

- ▼ Please mute your microphone
- ▼ Please turn on your camera (webcam)
- ▼ We will start at 10:02 am



ONLINE PUBLIC HEARING

WAMC AND WATER NSW RURAL BULK WATER

REVIEW OF PRICES FROM 1 JULY 2021

17 November 2020

Agenda



MC – Liz Livingstone, IPART CEO



Welcome – Ms Deborah Cope, Acting Tribunal Chair

1

10:00 – 12:15 pm
Session A – WAMC price review

2

12:15 – 1:00 pm
Lunch break

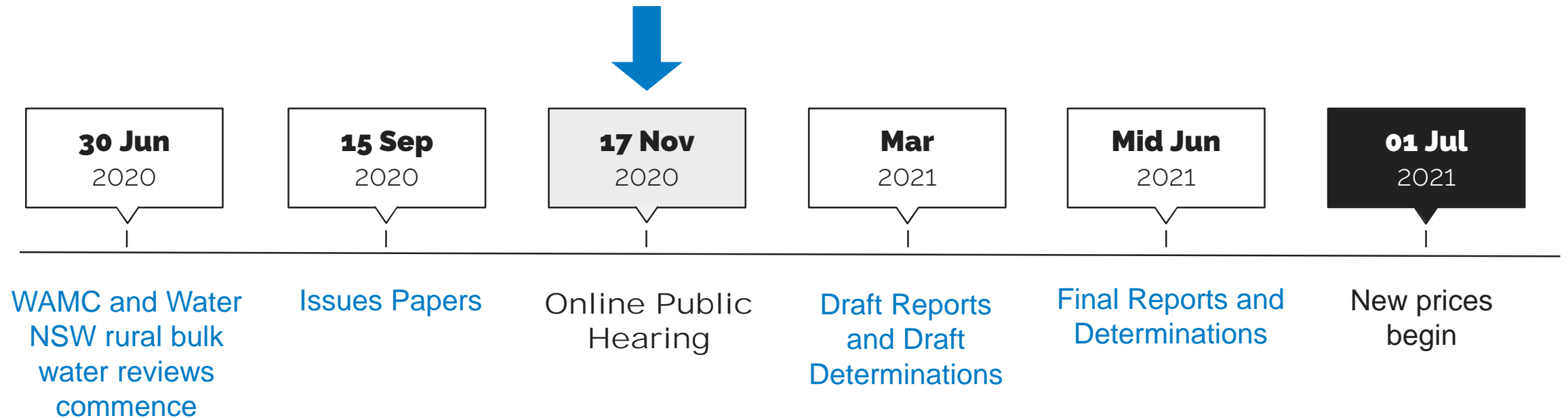
3

1:00 – 3:15 pm
Session B – Water NSW rural review

4

Closing remarks

Where our reviews are up to





Session A

Review of WAMC's prices

1

WAMC presentation
Initial Q&A session

2

IPART Secretariat presentation
Q&A session

WAMC presentation





Natural Resources
Access Regulator



Review of water management prices to apply from 1 July 2021 – Public Hearing

Jim Bentley, Deputy Secretary, Water
Andrew George, A/CEO WaterNSW
Grant Barnes, Chief Regulatory Officer NRAR

17 November 2020

Expectations for water management have shifted since 2016



Water users and communities told us they were not satisfied with water management in NSW. They asked for greater transparency and accountability from water managers and better access to information.



Several independent reviews recommended improvements to water resource management



We responded with a program of reforms to lift performance and better meet expectations.



NRAR was established in 2018 to put in place more effective and efficient compliance and enforcement arrangements and restore community confidence



We have invested more in strategic planning for water security, floodplain management and improved management of environmental water. We have continued to invest in delivering on our obligations

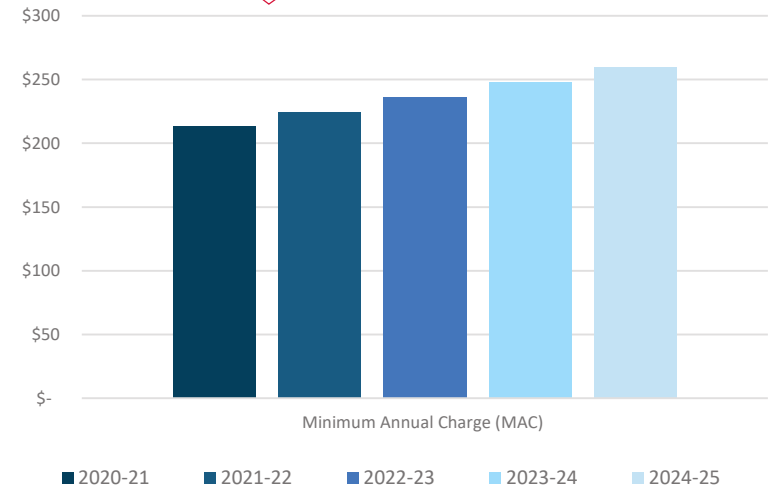


These changes have led to a significant step change in the efficient costs of managing our state's water resources, but we have proposed a 5% cap on price increases to manage customer impacts

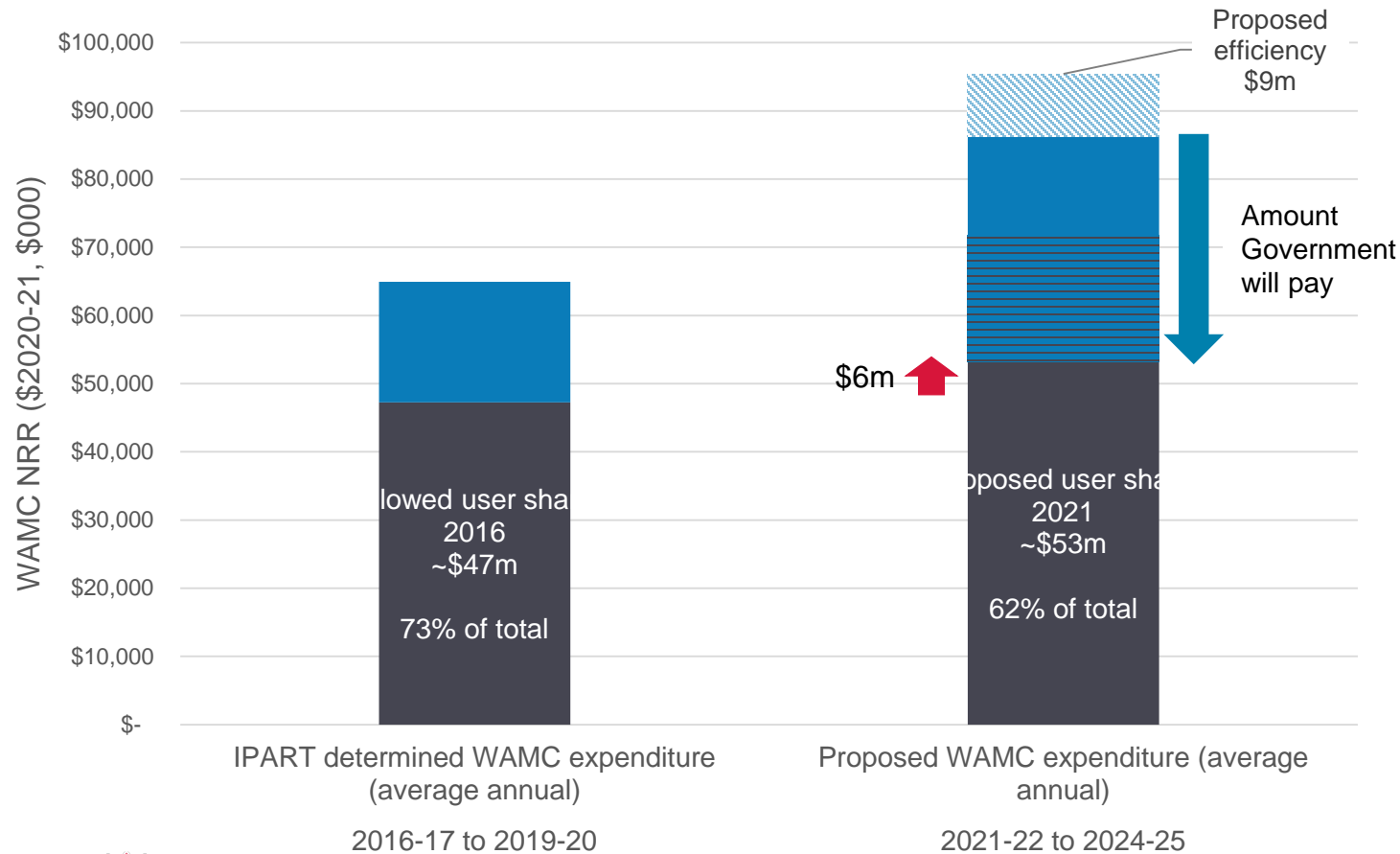
Our pricing proposal

1. Since 2016 costs increased to address gap between performance and expectations. Costs need to continue to maintain current service levels.
2. Capped price increases to help manage bill impacts on water users who have suffered extreme drought and the effects of COVID-19
3. No change to the regulatory framework that underpins prices – retain IPART cost shares based on impactor pays, and price structures

Under our proposal, 64% of users will pay the minimum annual charge, which will increase from \$214 - \$260 per year over the regulatory period



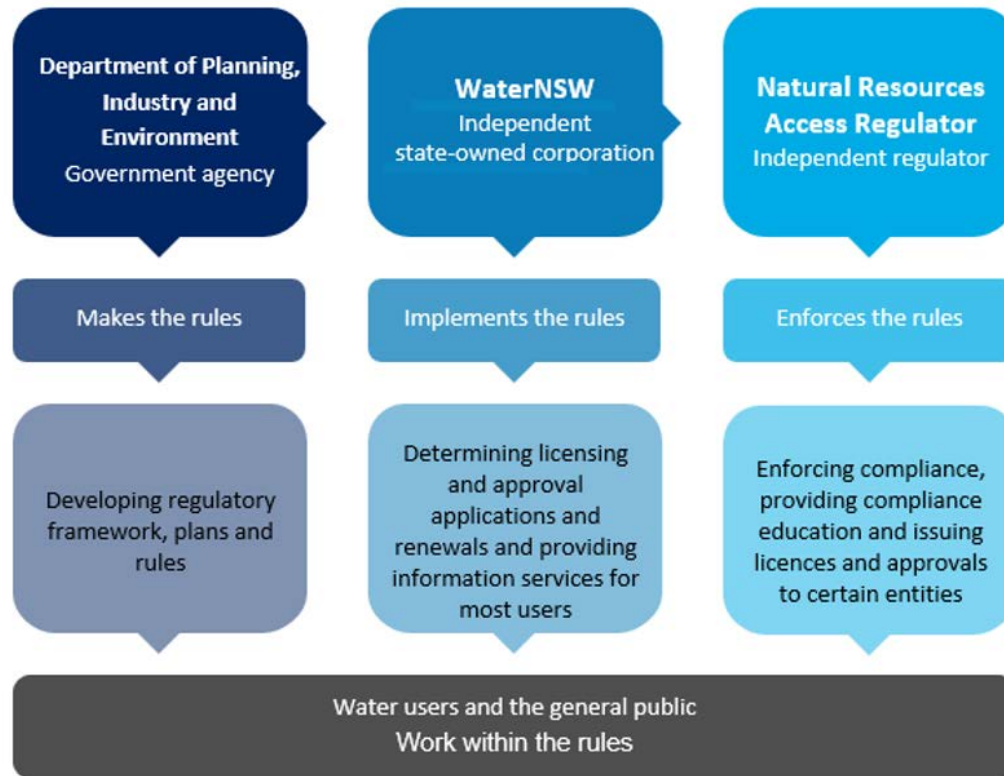
Capped prices mean government pays more and a bigger share



- Our proposal balances best practice pricing principles against protecting users from bill shocks
- While WAMC expenditures will increase from \$65 million to \$87 million a year, Government will pay more towards WAMC
- We have committed to efficiencies
- We propose to limit price increases to 5% a year (plus inflation)



WAMC – three agencies under a single banner



- We propose a single determination and a single set of water management prices
- We work collaboratively to deliver efficient water management services
- NRAR established to restore community confidence
- We know that there is a risk of duplication between agencies
 - reviewing licensing and approvals framework
 - efficiencies by each agencies

Pre-NRAR

Matthews and Ombudsman Reports 2017

NSW water compliance and enforcement

*“ineffectual” “needs urgent improvement” “loss of public confidence”
“inadequate resourcing to protect NSW water resources”*

Regulatory Assessment Tool 2017

- Best practice compliance elements *“absent”* or *“emerging”*

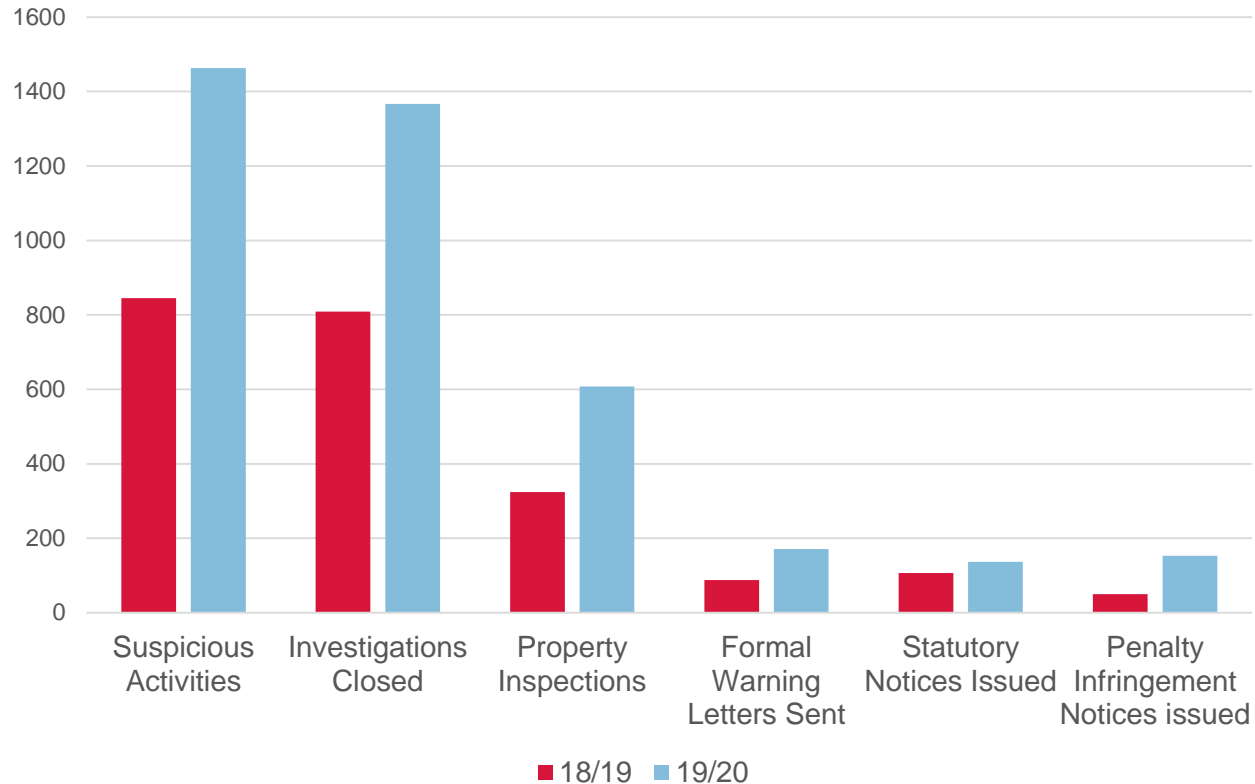


“All parties therefore agree ... they want a demonstrably effective compliance and enforcement scheme”

Matthews Interim Report 2017

NRAR Established: Turnaround

NRAR Activity - The First Two Years

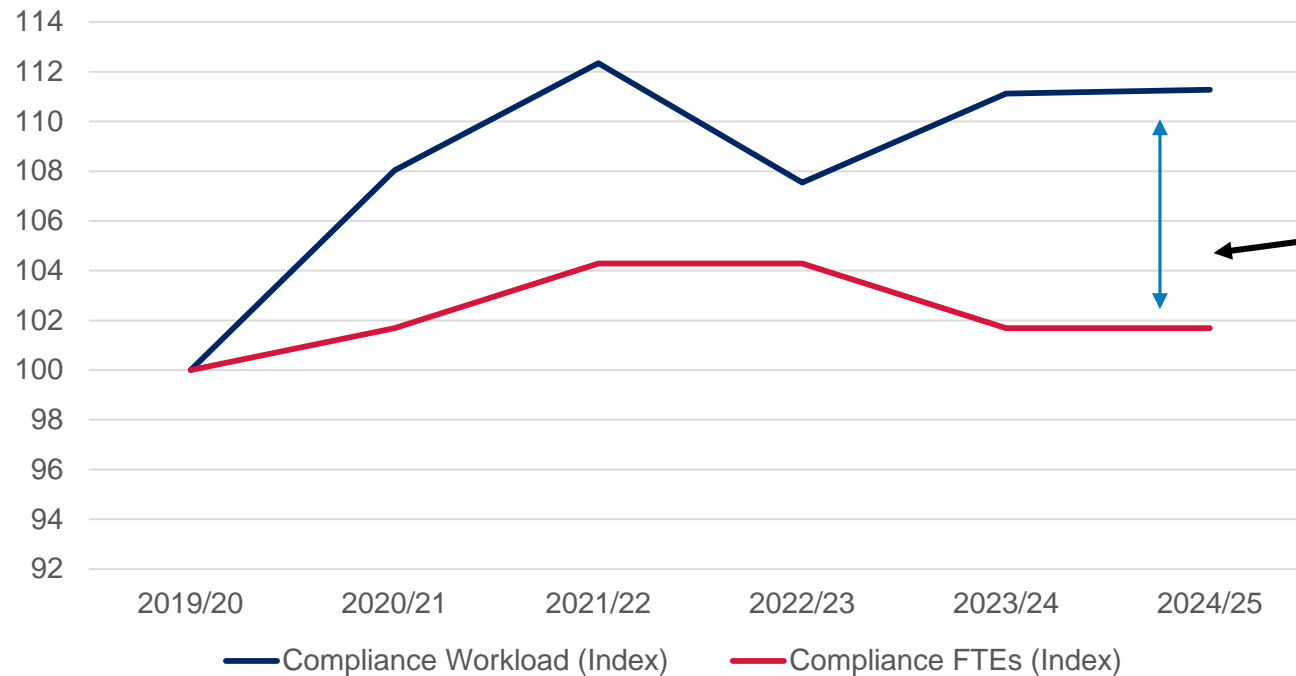


	Annual Increase
Suspicious Activity Reports	73%
Investigations Closed	69%
Property Inspections	88%
Formal Warning Letters	94%
Statutory Notices Issued	28%
PINs issued	206%
25 Prosecutions Commenced	



NRAR will do more with the same

Forecast NRAR Compliance Workload vs Compliance Resources



Closing this gap by finding efficiencies

- Analytics and intelligence
- Increased use of technology
- Investing in staff capability
- Continuously improving procedure via quality management approach
- Drive voluntary compliance

*Compliance workload is an index based on forecast suspicious activity and audits as per NRAR submission

**Compliance FTEs index incl. comms and education involved in compliance

Summary of WaterNSW key achievements 2016-2020

Complete integration of WAMC operational, in-field and customer facing functions of DPI Water into WaterNSW

Supported the Whole of Government response to managing water regulation

Improved collaboration with NRAR and DPIE to ensure water management policies are implemented effectively and enforced in line with stakeholder expectations

Responding over 25,000 licence enquiries and applications, including during drought: 7,291 applications, including 283 WALs and 3,437 works approvals processed

> 95% of WALs were approved within 40 days. 84% of BLR bores processed within 10 days

Doing more with less: significant efficiencies in performing water monitoring activities

What WaterNSW is looking to achieve for our customers over the next four years

Technology landscape is complex and life expired. We will modernise and consolidate over 40 legacy systems (e.g. WLS, WAS) to better serve our customers and address business risk

Significant investment in IT will continue. Our WAVE program will improve our efficiency enhance our ability to serve our customers (e.g. digitisation, self service, data management, automation, and water analytics)

Customers will reap significant benefits from self-service portals and more efficient processes designed to meet the current and emerging needs

We will capitalise on digital investments and redesign work processes to transform the licensing function to be more customer focussed and improve overall customer experience

Increased transparency of water delivery and operations through Water Insights (improvement continues from customer feedback)

We will continue to support our customers through high levels of service delivery



QUESTIONS?

Jim Bentley (DPIE Water), Grant Barnes (NRAR) , Andrew George (WaterNSW)

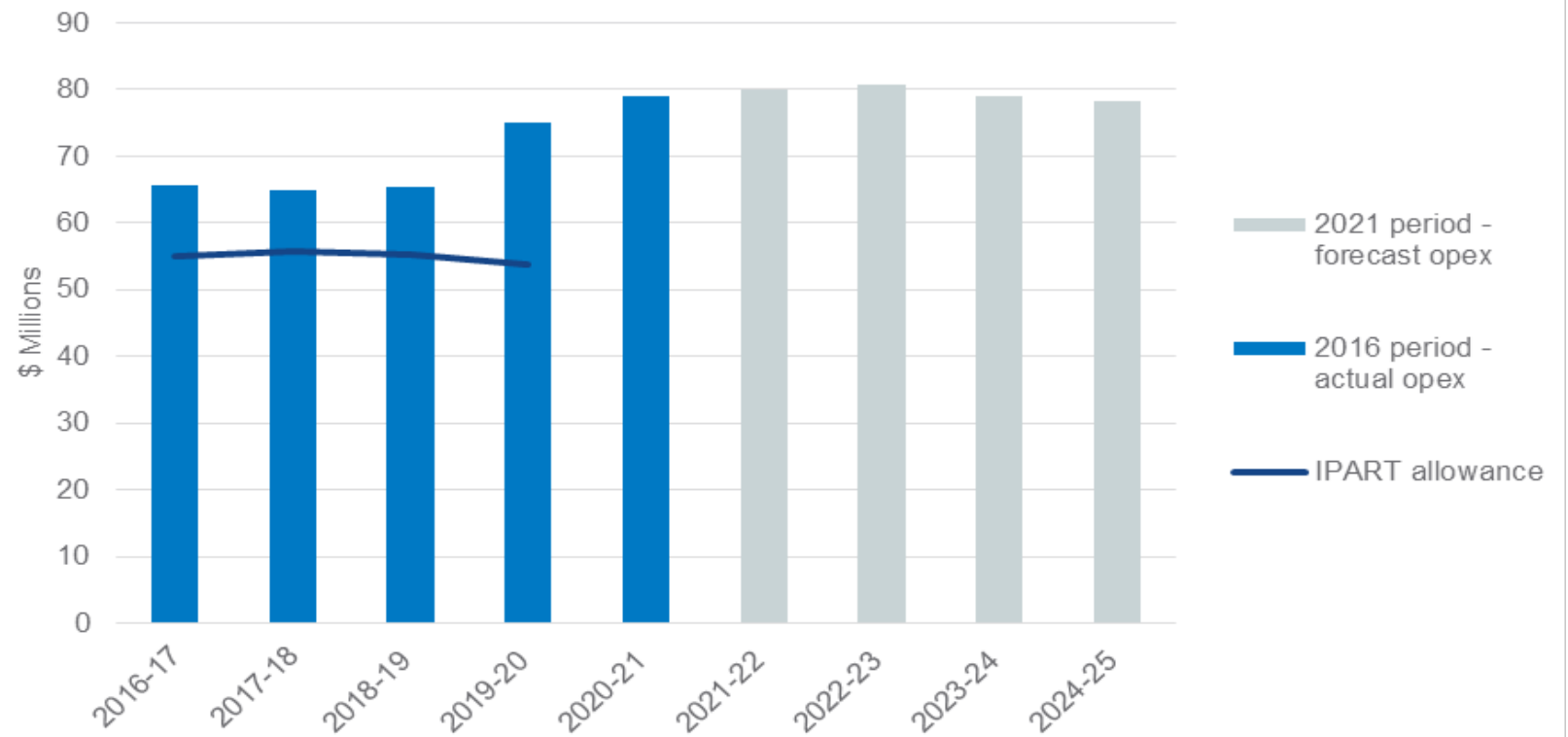
IPART Secretariat presentation



- ▼ Services delivered and cost drivers
- ▼ How costs and risks are shared
- ▼ How proposed prices will impact customers



Record operating expenditure



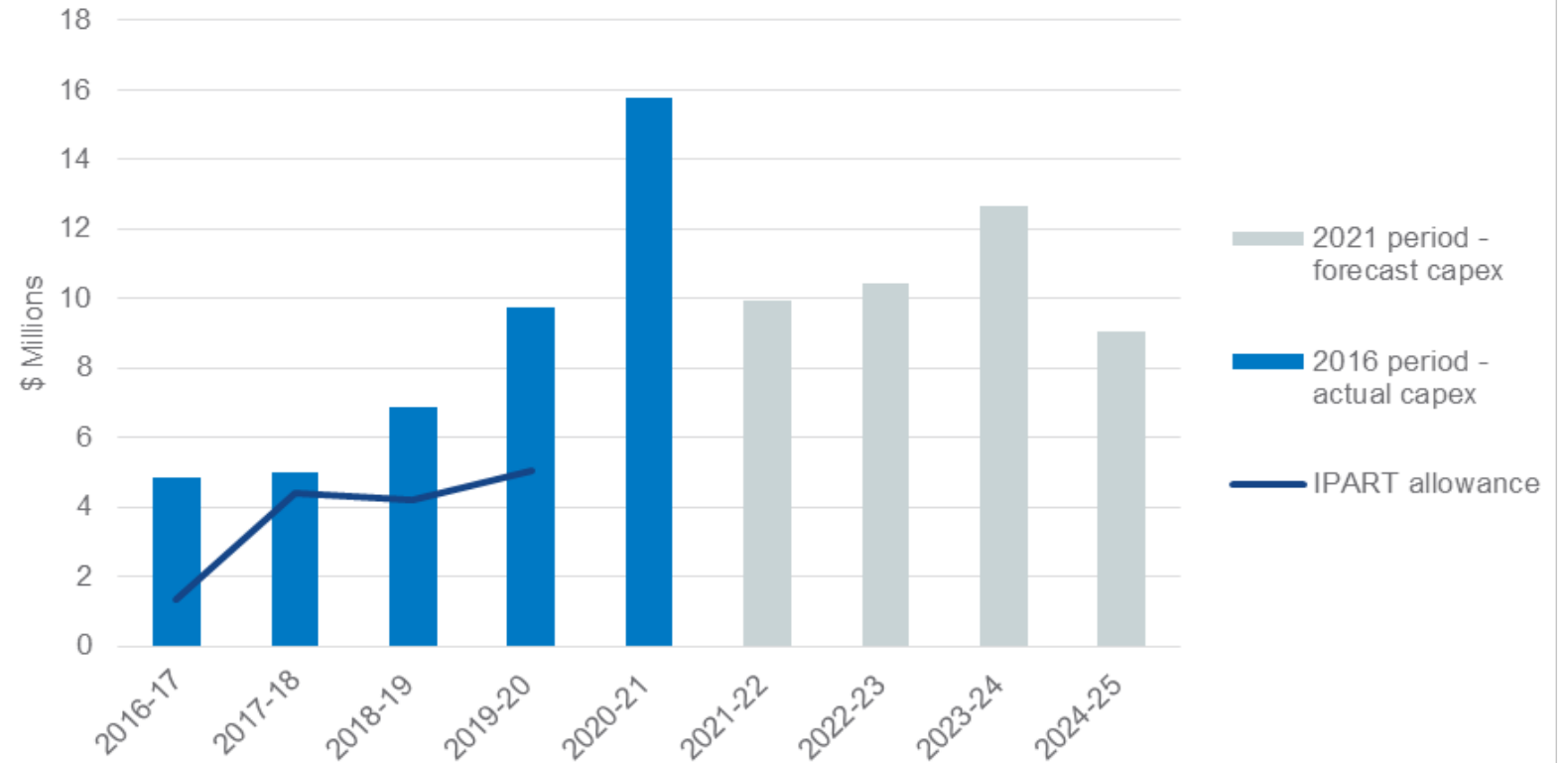
Historically high operating costs were driven by new and expanded water management, compliance and licence processing activities

Services delivered
and cost drivers

Services delivered and cost drivers



Record capital expenditure



Significant increase in capital investment for shared corporate costs and water monitoring program

Stakeholders are concerned with WAMC's proposed cost increases



Stakeholders are concerned that higher costs will not achieve better outcomes



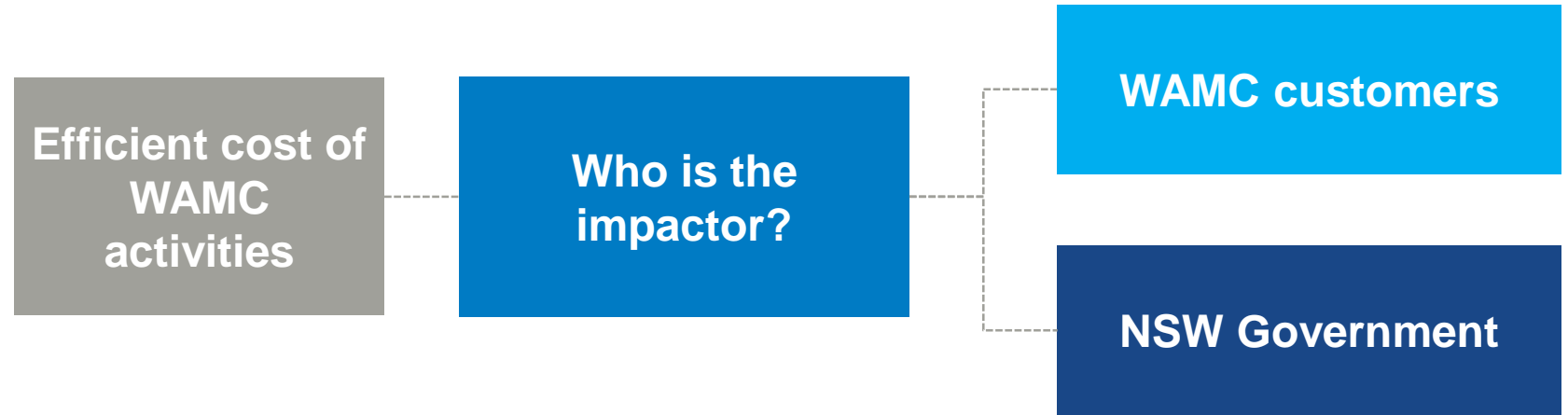
Stakeholders do not want to pay for services to address historical underperformance or interagency inefficiencies



Stakeholders raised issues with the lack of consultation about the levels and cost of service

Services delivered
and cost drivers

WAMC's costs are currently shared according to the 'impactor pays' principle



How costs are shared

Stakeholders had concerns with this framework

How should WAMC's costs be shared when:

- ▼ Other users **benefit from** an activity?
- ▼ WAMC has historically **underperformed** for an activity?
- ▼ An activity's scope is **expanding**?

How proposed prices will impact customers



- ▼ Capping water management prices at 5% p.a. in real terms (or 22% over 4 years)
- ▼ Maintain the price structures set in the 2016 price review



- ▼ Concerned about affordability
- ▼ Ensure future cost increases and cost shares set efficiently
- ▼ Mixed support for setting separate MDBA/BRC charges



- ▼ Three stages for setting prices
 - setting efficient costs
 - sharing costs between different groups
 - setting a glide path



Session A

Closing Remarks



WAMC and Water NSW rural
bulk water price reviews

Online Public Hearing

Lunch break 12:15 – 1:00 pm

Please mute your microphone

Please turn on your camera (webcam)

We will start at 1:02 pm



Session B

Review of Water NSW Rural prices

1

Water NSW presentation
Initial Q&A session

2

IPART Secretariat presentation
Q&A session

3

Extra session

Water NSW rural bulk water presentation



WaterNSW Pricing Proposal to IPART for Rural and Coastal Bulk Water Services from 1 July 2021



IPART Public Forum – 17 November 2020

Overview



- Who we are
- The key elements of WaterNSW's pricing proposal
- The details of our proposal
- What we've heard from stakeholders in response to IPART's Issues Paper

Our operating context as background to our proposal



- Prices for rural customers were largely held static over the previous 3 years.
- WaterNSW's costs have been influenced by a number of external factors including:
 - Drought
 - Emergency infrastructure in some valleys and a surge in groundwater applications
 - Urgent licensing assessments
 - Responding to NSW Government Water Reforms since 2016.

Our challenges and achievements in this current determination period



- Current Determination Period**
- Supporting customers through one of the worst droughts on record
 - Supported and facilitated financial assistance to customers
 - Assets have been better maintained
 - Improved investment governance and asset management practices
 - Doing more with less: significant efficiencies in performing water monitoring activities
 - Harmonising our ICT systems to replace end of life systems and modernise legacy systems
 - Improved and refined our labour sourcing models
 - Improved our procurement functions to drive efficiencies

Key dimensions of our proposal



- Our one-year pricing submission was our preferred approach, to ensure we could limit impact on our customers who have faced impacts of drought after past 3 years, and to engage with them at a time that respected their priorities.
- Estimates for the following 2 – 4 year period were developed at IPARTs request and we note that we have not been able to engage with our customers (as we have with our one-year submission) to seek their views and feedback. IPART have now confirmed a four-year pricing period.
- We must continue to prioritise investment in dam safety upgrades, and technology that supports greater modernisation and transparency in water data and information.
- Our forecast operating costs remain broadly consistent with the longer-term historical trend of operating expenditures for the Rural Valleys.
- Several external factors are also putting significant upward pressure on customer charges, including lower historical water volumes and changes to the NSW Government cost shares arising from the IPART 2019 Cost Share Review.
- We also propose to pass through MDBA/BRC costs as per the approach in the 2017 determination.
- We are committed to engaging with our customers on our 4-year costs, with detailed valley specific information to be provided to our customers via the Customer Advisory Groups, with sessions commencing later this month.

Appendix

Key elements of our pricing proposal



Keeping our 2021-22 revenue requirement constant in real terms:

- We recognise the impacts of drought and COVID-19 are applied to operating expenditures
- To achieve this we are targeting operating cost efficiencies totalling \$8.1 million over the four-year period. These targeted efficiencies had been included in the 2021-22 prices.

We need to however:

Pass through events outside of our control

- Impacts of changes in the 20-year rolling average for water volumes – noting these have not been amended for 3 years – impact 4%
- Application of the changes in IPART's cost sharing arrangements – impact 1%
- Passing through MDBA / BRC costs as per the 2017 determination.

Key elements of our 1 year pricing proposal [2]



Capital program

We propose to invest \$143 million in capital works in 2021-22:

- \$48 million will be focussed on asset renewal and replacement to ensure reliability and capability of our existing assets to meet the needs of our customers and communities.
- \$95 million on dams and drought-related projects (to be funded by Government)

Price structure

We propose to maintain the existing fixed:variable tariff structures from the 2017 Determination. To manage the revenue volatility we are looking to continue to source a risk transfer product (RTP) from the market for 2021-22.

What our Customers have said

Areas of strong performance

Acting ethically and with integrity

Customer service

The expertise and capability of its people

Meeting customer expectations

Customers interact via phone, email and post, with a desire for increased digital #

59% of customers expectations met or exceeded #

47% received a drought rebate in the last 12 months #

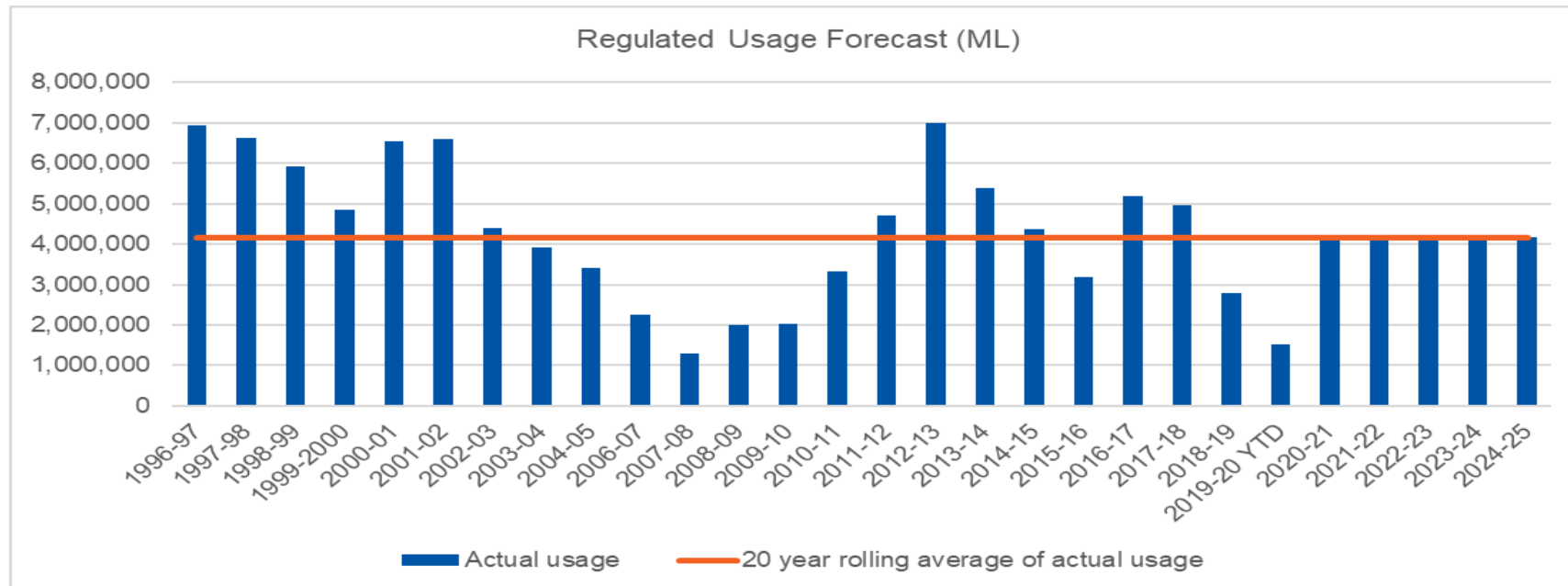
71% rate our online water system iWAS portal as easy to use #

Net Promoter Score (NPS) typically over +50 in CAGS* and end of call surveys

Lower water sales



- The 20-year average water take, used to set variable usage prices, has decreased by 7.4% compared with IPART's 2017 forecast due to the impact of the drought.
- Customer pricing was not adjusted over the last three years due to drought.
- This will cause the variable usage charge to increase by an average of about 4% in 2021-22 to enable the recovery of IPART's determined revenues.

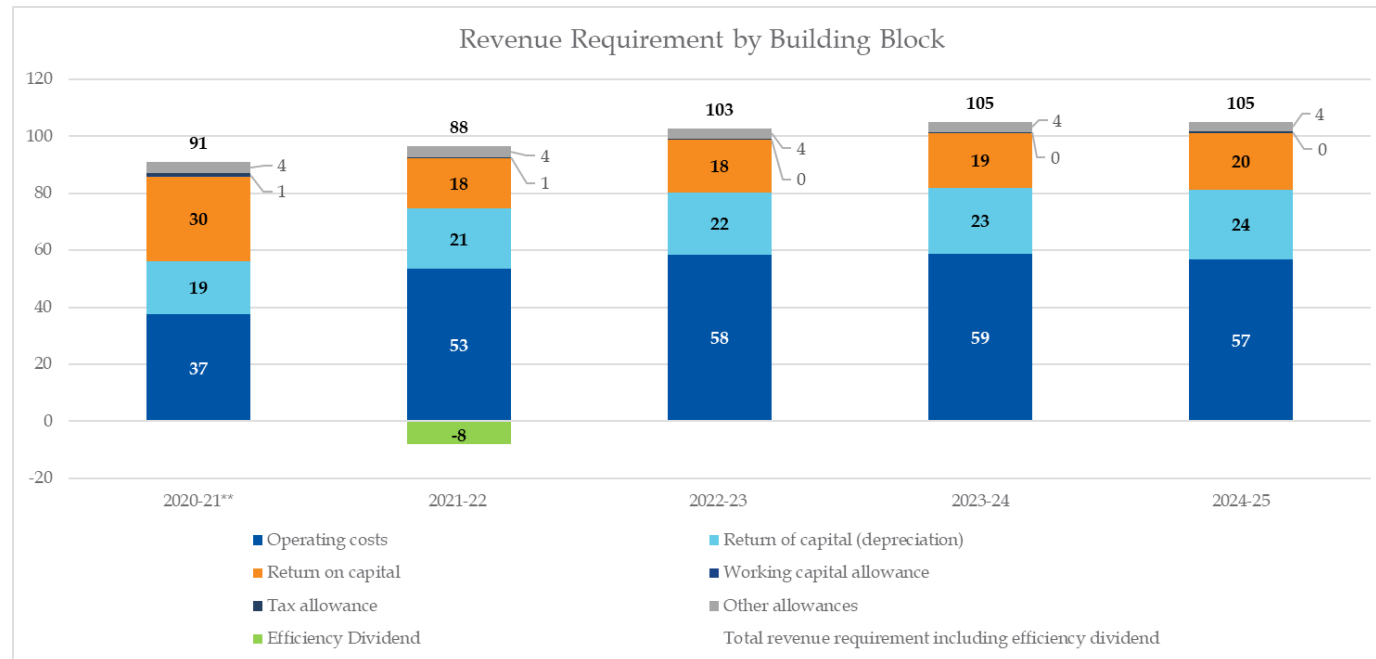


Response to IPART's request for 2 – 4 year indicative revenue requirements



In response to IPART's request for updated capex and opex in Years 2-4, we have calculated indicative revenue requirements over the next four years.

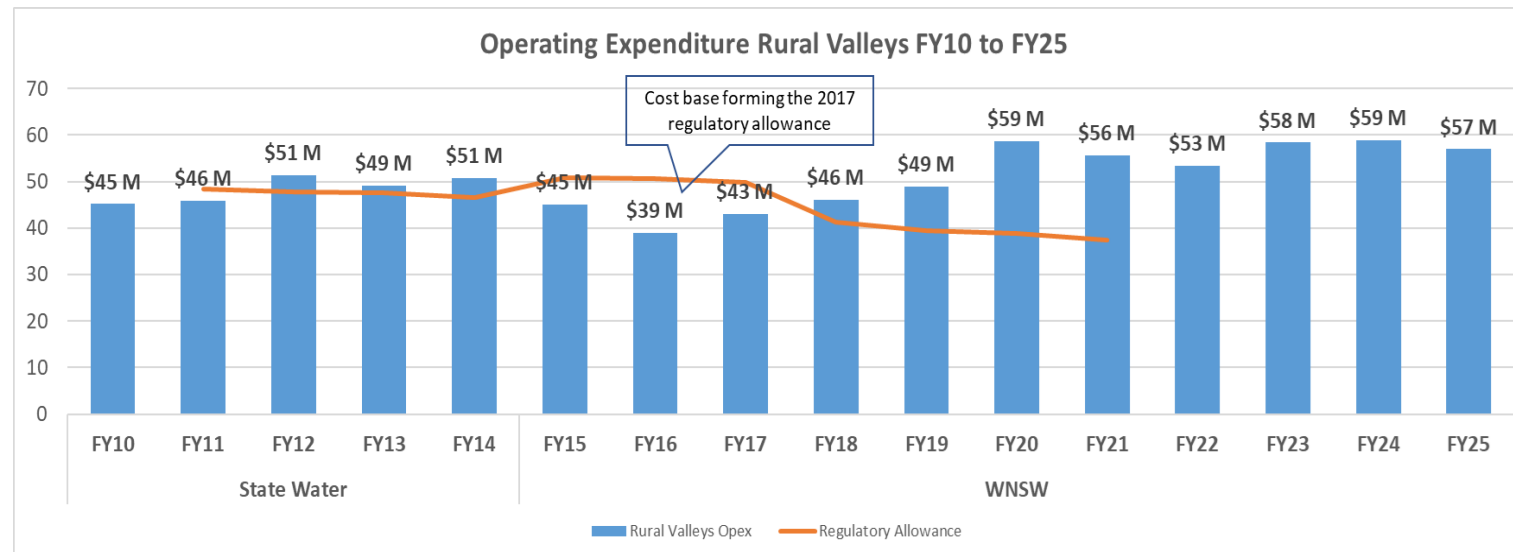
This Revenue Requirement is broadly consistent with what was determined prior to 2015 (i.e. prior to the 2016 reforms).



Why have Operating costs increased?



- Opex has been 33% (or \$51 million) above the IPART allowance of \$157 million for four years set in 2017.
- Current and forecast opex is not dissimilar to those we were incurring 10 years earlier.
- The 2017 opex allowance was based on delivering efficiencies that in practice were offset by the costs of implementing the 2016 water reform agenda (incl. increased corporate governance obligations and new technology solutions), under forecasting of flood operation costs, land tax, Fair Work Australia EA outcomes, overtime, and IT replacement costs due to aging systems.
- Over the next four years, WaterNSW proposes average opex of approx. \$57 million p.a., which is 3% below our actual operating expenditure in 2019-20.



Questions?



 Call us on **1300 662 077**

 Visit us at **waterNSW.com.au**

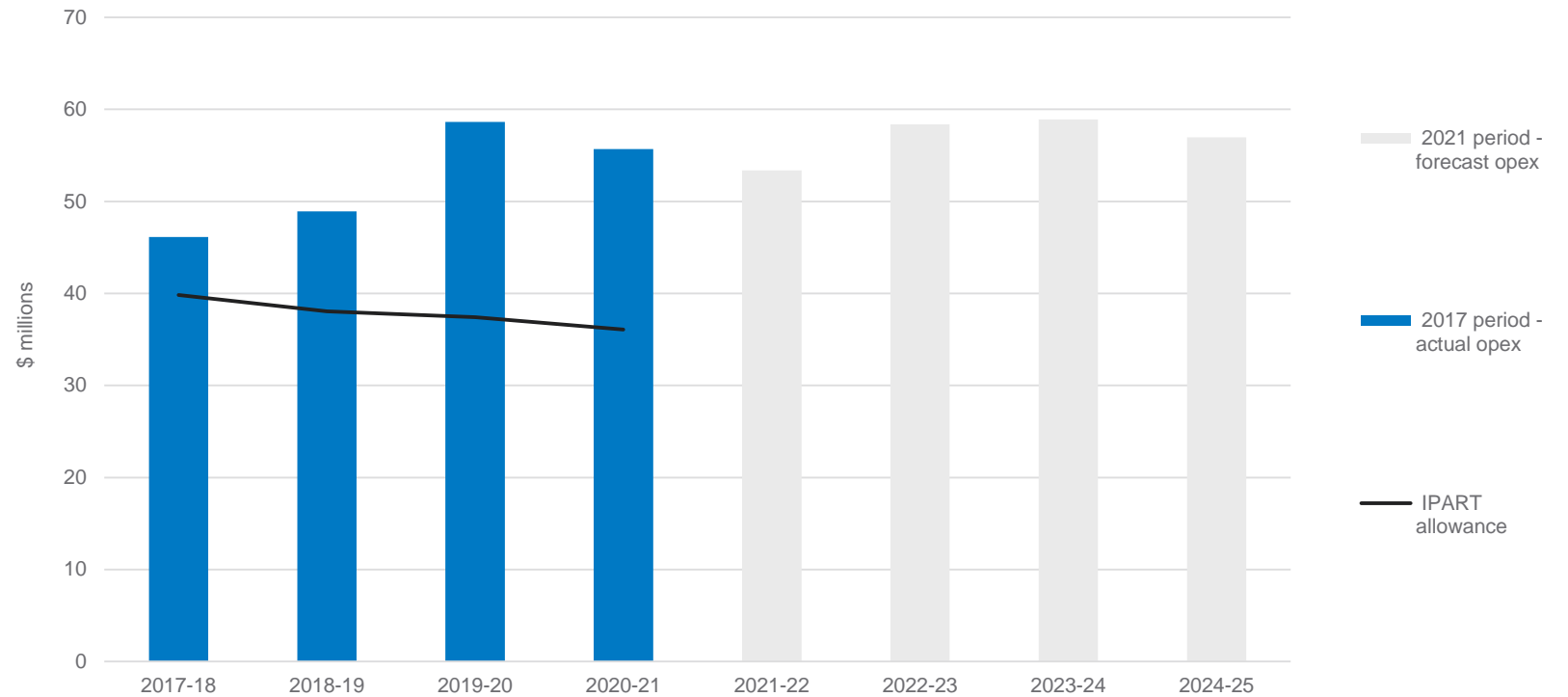
IPART Secretariat presentation



- ▼ Services delivered and cost drivers
- ▼ How costs and risks are shared
- ▼ How proposed prices will impact customers



Higher operating expenditure

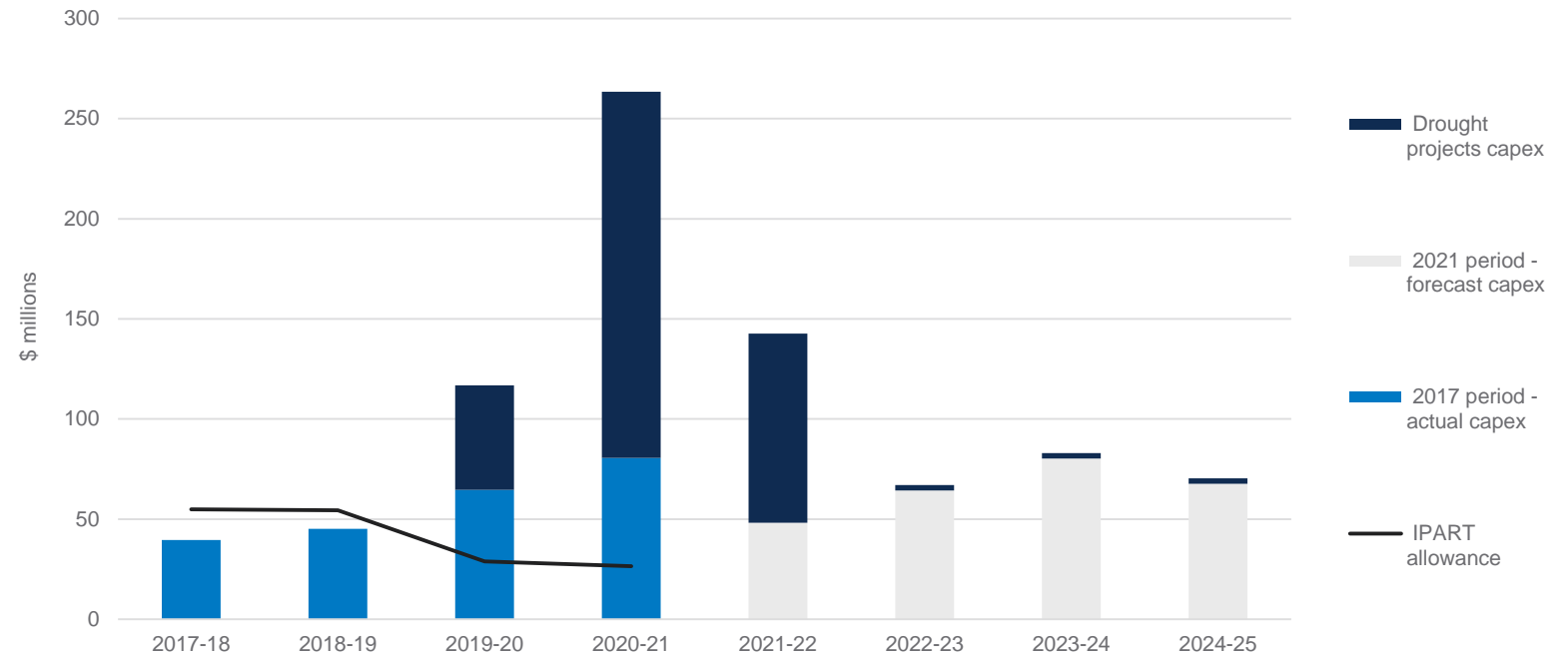


Historically high operating costs were driven by insurance, ongoing maintenance (including dam safety), overhead increases

Services delivered
and cost drivers



Higher capital expenditure



Services delivered and cost drivers

- ▼ Significant increase in capital investment for government drought projects, dam safety, and environmental management
- ▼ MDBA/BRC river management costs have increased significantly, especially in the Murray Valley

How costs are shared

Water NSW's costs are currently shared according to the 'impactor pays' principle



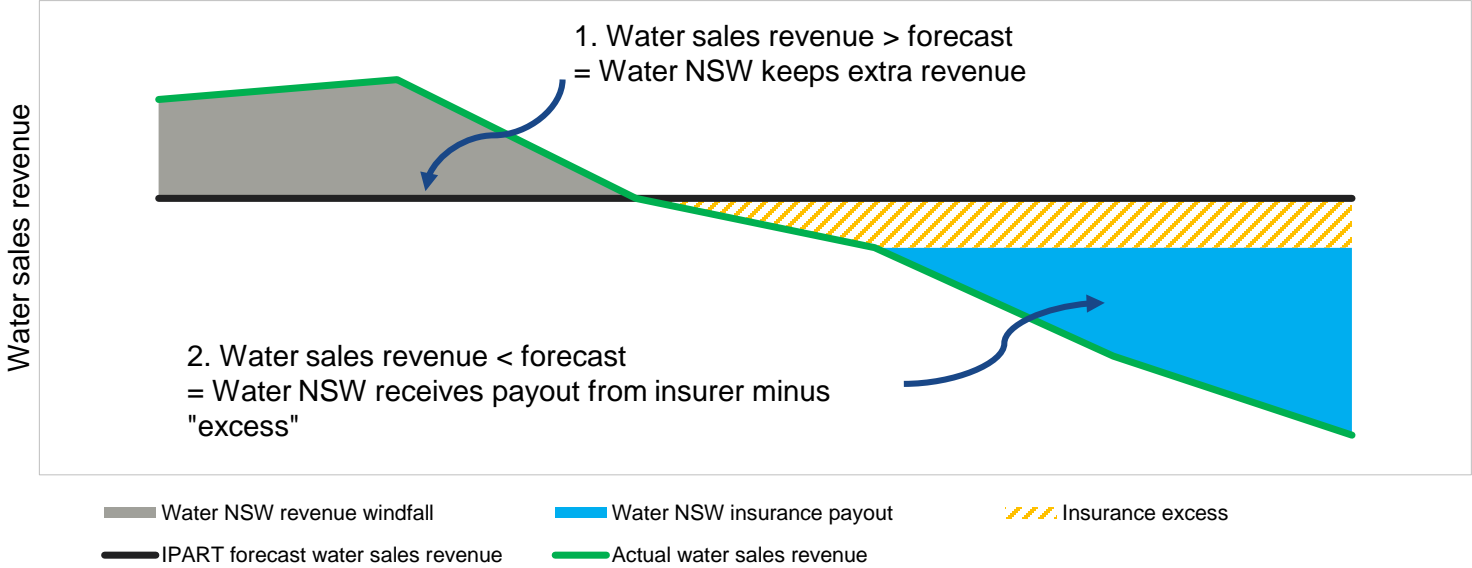
Stakeholders had concerns with this framework

In particular, in terms of how to share Water NSW's costs when:

- ▼ Other users **benefit from** an activity?
- ▼ An activity's scope is **expanding**?

Water NSW proposes insuring against downside sales risk whilst benefiting from upside sales risk

How to manage revenue risk



- ▼ Most stakeholders do not support the asymmetric insurance mechanism Water NSW proposed
- ▼ Some stakeholders suggest alternative approaches such as:
 - Setting higher fixed charges to better reflect cost structures
 - An 'unders and overs' mechanism

Stakeholders are concerned with Water NSW's proposed price increases

How proposed prices will impact customers



Water NSW is proposing higher prices



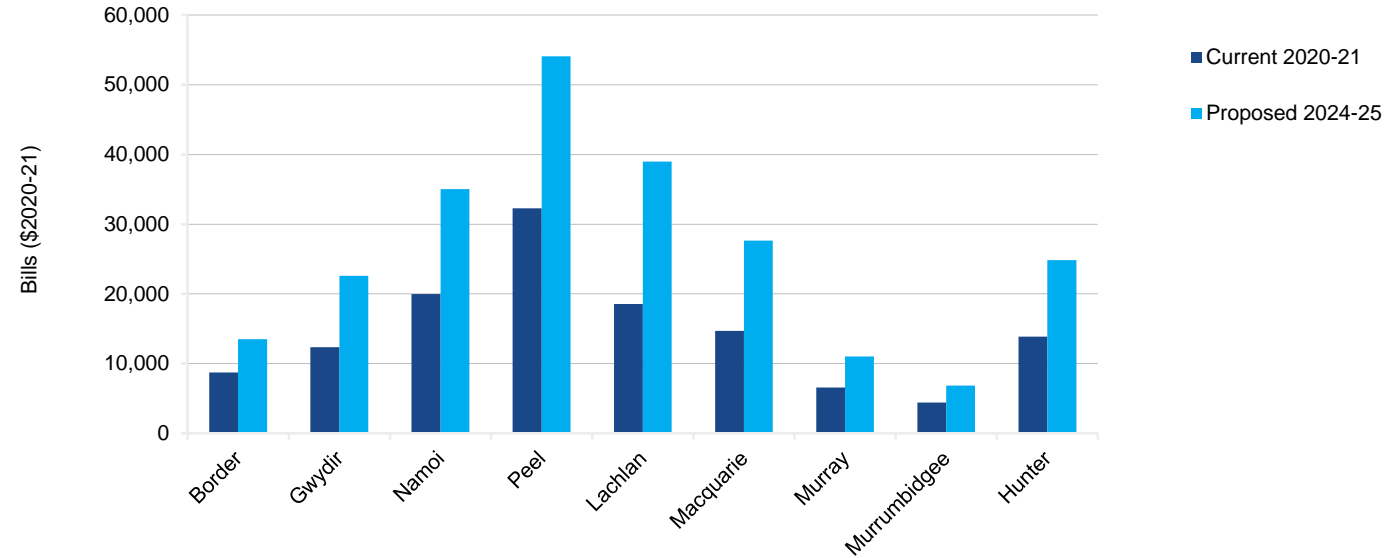
Stakeholders concerned about price increases and affordability



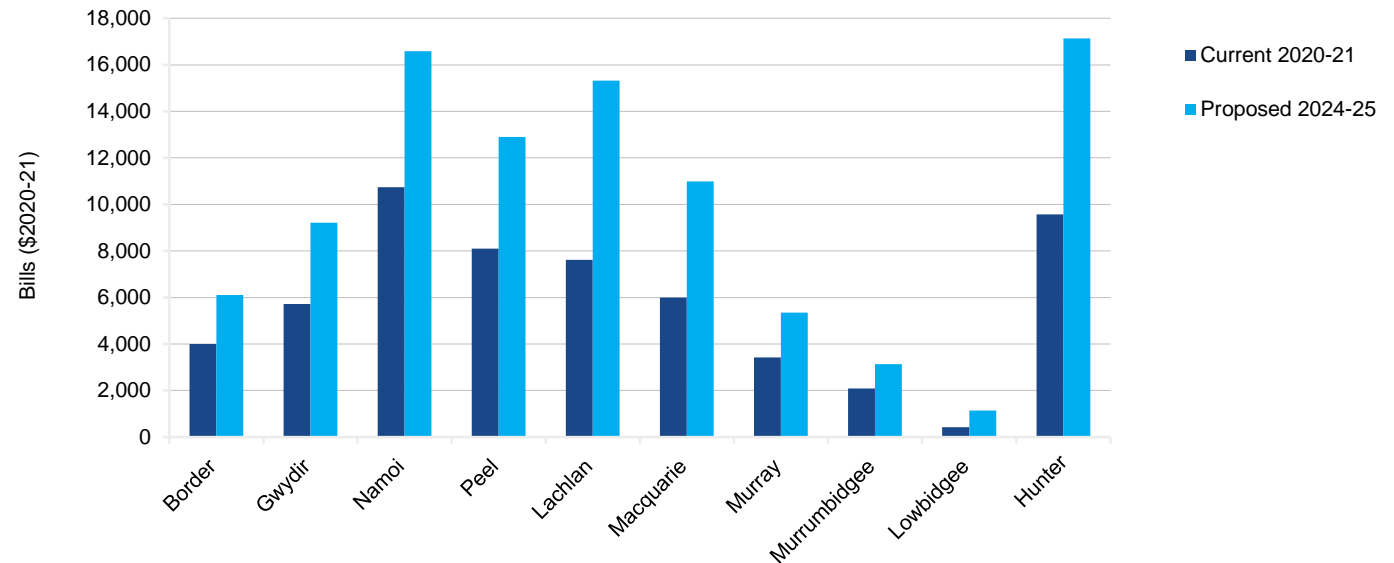
Potential options to address affordability

Bills by valley

High security medium user – 500ML usage, 100% allocation



General security medium user – 500ML usage, 60% allocation



Note: Lowbidgee does not have high security entitlements.



Session B

Closing Remarks

Next steps

Provide feedback

Our Draft Reports will be released around March 2021
Submissions on our Draft Reports will be due around April 2021

Complete survey

Complete our online survey to provide feedback on this
online public hearing

Contact us

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