Asset Base (RAB).

Additionally, Table 12 indicates that 34% of the capital expenditure for the 2017-2021 period is planned to take place in 2020/21, which also makes it difficult to accurately comment on whether all this expenditure will occur and whether it has been efficiently managed. WaterNSW's submission states that the underspend on capital during the early years was primarily due to managing the integration of new employees and assets following the merger, but as the merger occurred in 2014/15 this process seems to have taken some time to finalise.

3. Is WaterNSW's proposed expenditure on maintenance efficient?

The proposed expenditure on Routine and Corrective Maintenance in 2021/22 amounts to 39% of total budgeted operating costs. The actual maintenance costs over the 2017-2021 determination are $34 million (65%) higher than budgeted, and it is difficult to determine whether this was due to under-budgeting, increased maintenance expenditure due to either unexpected problems or the Asset Management System that WaterNSW uses, or a combination of causes. Consequently it is also difficult to determine whether keeping the proposed maintenance expenditure for 2021/22 at the $21 million level is efficient or is committing to a higher level of maintenance than is required to meet ongoing standards.

4. Comment on WaterNSW's operating activities and associated operating costs?

On a statewide basis the main components of operating costs for 2021/22 are:

- Asset Management Planning and Maintenance 43%
- Water Delivery and Other Operations 18.7%
- Customer Support, Compliance and Other 12.7%

The proposed operating costs for 2021/22 represent a 2.5% increase on the average of the last 4 years, before the $8 million efficiency dividend is applied. Asset Management Planning and Maintenance component appears to be a higher proportion of total costs than in the current determination, whereas Water Delivery is a similar proportion and Customer Support is a lower proportion than in 2017-2021.

There has been very limited consultation with customers on preferred levels of service and the cost of such levels of service, so it is difficult to provide a comment on whether the proposed activities are meeting customer requirements and whether the costs are reasonable.

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[2] P 60, Table 13, WaterNSW Pricing Proposal to IPART for 2021-2022

5. Is the current structure of the RTP efficient and equitable?

The WaterNSW submission noted that it may be difficult to obtain an RTP at the current prices, and if so, we recommend that further discussion with customers is required about what an efficient and equitable method for managing income volatility.

6. How should WaterNSW manage its revenue volatility risk?

WaterNSW could engage with customers more actively and provide more detail on costs to enable them to consider whether, on an individual valley level, they would be prepared to consider a shift to 80% fixed and 20% usage based pricing, which would remove the need to purchase a Risk Transfer Product.

7. How should Water NSW most efficiently meet its requirements for fish passageways?

The WaterNSW submission acknowledges a delay in decisions around how to meet requirements for fish passage, and that they have been undertaking a fishway optimisation project to try and address the extremely high costs of fish passage and the funding arrangements. However, the outcomes from this optimisation project are unclear as to whether more cost-efficient ways of providing fish passage are achievable, and what alternative funding arrangements have been decided.

The costs of fish passage offsets related to Dam Safety Upgrade projects are a major problem for two reasons:

a) The costs of fish passage can be extraordinarily high, and in the Lachlan's case the original cost of the fish passage offset was equal to 68% of the cost of the safety upgrade, which is clearly not economically reasonable.
b) They represent cost shifting from Government, who meet 100% of the costs of the dam safety upgrade, to licence holders, who are now required to meet 80% of the cost of Environmental Planning and Protection measures. As some of the fish passage offsets, including those in the Lachlan, are related to dam safety upgrades that were undertaken well before the change in cost share ratios, this will potentially represent a very large, and unreasonable, impact on customers.

LVW has consistently maintained that fish passage requirements or offsets triggered by a dam safety upgrade must be considered part of the dam safety upgrade cost and that the cost share applied should be the same as for the upgrade, ie, 100% Government-funded.

LVW believes that there is the opportunity for WaterNSW to also consider other less expensive options to improve fish populations and health in the river as a whole, such as fish screens on pumps, and monitoring programs to provide more up to date information.

8. What are your views about Water NSW's overall level of core capital expenditure over the 2021 determination period?

We note there is a lack of detailed information on capital expenditure in the WaterNSW submission. However, we are concerned that WaterNSW is proceeding with the Wyangala Fish Passage Offset in 2021/22, given that there has also been a Government decision to raise the wall of Wyangala Dam by up to 10m to improve water security and flood management capability, which we believe will also trigger a fish passage offset requirement. In view of the long delay in undertaking the previous requirements for a fish passage offset related to the dam safety upgrade, LVW recommends that WaterNSW should consider deferring this proposed fish passage project from 2021/22 and investigating an overall fish passage project that can jointly meet both the existing requirement and the expected new requirement as a result of the Wyangala Dam upgrade.

9. Should governments bear all the costs of increasing water security and availability for licence holders?

Projects which improve water security and reliability benefit not only licence holders but also towns, regional communities and businesses, and this must be taken into account in the business case and in setting prices.

Where Government makes the decision to commit funds to meet the capital cost of increasing water security and availability without consulting with customers on these costs, then LVW believes that Government should bear these capital costs.

With regards to the Wyangala Dam Augmentation project in the Lachlan, in October 2019 the Commonwealth and NSW Governments jointly announced they would provide $650 million funding on a joint basis. Half of the Commonwealth funding was to be from the National Water Infrastructure Development Fund and half was to be a loan, which would ultimately need to be repaid by NSW Government. In September 2020 the Commonwealth Government announced that it was committing a further $283 million to the Wyangala Dam and Dungowan Dam projects. LVW understands that where the Commonwealth or NSW Government makes a commitment to fund a project there should not be a requirement for licence holders to meet capital costs, but that the operating costs should be shared subject to a pricing determination.

The pricing determination related to operating costs must incorporate an assessment of how the benefits of increased water security and availability are shared between licence holders and other water users who do not pay for these services directly.

10. Who should pay for future expenditure on major drought-related projects, including asset renewals and upgrades?

LVW supports the position taken by NSW Irrigators Council on this issue. Where the Government makes a decision to proceed with drought-related projects, then the Government should meet the costs. We also note that in many situations, a key beneficiary will be the wider community, through improved water security and also, for projects such as the Wyangala Dam augmentation, increased flood management capability. In these situations it is necessary to accurately assess how the benefits are shared.

3. Price Structures and Price Settings

11. Over what determination period should we set prices

There has been a range of different information provided to our Customer Advisory Group (CAG) on the length of the determination period. In October 2019 WaterNSW advised they would request a 1-year deferral of their pricing submission, and in February 2020 the CAG was advised that WaterNSW were seeking a 2-year deferral. While the CAG supported these requests, in neither case did the initial request to defer the pricing submission come from the CAG. WaterNSW has now submitted a 1-year proposal but there has been little detailed consultation on pricing between WaterNSW and the CAG, except for relatively information provided by WaterNSW around transparency, cost reflectivity and value for money.

LVW's experience with pricing is that detailed information on projected costs is necessary to allow analysis of the impacts, and to enable informed discussion and decisions to be made on major issues such as preferred levels of service, optional capital projects and whether to change to 80:20 fixed:variable pricing to manage revenue volatility. Sufficient time is required to do the analysis and to inform the wider group of customers and seek feedback on their preferred options.

If this price determination is for a 1-year period only, LVW does not have confidence that WaterNSW will provide the necessary level of information in the time available between now and June 2021 to allow detailed consideration of these type of issues to allow customers to provide informed input to the next pricing submission.

LVW supports a 4-year determination to provide longer term certainty for customers.

12. Are there policy and industry reforms that make four-year forecasts of costs and usage difficult? Has COVID-19 hampered Water NSW's customer consultation?

LVW agrees that the recent drought and drought-related projects have made the forecast of costs more difficult because of the additional projects supported by Government and the workload this imposes on WaterNSW staff. However, we do not consider that policy or industry reforms make the forecasts of usage any more difficult, given that the rolling 20-year average forecasts have been in operation for some time and cover periods where usage has been both well above and well below the average.

We also do not consider that COVID-19 has significantly hampered WaterNSW's customer consultation. WaterNSW has known since 2017 that a submission on pricing for the next 4 years was due by 30 June 2020. LVW's expectation is that if WaterNSW intended to consult in detail with customers on required levels of service and preferred revenue volatility management method, this would have been commenced before COVID-19 restrictions were imposed in Australia. In addition, some consultation could have been undertaken online between March and June 2020.

WaterNSW did undertake 2 workshops on Levels of Service with the Lachlan CAG, with the second one being held in October 2019. These considered options to improve levels of service, water security and reliability.

13. Do you agree with the cost share ratios set in our cost share review? If not, for which activities should we modify the cost share ratio? Please specify an updated cost share ratio and explain why it is appropriate.

LVW notes that Clause 64 of the National Water Initiative sets out best practice pricing principles, including the principles of user-pays and pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management. In our view the impacter-pays approach adopted in NSW does not properly recognise that the provision of storages and active river management provides significant benefits to the wider community, particularly as water sharing plans have been implemented over the last 20 years, as well as during the droughts experienced over that period.

We also consider that the cost share ratio for Environmental Planning and Protection costs should be reviewed due to changes in both conditions and policy that have occurred since the 2018 review.

We propose that the Water Delivery and Other Operations customer cost share should be reduced to 90% to take account of both the legislative requirements under the Water Sharing Plan and Basin Plan, and the community standards which require that services such as delivery of basic landholders rights, for environmental purposes and to meet basic river flow conditions are prioritised over delivery to licence holders.

The Lachlan Regulated Water Sharing Plan 2016 states that 75% of long-term average annual flow is reserved for the environment, meaning that only 25% can be extracted by licence holders. It also specifies a visible flow requirement[3] near the end of the system to meet basic human needs. The result is that this requires a significant component of work by WaterNSW to meet these requirements, particularly in drought conditions, such as those that occurred from 2002-2010, and again from 2017 to 2020, when the drought set in very quickly. The costs associated with these community level benefits should be borne by Government on behalf of the community.

With regard to Environmental Planning and Protection costs, we recommend that the appropriate customer cost share in view of current conditions is to retain it at 50% rather than the increase to 80%. The current dams and other water infrastructure were built to support towns and regional development, and were built to the standards in place at that time. Therefore when projects are required to increase the safety standards or capacity of a dam or other structure, the need for the project is driven by both the previous management decisions as to the standard of the infrastructure, and by current decision to improve the standard of service for the entire community, not just for licence holders. We therefore consider this meets the definition of a legacy cost.

Additionally, where projects are planned to improve water security as a result of more extreme climatic conditions being experienced now, the objective of the project is to improve the level of security for all water users, both paying customers and others including regional communities and the environment. LVW recommends that the cost share for Environmental Planning and Protection costs should remain at 50:50.

14. We are required to set prices that recover Water NSW's efficient costs in the MDB valleys. If efficient costs are increasing, how should costs be recovered over the determination period?

LVW considers the first requirement is to assess whether the increased level of costs proposed by WaterNSW are actually efficient, and that this is a critically important assessment. If the costs are not efficient, then customers should not be paying for them.

Secondly, as mentioned earlier in our submission it is not clear specifically what has driven the increased level of costs, and whether it is customers who are requesting higher levels of service, or whether the demands are coming from other users, in which case the cost should not be applied to customers. If customers are seeking higher levels of service, LVW believes it is necessary to provide clear information to customers in advance of the increased costs attributable to the higher level of service, so that the customer can make an informed choice.

[3] Clause 31 WSP for Lachlan Regulated River 2016

15. How should we set prices in coastal valleys?

Lachlan Valley Water does not have a comment on how prices should be set in coastal valleys.

16. What is the appropriate mix of fixed and usage charges?

Lachlan Valley Water supports WaterNSW undertaking more detailed consultation with customers on proposed pricing ratios in relation to both the existing 40:60 cost shares, and a pricing structure which has a higher proportion of fixed costs and lower proportion of usage based costs. This would allow individual valleys to provide more informed feedback on whether the 40:60 ratio or 80:20 ratio is more appropriate in view of the variability in usage in that valley.