Lachlan Valley Water Inc

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Representing and Uniting Lachlan Valley Water Users

Submission to IPART

on Review of Rural Water Cost Shares

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SUBMISSION ON REVIEW OF COST SHARES

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 submission in general, and provides a response on the issues from a Lachlan perspective.

Our submission addresses the questions asked by IPART in the Issues paper.

2. Cost Sharing Principles

1. Do you agree that Water NSW and WAMC's costs should be allocated between water customers and the Government (on behalf of the broader community) using the impactor pays principle – i.e. those that create the need for the cost to be incurred should pay the cost.

LVW agrees that these costs should be allocated on an impactor pays basis but emphasises that it is now important to be able to identify the impactors and accurately attribute the share of costs to them, in light of the significant changes in community expectations in the last 15 years since the development of the first series of Water Sharing Plans (WSPs). As expectations and costs increase we do not believe it is efficient that the costs created by the demands of other users such as basic landholder rights or environmental water management should be borne by consumptive users, and recommend that additional analysis is required to accurately identify all impactors and attribute costs.

2. Do you agree that the NSW Government's share of WaterNSW and WAMC's regulated costs should be limited to where:
- there are genuine legacy costs and/or
- is not practical or cost-effective to recover costs from other users?

With regard to what can be considered 'genuine' legacy costs, LVW does not agree with the Frontier Economics approach that considers the costs of meeting changed regulatory standards are part of the normal cost of doing business.

For many of the older pieces of infrastructure, the original objective in building the infrastructure had a broader purpose than storing and delivering water efficiently. Following changes in policy over the last 20 years, and the introduction of full cost recovery customers then became obligated to meet the costs of maintaining and managing this infrastructure. Under these circumstances, where customers had no input to the standard of infrastructure, LVW considers the cost of meeting new regulatory standards should be treated as legacy costs. This applies especially to pre-1997 assets, as per the current IPART position, and also to some degree to post-1997 assets.

In general LVW agrees that the NSW Government's share of WaterNSW and WAMC costs should cover those situations where it is not practical or cost-effective to recover costs from other users. As mentioned in (1) above, LVW strongly advocates that future cost sharing arrangements should aim to identify impactors as accurately as possible. Otherwise there is no incentive for users to utilise the water efficiently or to support the most efficient provision of services.

However, it should also be recognised that NSW Government agencies themselves are impactors, for example, NSW Office of Environment and Heritage (OEH) and DPI Fisheries require WaterNSW and WAMC to provide services for the delivery of planned environmental water, as distinct from held environmental water licences.

Frequently the delivery of planned environmental water requires additional services over and above what would be required to deliver a similar volume of water to consumptive users. For example, the Lachlan Regulated River WSP provides an Environmental Water Allowance of 20,000 ML, subject to general security water availability at 1 July exceeding 50%. While the volume used each year varies, the delivery of this water usually requires WaterNSW to consult with OEH and DPI Fisheries, it may require manual operation of regulators to direct water into target creeks, and it requires the releases to be tracked and accounted for.

In this regard, LVW also disagrees with the Frontier Economics proposition that planned environmental water could be seen as part of a 'duty of care' on the part of consumptive users. While this may be a valid argument in relation to base flows in the river, when water sharing plans provide for other forms of planned environmental water such as Environmental Water Allowances that do require additional services, then we consider this goes beyond the 'duty of care'.

LVW believes it would improve efficiency of WaterNSW's operation for these costs be identified and recovered from the environmental water managers.

3. <u>Current Cost Sharing Framework</u>

3. Do you agree with the current cost share ratios? Should the list of activities and/or cost share ratios be amended? If so, how and why?

Along with a review of impactors, LVW believes it would be appropriate to review cost shares for WAMC as noted below:

- W04-02 Groundwater modelling – in view of the modelling and investigation work being undertaken on groundwater dependent ecosystems, we suggest a customer share of less than 100%
- W06-05 and 06-06, regional planning and management strategies, and water planning and regulatory framework – in view of the major regulatory change with the Water Act 2007 and the Basin Plan, and the fact that consumptive users have little connection with the regional planning and management, we suggest a customer share of less than 70%

4. Do you agree with the issues identified with the current cost sharing framework?

LVW agrees with the issues identified, and that it is timely to undertake a full review, but disagrees with the position stated regarding dam safety compliance costs and environmental planning and protection costs.

As noted under (2) LVW considers that costs related to safety upgrades on pre-1997 assets should continue to treated wholly as legacy costs. With regard to environmental planning and protection costs, we consider that changes in community expectations are driving the requirement for a higher level of environmental services and that the broader community should be considered the impactor under these circumstances.

5. Are there any other issues with the current sharing framework that should be considered in this review?

One issue that should be considered is how to accurately account for climatic variation and the impact that very dry or very wet conditions have on the services that WaterNSW is required to provide.

This relates to the provision of water for basic landholder rights, and for maintaining a base flow in the river, which under average conditions are met as part of normal river operation, but under dry conditions become a priority, and then become a driver for WaterNSW operational costs. This was the situation in the Lachlan from 2002/03 to 2009/10, when cumulative inflows over that period were the lowest in recorded history and total general security allocation over the 8 years was only 22%. It should be noted that during this period, had it not been for the dams and other structures storing water and enabling efficient control of the river, flow would have ceased completely, as occurred on occasion between1900-1920 (Department of Land and Water Conservation, 1997).

LVW recommends that a review of costs shares should assess how often such conditions occur and allocate an appropriate share of the existing costs to these impactors.

A second issue for consideration is assessment of whether the cost share is reflective of the standard of delivery of service for W06-01, 06-02 and 08-03, ie, water plan development and compliance management. In view of the very slow progress with WSP reviews and the development of Water Resource Plans, and in view of the findings of the Matthews Inquiry in 2017 regarding lack of performance on compliance, we conclude that customers are not receiving a benefit reflective of the cost share. We recommend that KPIs should be linked to these activities, and where the KPIs are not met, then there should be a reduction in the customer share for the remaining years of the price determination.

6. Do you agree with our proposed approach to reviewing the current cost sharing framework?

LVW agrees that a comprehensive review of the cost sharing framework is needed, but that the outcome must be a more transparent and robust cost share approach than the current framework. The review should also address the issues that have regularly been raised in past submissions to pricing reviews, such as clear and accurate identification of impactors.

4. Service Based Cost Sharing Framework

7. What are the potential challenges and barriers to moving to a service-based approach?

LVW agrees with the position articulated by NSW Irrigators Council that moving to a service-based approach will be challenging, because it will require a thorough assessment of the drivers for a service-based approach. It will also require significant work to collect and analyse the necessary data to identify the causal factors to allow allocation of costs.

Staff costs are a major cost for both Water NSW and WAMC and one of our chief questions is on what basis FTE's will be reassigned from activities to services. We suggest this will be more challenging for WAMC than for WaterNSW because in our view the activities and roles are more clearly defined in WaterNSW.

Another challenge with a service-based approach is that it may be more difficult for customers to fully understand how costs are allocated, and that it may be easier for cost shifting to occur.

8. Are the benefits of moving to a service-based approach likely to exceed the cost?

We are unable to answer this question without having a better understanding of how comprehensively the cost data can be collected and how accurately it can be allocated on a services basis. LVW does not want to see a move to a service-based approach unless there is a clear demonstration that the new approach is more robust than the activities-based approach, that it enables more accurate allocation of costs and that it can address the concerns around identifying all impactors and attributing the appropriate costs to them.

9. Would there be merit in transitioning to the service-based approach over time?

As noted above, it is difficult to answer this question until we see how accurately the causal factors that are driving costs can be identified, and that we can have confidence that costs can be accurately assigned to services.