

21 October 2020

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IPART



RE: MRFF Submission Rural Bulk Water Prices Water NSW

Macquarie River Food and Fibre (MRFF) is an industry body representing water licence holders who are ground and surface water users in the Macquarie Valley Catchment. We represent and support over 500 water entitlement licence holders and their communities.

MRFF members are food and fibre producers contributing to the economic, social and environmental health of the Macquarie Valley.

We wish to make the following submission in relation to the Rural Bulk Water Charges for Water NSW.

Macquarie River Food & Fibre (MRFF) places great importance in IPART's role to employ impartial rigour, economic rationale, and consideration of customers in responding to Water NSW & WAMC Pricing proposals & setting monopoly prices for the coming period.

MRFF supports the concerns raised in the NSWIC submission and adds the following points to be considered with specific reference to the pricing proposals for the Macquarie Valley. Our submission also includes responses to some of IPART's listed questions, in addition to the responses provided by NSWIC.

From the customer's perspective it appears that both the bulk water delivery & management service providers have used the upcoming pricing period as an opportunity for an ambit claim for an enormous price increase and that 'double recovery' is likely, particularly for activities where performance to date has been inadequate.

Please see our key issues followed by more detailed discussion under each of the headings below:

Summary of Headline issues:

- Customers must have metering and telemetry in place to provide real time and accurate data to Government as of the end of 1 December 2020. This will largely eliminate the need (and associated costs of) 'boots-on-the-ground' metering. This includes for smaller licence holders & pump sites, who are required to provide a self-assessed meter reading once a month. This means an increased capital cost to the customer (meters and telemetry \$30-50K) to provide automation, along with a further reporting burden placed on some customers (monthly self assessment). These initiatives logically reduce the activity cost and service level by government, yet there is no proposal to recognise or pass on efficiency gains to customers through a reduction in costs. In fact there is a proposed increased cost to the customer for compliance, which for valleys such as the Macquarie where the need for enforcement has been negligible, cannot be seen as prudent or efficient (see further comment under 1) Compliance & Enforcement Costs on Page 2 of this submission).

- Inefficient service delivery is leading to exorbitant proposed price increases and whilst it is a challenging area both to investigate & to improve, this is IPART's role, in protecting the rights of customers in the monopoly market of rural water. And again, increases in activity levels and service to rectify shortfalls must be acknowledged as 'double recovery' by IPART. Customers should not be charged more, simply for expecting that WAMC and WaterNSW provide greater transparency & accountability through improved information. (See further comments under 2) Addressing the Provision of Activities, on p2 of this submission).
- There has been a step change in both public interest and Government response to water management - associated extra costs need to be treated separately from the usual regulatory requirements and must not be confused with a supposed 'increase in level of service to customers'. (see NRAR's stated task to 'rebuild community trust in the management of water use and access', IPART WAMC Issues Paper Sep 20, p13). This is evidence that additional effort and expense is specifically in response to a community need (of rebuilding trust), rather than a customer need. This means cost sharing ratios between customers and Government need to be revisited in light of these changes. We particularly request IPART to focus on its previous rulings regarding those activities related to monitoring and planning - with reference to the increased level of planning expenditure now being flagged by DPIE for plan evaluation and regional water strategies. As noted in IPART's 2019 pricing determination (p15), the Broader NSW & Australian Community are considered responsible for some monitoring & planning activities. (See further comments under 3) Responding to Customer Priorities on p3 of this submission).

Comments on the Review of Water Management Prices & Rural Bulk Water Prices - from July 2021:

WAMC cost increases have been explained in IPARTS's WAMC Issues Paper, Sep 2020 based on:

- 1) **Adapting to changed circumstances:** "changes to WAMC's operating environment - for example it is using more proactive water regulation to meet enhanced standards of compliance and enforcement and there is more licence processing due to drought conditions" (IPART Issues Paper Sep 2020).

Compliance & Enforcement Costs: We note that with the introduction of NRAR, we are now experiencing an additional layer of costs, and would expect a reduction in the costs WaterNSW has previously charged for compliance and enforcement - this reduction is not apparent in the proposed water prices. In addition, NRAR has transferred the FULL cost of capital investment in the new system of telemetry linked meters to customers, that will undoubtedly yield cost efficiencies in terms of monitoring and management. It is our expectation based on fair pricing principles, that customers should see the benefit of their own investment in terms of cost reductions and efficiency gains, but this is not apparent in the current pricing proposals.

It is important to note that in the Macquarie, regulation and compliance of customers has been impeccable, with no prosecutions for breaches to our knowledge. It is also important to note that the amount of water ordered verses pumped has been as close to exact as possible and the strong spirit of cooperation customers have taken, in working with WaterNSW staff, has most certainly led to efficiencies and cost reductions in WaterNSW activities in our valley. The Macquarie is proud of its cooperative and proactive culture and customers have gone beyond their licence requirements with respect to water ordering and take by being flexible in their operations, which effectively enables WaterNSW to reduce losses & sell more water. It is therefore expected that valley-based efficiencies and lower compliance and enforcement costs need to be recognised and passed on to customers.

With respect to the increased standards for compliance and enforcement that are expected by the general public, IPART refers to the need to "meet enhanced standards of compliance and enforcement". Based on the application of the Impactor Pays pricing principal, along with consideration of appropriate sharing of costs between customers, and the broader public, IPART must separate the standard service level customers should be able to expect within their EXISTING CHARGES so as to avoid 'double recovery' & ask WHO the driver of any enhanced standard is. As endorsed in Point 3 below from the DPIE and NRAR consultation findings "WAMC customers expect a higher level of service - including more information, consultation and

accountability” (IPART Issues Paper Sep 2020 p4). It is important to separate the 2 issues here - firstly: better delivery of existing service commitments of information provision, consultation and accountability, which we believe fall within the category of what customers should be able to expect for their existing charges and therefore should not come with an increased fee to customers) and secondly: meeting the enhanced standards expected by the public, which we see as above and beyond the standards required and met under Impactor Pays Principle and therefore, the responsibility of Government to pay for on behalf of the broader public.

2) **Addressing the provision of activities:** “In the past WAMC has failed to achieve adequate service levels, performance targets or delivery milestones for some activities and it is attempting to rectify this situation” (IPART Issues Paper Sep 2020). It is especially important that IPART considers the capabilities of WaterNSW & WAMC in providing bulk water delivery and management services in relation to non-price related factors such as (but not limited to) those listed below, given that these factors absolutely impact on service delivery and overall efficiency and also given that customers face a monopoly and therefore don’t have the usual market forces at play of competition and choice. Impacts on service levels and efficiency that are not necessarily price related would include for instance:

- Organisational culture - whether staff are motivated, invested and happy at work;
- Performance management & internal management structures - where roles, responsibilities and expectations are clear and measurable, such as through detailed work plans, it is possible to lift performance without lifting costs;
- Stability and permanency of employees and roles within the organisation creates efficiencies, enables the continuity of intellectual capital, and experience built up over a number of years within the staff;
- Internal structures and role changes and to what extent specific units & work areas are resourced and how this has changed. For instance - could it be possible that an agency has tried to deliver the required level of service with less staff, whilst charging the same cost to customers, due to internal resource cuts and shifts in the allocation of resources across different priorities;
- Skills & a focus on streamlining processes - especially when they become more complex due to external requirements.

We suggest that it is highly likely, based on information available in the public domain, that there would be significant room for improvement in each of the above listed areas.

As a single example of where Macquarie customers have not seen value for money in the current operational approach for some WAMC activities, recently NRAR staff came to inspect a pump site in the Macquarie, 9 NRAR staff members attended the inspection. This included trainees so one would expect a few more than usual, but the cost of having this many staff in the field seems an overburden in an environment where there is not widespread illegal activity and also defies the technologically smart business model of reducing labour costs.

There are obviously many more factors that affect any organisation’s performance and we believe it is critical for IPART to have some means of consideration of the impact of these factors, along with consideration of provision of more performance measures and accountabilities into its next pricing determination. This is of particular importance given that part of the rationale for price increases, is lack of adequate service levels for existing activities, and increased costs for delivery of existing activities.

3) **Responding to customer priorities - & the WAMC Proposal for Provision of Better services, supported by higher levels of expenditure & WaterNSW Service Delivery:** “From consultation... DPIE & NRAR have found that WAMC customers expect a higher level of service - including more information, consultation and accountability”. We note that IPART has assumed from the above findings, that this “necessitates higher expenditure” (IPART Issues Paper Sep 2020, p 4). As with any organisation, there are many ways to provide higher service; some may involve increasing costs, but there are numerous ways for this to happen with no change in cost (see discussion under 2) above. We also note that where increased costs are deemed

unavoidable, there is still the question as to whether the existing level of service for the cost is adequate - or whether the organisation simply has to 'lift its game'.

DPIE suggests that a higher level of expenditure is about responding to customer requests for a higher level of service on the reporting side of the planning equation. We strongly believe DPIE is misinterpreting or is misconstruing at least Macquarie stakeholder feedback - where our customers certainly do expect more (FOR WHAT THEY ALREADY PAY). MRFF believes the minimum expectation from a customer for any plan implementation in any field would require transparency via some evaluation & reporting. We believe DPIE is attempting to charge customers for an activity that it should already be delivering, within the current planning and management cost framework, and that any additional reporting requirements are linked to broader public demand.

Additional Issues & Further Discussion regarding WAMC Review & Some IPART Questions (specific responses to IPART questions have been numbered based on IPART numbering):

Re 4) WAMC's Proposed focus for water management: MRFF is concerned about which (if any) WAMC activities will not be conducted with the proposed shift in focus to plan evaluation. Does a focus on plan evaluation mean no progress on plan implementation and the usual activities, services & regulatory requirements? We note that there does not appear to be public access at present to a Macquarie Regional Water Strategy & the Macquarie is not included in the list of Strategies to go on Public exhibition in 2020/21.

With respect to priorities for water works activities - we would assume alignment with Water Resource Plan priorities would be a good place to start. We note that neither the Macquarie Cudgegong 2020 Water Resource Plan, nor the most recent Water NSW Macquarie Environmental Watering Statement list erosion and salinity as priorities. We also note the Basin Plan requirements and priorities are based on supporting key assets such as vegetation in the Macquarie Marshes, and connectivity where possible (this being limited to very occasional opportunities in the Macquarie). It is therefore concerning that Macquarie customers are being asked to contribute to the cost of proposed works to address erosion and salinity (IPART WAMC Issues Paper, p12).

Re 5) & 6) Licence Processing Performance: WAMC has reported increased costs of licence processing due to drought conditions. We would expect any cost implications to be short term & drought related in nature and based on the extreme hardship that the drought has placed on customers, would also expect that any short-term increases in administrative fees, would be absorbed by Government, with less, rather than more cost being passed on to customers. This assumption is in line with the response to drought by numerous Government agencies and suppliers of essential business services. We also note that in terms of the customer's experience with licence processing, we have examples of licence approvals taking 6 to 8 months to be processed in 2020 - this certainly does not reflect a level of service that is acceptable or indicative of increased expenditure by WAMC & WaterNSW.

WAMC also states that for NRAR, 'additional complexity of the water management framework for large customers' was the reason for it not meeting performance indicators for licence processing. We note that NRAR is proposing to reduce its service level and requesting a reduction in the performance targets for licence processing for the next determination (IPART WAMC Issues Paper, Sep 2020, p15). We would suggest that a useful alternative to increasing costs to the customer and lowering service levels would be for a collaborative review of the current requirements between relevant government agencies, to check for unnecessary red tape, inefficiencies and streamlining opportunities. We would also suggest that now that NRAR has had the opportunity to work within the framework of an increase in compliance and enforcement, that it should be able to identify efficiencies to mitigate the flow on effects on licence processing transactions and start to streamline its processes within the new framework.

In summary, the proposed price increases by WAMC appear to seek to set a 'step change' in place, with significant, permanent increases in prices, rather than a short term increase to justify any drought-based expenditure over-run or temporary inefficiencies created by having to work with a more complex compliance framework.

Re 8) Improving the Incentives for DPIE to Negotiate MDBA & BRC contributions to ensure only efficient costs are passed onto WAMC customers: As stated in the NSWIC submission, the distance to the customer from the complex

institutional arrangements for MDBC & BRC, means that the customer is even further removed and more powerless to have any say into the costs being passed onto them by DPIE. Therefore it is crucial that IPART places accountabilities and performance measures associated with any customer allocated costs in order to incentivise DPIE to act for customers in negotiating costs. It seems to be a convoluted process that enables commonwealth level agencies to sidestep the critical role of IPART, that these agencies aren't required to submit costs directly to IPART for its determination of fair and efficient costs for customers.

Re 12) Cost Share Methodologies & the Impactor Pays Approach: MRFF notes that IPART flagged an 'extensive standalone review of the cost share framework prior to the next determination' (IPART Rural Water Cost Shares - Final Report, February 2019, p 12). We note the Aither 2018 Rural Cost Sharing Review Report to IPART recommended some changes to increase the customer share of a number of activities and we have concerns with these recommendations. A key area of concern is the portion of operational costs allocated to customers for both water delivery and WAMC services and the IPART position that standard regulatory and reporting requirements are created by the customer's use of the resource and therefore will be the responsibility of the customer to fund. For instance the DIPE proposed increases in planning costs, to continue activities previously funded by the Commonwealth government, should not automatically become the responsibility of customers to fund. Where DPIE flags the need to now evaluate plans to assess their performance against environmental, social and economic objectives, this means the cost is more about meeting the Australian Public's demands for sound & informed planning, rather than costs linked directly with management of the use of the resource by customers. We ask IPART to consider the source of the additional demand for planning & reporting and the changed nature of planning expenditure - moving more towards evaluation & reporting capability to assess whether this is providing a higher level of service to the customer, whether it is because of customer use, or whether the change is due to increased demand from the Australian Public, which has been addressed by Government in the form of increased layers of reporting and information.

Regarding WAMC's proposal to increase the customer share of costs, based on Impactor Pays principle & who creates the need for the service, we believe WAMC has significantly over-reached in what it seeks to justify as a customer based expense. For instance business governance & support & corporate capital expenditure are clearly agency level overheads that are linked to the existence of the relevant agency. Whether there was rural bulk water use or not, the broader public would expect there to be water resource & compliance agencies to look after our water resources - such as WaterNSW & NRAR. Overheads associated with ensuring these agencies meet public governance standards and agency related capital expenditure are clearly not being expended specifically because of rural bulk water customers, so these costs absolutely should not be customers' responsibility.

Re 13) Determination Period (for Both Bulk Water & WAMC Prices): MRFF understands that bulk water customers face much variability in their operating expenses and income. Therefore a longer determination, provided it is reflective of the recent drought period and other factors raised in our submission, would be beneficial. MRFF proposes a 5 year determination would be reasonable for all parties & reflective of the need for some certainty of both costs for customers and income for WAMC.

Re 15) MRFF Views on WAMC Proposed Price Structures: The current 2-part tariff ratio of 70: 30 fixed to variable costs understandably provides WAMC with a stable fixed income base regardless of use, but is not reflective of the variable nature of water use for the customer. Water costs for the customer, should be largely variable and related to use, rather than being fixed and more overhead based in nature. Particularly as customer's have been required to shift (at substantial expense) to telemetry linked meters, enabling very accurate reporting of actual use. MRFF would like to see this ratio weighted more towards actual usage, for instance 50:50, or 60:40, would be preferable to the current proposal. In terms of impact on WAMC cost recovery, WAMC & customers both understand the long term average reliability of allocations for each valley and just as customers face the challenge of maintaining viability through continuous efficiency gains in order to adjust to changing availability of water, so should WAMC. The same principles should apply to the bulk water pricing structure.

Re 17) Transitioning of any Increase in Charges towards Full Cost Recovery: As IPART understands, the current climate for rural customers, coming out of severe and extended drought, and with limited water allocations for the

coming season, is not an appropriate time to face sharp rises in prices. MRFF supports a sensitive transition towards full cost recovery where price increases are determined by IPART, with a cap of 1% increase per year. We note that inflation is extremely low at present and we also note that we expect WAMC and WaterNSW to deliver efficiencies and cost savings to customers, as they take advantage of the opportunity to reduce labour costs with the new telemetry linked metering system. We also believe that a lag in achievement of full-cost recover through pricing is the best way to deliver the non-price related organisational efficiencies that are otherwise very difficult to drive in a monopoly pricing setting. Therefore in terms of both capacity to pay and the need for cost savings to be realised, MRFF is recommending a cap of 1% increase per year during the period of the next determination.

Non-regulated revenue: We note from the IPART Rural Water Cost Shares - Final Report, February 2019 (p13) that IPART refers to Non-regulated revenue as a potential means of reducing costs for regulated customers. We ask IPART to consider how to manage the incentives and drivers for WAMC & Bulk Water Delivery Agencies to seek to optimise 'non-regulated revenue' opportunities, especially when their income is secured through the IPART pricing determination process.

Different Cost Shares for specific valleys: MRFF notes that IPART flagged its support for consideration of valley-specific cost shares in its 2019 determination (IPART - Rural Water Cost Shares - Final Report, February 2019, p 1). We refer IPART to the specific information provided for the Macquarie in this submission related to lower cost, more efficient delivery of bulk water orders and the 100% compliance rating that should result in lower compliance costs and zero enforcement costs in the Macquarie. We ask IPART to consider a lower valley specific cost share for Macquarie customers for these activities.

The above points are largely relevant across both Water NSW's Rural Bulk Water Proposal & WAMC's proposal for prices for the upcoming period. Please contact us for any clarification of the points included in this submission and we look forward to the opportunity to participate in the public hearings as the next stage of the process in IPART's pricing determination.

Sincerely,

Michael Drum
Executive Officer
Macquarie River Food and Fibre