

Environment, Planning and Sustainable Development Directorate

To:	Minister for Water, Energy and Emissions Reduction	Tracking No.: 22/107147
Date:	27 February 2023	
From:	Executive Group Manager, Environment, Heritage and Water	
Subject:	ACT Government response to the (Treasury) Non-potable Water Review	
Critical Date:	10 March 2023	
Critical Reason:	To commence consultation and progress Cabinet process to finalise Government response to the Non-potable Water Review	

- DDG, Environment, Water and Emissions Reduction 28/02/2023

Recommendations

That you:

1. **Agree** to all preferred policy options presented at Attachment A;
Agreed / Not agreed / Please Discuss
2. **Agree** to the Office of Water consulting with impacted licensees on the preferred policy options;
Agreed / Not agreed / Please Discuss
3. **Note** that consultation is required ahead of Cabinet consideration of the ACT Government response to the Non-potable Water Review; and
Noted / Please Discuss
4. **Note** the consultation and Cabinet process will result in the Government Response to the Non-potable Water Review being finalised and implemented after 30 June 2023.
Noted / Please Discuss

Shane Rattenbury MLA  31/3/23

Minister's Office Feedback

As discussed, I look forward to seeing the Consultation Paper prior to engagement with stakeholders.

Background

1. The Parliamentary and Governing Agreement for the 10th Legislative Assembly committed to conduct a review into water costs for high-intensity club users of non-potable water in 2021. The goal was to allow clubs to maintain operations while not requiring cross-subsidisation by other ACT water users.
2. ACT Treasury undertook a Non-potable Water Review (the Review) in 2021 to examine the costs related to non-potable water use. Water abstracted and supplied by the water utility (Icon Water) was out of scope for the Review.
3. The Review considered the appropriateness of current pricing frameworks in the ACT, pricing concessions, whether any adjustments could be made and arrangements in other jurisdictions. The Review was published on the ACT Government Your Say website in December 2021.
4. The four recommendations of the Review were:
 - a. adjusting ground and surface water charges to better align with the fixed and variable costs. This could be achieved through increasing licensing fees to ensure that all users contribute equally to cover the fixed costs and reducing the variable non-potable Water Abstraction Charge (WAC);
 - b. reforming assistance measures to make them simpler and more transparent and equitable;
 - c. continuing to provide targeted short-term support to some sporting clubs in exceptional circumstances such as extreme or prolonged dry weather to reflect the social benefits of community clubs. Assistance should be targeted towards clubs that have no other option than to use significant quantities of recycled or potable water for irrigation purposes; and
 - d. reviewing the application of National Water Initiative pricing principles, that suggest full cost recovery for stormwater costs, in the forthcoming review of the Inner North Reticulation Network stormwater prices.
5. The WAC is imposed under section 107 of the *Water Resources Act 2007* through a disallowable instrument (DI) that you sign annually. The WAC is a pass-through charge that is collected from urban water users by Icon Water, and from non-urban users by Access Canberra (the Environment Protection Authority), with revenue passed through to ACT Treasury. The WAC for non-potable water is set at 50 per cent of the urban water supply WAC.
6. The objective of the WAC is to reflect the true value of water and promote the economically efficient and sustainable use of a scarce resource. The WAC was put in place to cover costs incurred by the government including the costs of urban and non-urban water supplies, water catchment management, environment protection of ACT streams and lakes, along with water policy development and administration. The value of the WAC also includes a component related to scarcity, as well as costs associated with the provision of environmental flows.
7. The Environment, Planning and Sustainable Development Directorate (EPSDD) is tasked with preparing a government response to the Review.

Issues

Current pricing structure

8. Prior to December 2021, golf clubs received close to a 99 per cent reduction on the WAC through the Infrastructure Offset Scheme and Non-potable Water Rebate (which included a COVID-19 rebate), both of which are now discontinued.
9. The Market Equity Scheme (MES) continues for now and provides a 50 per cent reduction on the WAC for 10 ACT golf clubs. The response to the Non-potable Water Review will consider the merit of retaining or discontinuing the MES in light of other policy options.
10. The Competition Equalisation Payment (CEP) provides a 98 per cent reduction on the WAC for approx 25 ACT primary producers. No change to the CEP is proposed.
11. The remaining 150 licensed non-potable water users pay the full WAC amount.

Policy development

12. Environmental outcomes for water resources are sought in addition to responding to the recommendations from the Treasury review that focused on the economic and social outcomes.
13. The following principles guided policy options:
 - a. **Equity** -policy options apply to all licensees and avoids cross-subsidisation.
 - b. **Efficiency** - water pricing promotes economically efficient and sustainable use of water resources.
 - c. **User pays** - pricing for water supply is consumption based and represents full cost recovery, including environmental costs.
 - d. **Financial relief – extreme circumstances** - short-term financial relief in exceptional circumstances is targeted to community clubs under strict eligibility requirements.

Preferred policy options

14. Your agreement is sought to all four preferred policy options to inform the Draft ACT Government Response to the Review. See Attachment A and Attachment D. These are summarised below:

Independent review of the non-potable Water Abstraction Charge

15. Independent review of the non-potable WAC price setting and component costs to provide increased probity, transparency and consideration of scarcity and environmental costs to inform future price setting.
16. It is proposed that price setting recommendations of the non-potable WAC be determined by the Independent Competition and Regulatory Commission (ICRC) rather than by the ACT Government making the sole pricing determination as is currently the case. This independent price setting by ICRC is important for providing public assurance that the charge represents cost recovery, environmental and scarcity costs, and serves the intended purpose of charging a non-potable WAC.

Lock in WAC for three years

17. Lock in the price setting of the WAC for three years to provide pricing certainty for licensees to prepare forward budgets. Review this arrangement in year three.

Remove the Market Equity Scheme

18. The Review recommended future government financial assistance is provided only as targeted short-term support in exceptional circumstances and on this basis, reinstatement of previous rebates and perpetual financial assistance measures is not proposed. Removing the Market Equity Scheme improves equity of water pricing for all licensees and aligns with the Treasury position to move away from perpetual financial assistance.

Government temporary financial assistance

19. Short-term, non-ongoing financial assistance is proposed under exceptional circumstances with clearly defined criteria, to support provision of community services. Criteria may include prolonged drought, extreme scarcity of non-potable water and financial difficulty associated with reliance on treated mains supply or recycled water. See Attachment B.

Other policy options not considered further

20. The following options were analysed but were not considered to be able to deliver effectively on the response to the Review. See Attachment A for more details of each option.

Do nothing option

21. The do-nothing option maintains the current pricing structure – see above. It retains a significant 50 per cent price discount for golf club non-potable water use. This option does not benefit clubs with high reliance on 3rd party water supplied by Icon Water.

Expand the Market Equity Scheme

22. It is undesirable to expand the Market Equity Scheme to other licensees as it will expand pricing inequity and perpetuates financial assistance away from user-pays pricing principles.

Increase fixed costs, reduce variable costs

23. The option to increase fixed costs (administration fee, currently \$496/year) and reduce variable costs (WAC, currently \$0.32/KL) disproportionately and negatively impacts up to 80 of the very small water users while benefiting the larger irrigators simply by the scale of water use.
24. This option provides negligible benefit for licensed irrigators reliant on reticulated stormwater, treated effluent or drinking water to supplement irrigation with non-potable water and does not alleviate these high costs payable to third parties.

Tiered WAC

25. A tiered WAC option would set a lower price of non-potable water for a nominal tiered volume and full WAC would apply if exceeding the tier. This option benefits low volume non-potable water users and applies water scarcity value/environmental cost to large water abstraction.

26. A tiered WAC could be seen as analogous to the Market Equity Scheme by perpetuating financial assistance. Other challenges with a tiered WAC is the setting of a fair pricing point for each tier that is appropriate to the wide volumetric range of licensees.

Surface Water Rights

27. Clubs and licensees (including golf clubs) reliant on groundwater would not benefit from this policy option. Nor would licensees that pump water from lakes, ponds, and rivers on unleased public land.
28. Surface water rights would seek to expand current exemption such as rainwater tanks and riparian rights of primary producers for stock and domestic water use.
29. A surface water 'right' would carry administrative burden to assess eligibility criteria of individual licensees with respect to annual rainfall, modelling run-off coefficients with land-use variation and carry-over capacity assumptions of ponds on leased land.

Recycled water

30. The high cost of expanding reticulated stormwater and treated effluent networks, and limited geographic access to existing networks, is a deterrent to including recycled water options within the scope of the Government response to the Review. However, National Water Initiative principles are applied in review of the Inner North Reticulation Network stormwater prices (as per Recommendation 4 of the Review).
31. A policy position on encouraging uptake of recycled water can be pursued in the refresh of the ACT Water Strategy, occurring in 2023, to maximise water security opportunities.

Community consultation

32. Consultation with stakeholders on preferred policy options is required to finalise the government response to the Non-potable Water Review ahead of Cabinet consideration. There are two options:
 - a. Option 1 (recommended): 4-week targeted consultation with license holders, closed to the public and commencing March 2023; or
 - b. Option 2: 6-week broad consultation, open to public via YourSay in March 2023.

Table the Government response to Cabinet

33. The consultation and Cabinet process will likely result in the Government Response to the Non-potable Water Review being finalised and implemented after 30 June 2023. See timeline at Attachment C.

Financial Implications

34. There will be an unmitigated cost impact to golf clubs from the removal of financial concessions that previously offset the WAC as outlined above, ranging from approximately \$4,000 to \$70,000 per club depending on individual irrigation practices and rainfall. Preliminary analysis suggests additional budget revenue of \$350,000 from golf courses depending on rainfall (equates to \$70 per member per year).
35. The proposed independent review of the non-potable WAC could provide additional confidence of the cost impact.

36. There is potential for non-ongoing expenditure of up to \$200,000/year total for financial relief to golf clubs in extreme circumstances during low rainfall years.
37. Engagement of the ICRC to review and determine the price setting for the non-potable WAC could be met within existing budget for the EPSDD.

Consultation

Internal

38. EPSDD Communications support external engagement and are resourced to assist with the Communications-on-a-Page and Talking Points material for the consultation period.

Cross Directorate

39. ACT Treasury has been engaged early in the development of policy options and supports removal of the Market Equity Scheme. Any changes that create a precedence for the WAC on potable water use would not be supported.
40. The Environment Protection Authority (EPA) administers WAC invoicing and would prefer an easily administered pricing system. EPA requests EPSDD take the lead on licensee consultation.
41. Consultation is maintained with the Transport Canberra and City Services Directorate as a licensee and non-potable network operator.

External

42. EPSDD commenced engagement in October 2022 with ACT golf clubs and the ACT Rural Landholders Association ahead of formal consultation, to build goodwill considering the delays to policy development. This supports previous engagement with the peak golf body, the ACT Monaro District Golf Association.

Work Health and Safety

43. Nil associated with this brief.

Benefits/Sensitivities

44. Golf clubs will be sensitive to any price increase for water costs associated with the removal of annual concessions.
45. Belconnen Magpies Golf Club and Federal Golf Club face large additional irrigation costs because these clubs supplement irrigation demand in most years with water supplied by Icon Water – for Magpies, treated effluent; for Federal, drinking water.
46. Separate policy development is underway to standardise non-urban water metering within the Murray-Darling Basin. The 185 ACT licensees will be sensitive to consultation scheduled in 2023 on cost implications for upgrading water meters. You will be briefed separately on the proposed policy revisions and cost impacts.

Communications, media and engagement implications

- 47. Increased water costs for golf clubs relative to the effective zero pricing of water use in previous years is likely to attract media attention and Ministerial correspondence.
- 48. Recent media articles about Belconnen Magpies Golf Club not renewing their lease due to high water costs from Icon Water will continue to be monitored and will require careful communication.

Signatory Name: Bren Burkevics Phone: 6207 8628
Action Officer: Tom Nilsen Phone: 6205 4644

Attachments

Attachment	Title
Attachment A	Policy options – at a glance
Attachment B	Relief in extreme circumstances
Attachment C	Timeline – consultation and Cabinet
Attachment D	Draft ACT Government response to the Non-potable Water Review

ATTACHMENT A: Draft policy options – at a glance

PREFERRED			
Policy option	Pros	Cons	Indicative cost
a) Review the non-potable Water Abstraction Charge (WAC) price setting, and;	<ul style="list-style-type: none"> Independent review of price setting and component costs provides probity and transparency. Potential for cost saving to licensees or increased revenue to ACT Government. 	<ul style="list-style-type: none"> Potential for reduced WAC rate, may raise issues of recompense for licensees and less future revenue generated from WAC. Potential cost impost on licensees if WAC is increased. 	<ul style="list-style-type: none"> To be costed on results of independent review (impact on licensees and ACT Government revenue).
b) Lock in price setting for 3 years (irrespective of policy position); and;	<ul style="list-style-type: none"> Certainty for licensees to prepare forward budgets. 	<ul style="list-style-type: none"> At end of 3-year window, resourcing to review and update policy position. 	<ul style="list-style-type: none"> Annual price indexation would not apply.
c) Remove the market equity scheme, and;	<ul style="list-style-type: none"> Follows position of Treasury to move away from price concessions. Improves equity of water pricing for licensees. 	<ul style="list-style-type: none"> Golf courses will pay same water abstraction fees as other licensed irrigators. Golf courses will be sensitive to fee increase (note, golf courses have not paid water abstraction fees for last 10 years). 	<ul style="list-style-type: none"> Removing the MES equates to \$175,000 of concessions to golf clubs. Golf clubs to pay full water abstraction fees, at approx. \$350,000 combined for all golf clubs in an average rainfall year, compared with effectively nil water abstraction fees in the past ten years¹ and discounted water in 2022. Wide variation of cost impact to clubs based on water usage and membership. Total costs vary between \$4,000 to \$75,000 per year for each golf club depending on water use, based on average rainfall years. Costs disbursed across assumed membership of 500 persons per club suggests costs of \$70 per member per year.
d) Provide short-term financial assistance under extreme circumstances	<ul style="list-style-type: none"> Non-ongoing subsidisation for golf clubs to deliver community benefits under extreme circumstances. Strict eligibility criteria e.g. drought conditions, supplies of non-potable water exhausted, reliant on treated drinking water or treated effluent for irrigation. 	<ul style="list-style-type: none"> Economic impact to government. May encourage irrigation during drought. Timing issues to deliver financial assistance when it is needed. The financial relief may not be commensurate with costs of treated drinking water or treated effluent to supplement irrigation, which can range from \$100,000 to \$250,000 for affected clubs. 	<ul style="list-style-type: none"> Up to \$20,000/year for the ten licensed golf clubs on a non-ongoing basis.

¹ Concessions, rebates and offsets ceased 31 December 2021, ending the period of effective zero water abstraction feed. Golf clubs were invoiced Water Abstraction Charge less Market Equity Scheme (50% discount) for 1 January 2022 to 30 June 2022.

Other policy options considered			
Policy option	Pros	Cons	Indicative cost
Do nothing (retain the Market Equity Scheme)	<ul style="list-style-type: none"> Preserves significant cost savings to golf clubs from the Market Equity Scheme (MES) with 50% discount on the Water Abstraction Charge (WAC). 	<ul style="list-style-type: none"> Perception of ACT high water fees compared to interstate. Inequity for non-golf licensees that provide community benefit. Perception of doing nothing and not improving equity Not aligned with Treasury position to remove price concessions 	<ul style="list-style-type: none"> \$174,000/year in an average rainfall year of reduced fees to all golf clubs combined and \$174,000/year of foregone revenue to ACT Government. \$4,000 to \$75,000/year cost saving for each golf club depending on water use, based on average or low rainfall.
Market equity scheme – expand	<ul style="list-style-type: none"> Increases access to other licensees (clubs and ACT/Cwth government) that provide community benefit from irrigation, not just golf clubs. 	<ul style="list-style-type: none"> Reduced revenue. Conflicts with Treasury recommendation to remove price concessions. 	<ul style="list-style-type: none"> Approx. \$60,000/year savings in an average rainfall year to combined eligible licensee fees and \$60,000/year reduction in revenue to ACT Government. The \$60k is on top of \$174k existing MES fees
Increase administration fees and reduce Water Abstraction Charge	<ul style="list-style-type: none"> Closer approximation to fee recovery for government administration of water licenses. 	<ul style="list-style-type: none"> Cost impact affects small water users most (n=40), imperceptible impact to large water users. Diminishes scarcity value of water. Price signal doesn't encourage water reduction. 	<ul style="list-style-type: none"> Admin component of additional (e.g.) \$100/year for licensees, total revenue increase of \$18,500/year.
Tiered water use fees (on WAC) 50% WAC for water use below a tier (e.g. 50,000,000L) Full WAC for water use exceeding tier	<ul style="list-style-type: none"> Reduced annual non-potable water costs for existing full fee-paying licensees. Follows user pays model 	<ul style="list-style-type: none"> Very large water users receive less proportional cost saving. Less cost saving for golf clubs compared to MES. Difficult to set a fair tier point that meets wide range of licensee volumes Analogous to perpetual financial assistance from the Market Equity Scheme. 	<ul style="list-style-type: none"> \$2,000 to \$125,000/year impact for each golf club depending on water use, based on average or low rainfall. \$24,000 to \$30,000 saving for TCCS depending on rainfall. Total revenue to government approx. \$750,000 to \$950,000.
Surface water rights (% reduction of water fees for licensees that capture rainfall with on-site detention ponds)	<ul style="list-style-type: none"> Analogous to stock and domestic rights of rural landholders for farm dams. 	<ul style="list-style-type: none"> Nil benefit to groundwater reliant licensees (2/3 of all licensees and 4 golf clubs) nor golf clubs with off-site water sources. Administration of variable seasonal impact on eligible volumes. 	<ul style="list-style-type: none"> Potential cost saving to eligible licensees of up to approx. \$15,000/year.
Encourage recycled water uptake (reticulated stormwater and/or treated effluent)	<ul style="list-style-type: none"> Integrated Water Management Planning objectives to improve water security and diversify water sources Expanded reach of reticulated non-potable supply networks. All new or upgraded STPs required to have capacity to deliver treated effluent reuse off-site. 	<ul style="list-style-type: none"> This option departs from strict focus on pricing of non-potable water Major infrastructure projects at high economic cost to government. Existing reticulated networks costs are high. supply of treated effluent can be cost-prohibitive for customers. managing negative public perception of irrigating with treated effluent. 	<ul style="list-style-type: none"> Potentially millions of dollars in capital costs. Utility supply costs passed on to customers can be more than WAC.

Relief in extreme circumstances

A policy position to provide non-ongoing financial relief in extreme circumstances only, for licensed ACT irrigators that provide a community benefit.

Eligible criteria

The following eligibility criteria applies for properties of interest where financial relief is sought. Each of the criteria must be satisfied.

- Community club-based organisations
- A Licence¹ to take water held for the property of interest
- Irrigation water only, no other water use
- Irrigation dedicated for sporting purposes only
- In average rainfall years, irrigation requirements are largely met by licensed water use without requiring external water sources
- Water efficiency measures in place to demonstrate a genuine attempt of improving water security and reducing water use. For example, water efficient irrigation system, low water use turf species, diversification of water supply, appropriately sized water storages.
- Eligibility period applies to previous 12 months financial year where rainfall is at or below the lowest 20% of long-term average annual rainfall records for Sutton gauge 070232
- Licensed non-potable water source(s) is unavailable or inaccessible (document point in time)
- External party supplied water (document point in time) because licensed water source is unavailable or inaccessible
- Community benefit foregone if irrigation discontinued

Ineligible criteria

- Private or exclusive use of irrigated facilities (general public cannot use irrigated facilities)
- Nil community or public access benefit from irrigated facilities
- Irrigators with gaming machine revenue stream
- Primary producers eligible for Competition Equalisation Payment

Evidence

- Documentation to support each of the eligible and ineligible criteria, above
- Invoice for water use from external water supplier
- Receipt of payment from external water supplier

Payment

- Government payment of up to \$20,000 or 25% (whichever is less) of external party water supply
- For ACT Government licensed water fees, the option for 12-month instalment payment plan or 12 month payment deferment

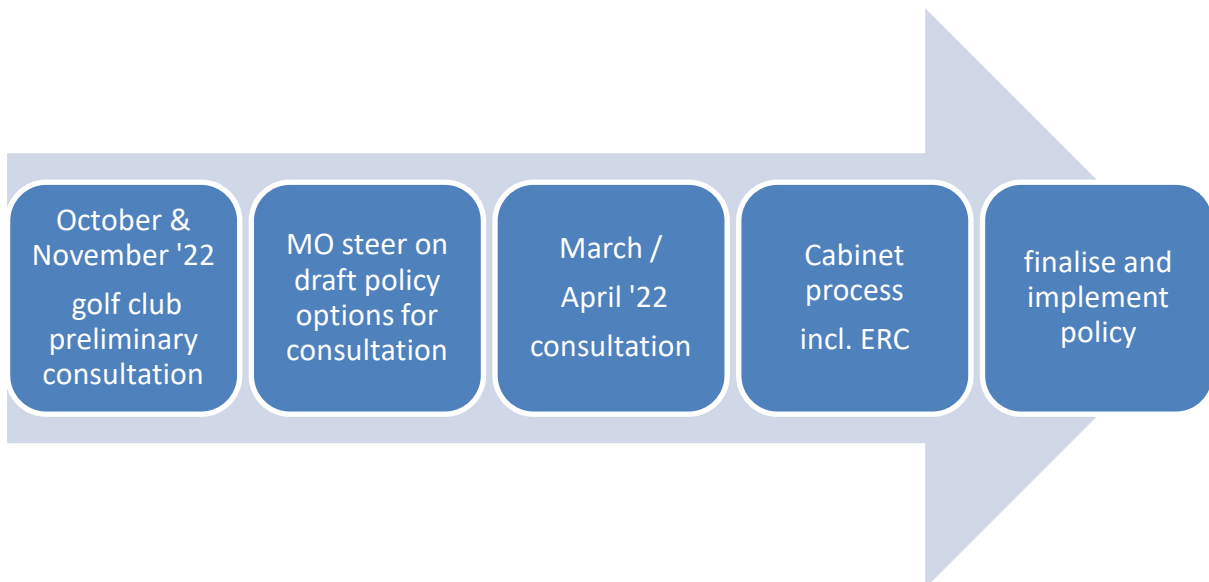
¹ Without this criterion, the scheme opens up to any sports playing field irrigated by drinking water. The affordability of irrigating sports playing fields that are 100% reliant on drinking water is a separate policy issue that requires examination of water utility pricing (and legacy impacts of low cost of water last century) and financial relief schemes. It is undesirable policy to subsidise business models of large irrigators that are not located close to large, reliable and economically affordable sources of non-potable water.

Timeline

- X weeks - Minister responds to 22/107147 to inform consultation
- Y weeks - Finalise recommendations & draft government response to take to community consultation (timeline short if MO agrees to the draft response, timeline longer if significant change to the draft response)
- 2 weeks Office of Water and EPSDD Comm's prepare material for consultation
- 6 weeks open consultation or 4 weeks closed consultation
- 2 weeks to finalise Cabinet papers based on consideration of feedback from consultation and potential shift in rec's in response to consultation (timeline short if minimal change to rec's, timeline longer if significant change to rec's)
- 10 weeks Cabinet (includes ERC) process from EXP to GS, to FIN due to CO
- Z weeks – subject to available Cabinet sitting days

= 20 weeks + x weeks (Min response to 22/1087147) + y weeks (finalise draft response) + z weeks (Cabinet sitting availability).

14 July 2023 is the earliest date to deliver government response (20 weeks from 24 February and assuming nil delay with x, y, z variables)



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2023

**THE LEGISLATIVE ASSEMBLY FOR THE
AUSTRALIAN CAPITAL TERRITORY**

**Non-potable Water Review
Government Response**

**Presented by Shane Rattenbury MLA
Minister for Water, Energy and Emissions Reduction**

XX November 2023

Introduction

The Parliamentary and Governing Agreement for the 10th Legislative Assembly (PAGA) committed to ensuring that clubs continue to support the community while reducing harm from gaming.

The government committed to undertaking a review into water costs for high-intensity club users of non-potable water (the Review), with the aim of allowing clubs to maintain operations while not requiring cross-subsidisation from other ACT water users.

The Review was led by ACT Treasury and incorporated specialist advice from the Independent Competition and Regulatory Commission (ICRC) on recycled water pricing. It examined costs related to the usage of non-potable water by clubs, such as that incurred in the form of usage charges, infrastructure costs, operation costs and maintenance costs for various sources of non-potable water.

The terms of reference for the Review were to investigate and provide recommendations on:

- the appropriateness of the current pricing framework for non-potable water, informed through an analysis of the associated costs in its supply;
- whether any adjustments can be made to the current framework which would enable clubs to continue operating, without entailing cross-subsidisation from other users;
- whether there are other relevant arrangements which could achieve the goals set out in the PAGA, such as those adopted by other jurisdictions; and
- any other issues identified through the Review.

The review was completed in December 2021 and placed on the ACT Government Your Say webpage. The key overarching findings of the Review were:

- Non-potable water usage and costs for high-intensity club users are closely linked to weather conditions and vary significantly from year to year. The revenue received by the Government and Icon Water from charges for non-potable water is equally volatile.
- Users with access to surface and ground water sources for irrigation purposes, and to a lesser extent recycled water and stormwater, have lower water usage costs than those who only have access to potable water sources for irrigation purposes.
- While water usage costs vary from year to year, they are generally less than 10 per cent of a club's overall costs and do not have a significant impact on the ongoing financial viability of most high-intensity club users. Other factors such as member base, prices charged, and other capital and operating costs can have a greater impact on a club's financial situation.
- Various assistance measures provided by the Government have resulted in golf clubs and rural irrigators paying significantly less for surface and ground water, compared to other users.

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The specific findings relating to surface and ground water were:

- Users of surface and ground water incur the costs associated with infrastructure to store and pump the water for irrigation purposes. The extent of these costs depends on a club's circumstances and are relatively fixed.
- The charges for ground and surface water (including non-potable Water Abstraction Charge (WAC)) are sufficient to recover direct costs incurred by the Government.
- Charges vary significantly for different groups of surface and ground water users. Most high-intensity club users, including golf clubs, and rural irrigators have not had to pay the non-potable WAC for surface and ground water due to a range of assistance measures. However, some of the assistance measures have recently ended.
- The concessional arrangements are complex to administer and not as transparent as other publicly accessible concessional arrangements.
- No other jurisdiction charges for surface water collected and stored in infrastructure located on users' premises (e.g. ponds). However, they do have licence arrangements.

The specific findings relating to recycled water from Lower Molonglo Water Quality Control Centre (LMWQCC) and stormwater from the Inner North Reticulation Network (INRN) were:

- As demand is volatile from year to year, pricing for stormwater and recycled water broadly reflect the average cost and usage over time.
- Recycled water supply costs are relatively fixed each year.
- This includes costs associated with the pumps and pipes required to transport the recycled water to the end user.
- Icon Water takes into account the National Water Initiative (NWI) and ICRC pricing principles when setting non-potable water prices, and these are broadly cost reflective. However, prices reflect the cost of infrastructure that was built for a greater capacity than current usage. As a result, the water usage costs for recycled water are higher than those for surface and ground water.
- Prices for INRN stormwater were initially set having regard to the tier two price of potable water and subsequently indexed by the Wage Price Index (WPI) each year.
- Given volatility in stormwater usage, prices for INRN stormwater are broadly cost reflective, but have not fully recovered the associated costs since inception.
- Some jurisdictions have either explicitly adopted NWI pricing principles for stormwater and recycled water pricing or use them as guiding pricing principles.

The Review made four recommendations:

1	<i>Adjusting ground and surface water charges to better align with the fixed and variable costs. This could be achieved through increasing licensing fees to ensure that all users contribute equally to cover the fixed costs and reducing the variable non-potable WAC.</i>
2	<i>Reforming assistance measures to make them simpler and more transparent and equitable.</i>
3	<i>Continuing to provide targeted short-term support to some sporting clubs in exceptional circumstances such as extreme or prolonged dry weather to reflect the social benefits of community clubs. Assistance should be targeted towards clubs that</i>

	<i>have no other option than to use significant quantities of recycled or potable water for irrigation purposes.</i>
4	<i>Reviewing the application of NWI pricing principles, that suggest full cost recovery for stormwater costs, in the forthcoming review of INRN stormwater prices.</i>

Preparing the Government response to the Non-potable Water Review

The government has incorporated the following principles into the government response (Response).

- Policy options are applied equitably across non-potable water licensees.
- Pricing for water supply is based on the principle of ‘user-pays’ (consumption based) and represents full cost recovery, including recovery for environmental costs.
- Water pricing promotes economically efficient and sustainable use of water resources.
- Options to assist water users will not result in the cross-subsidisation of water costs by other licensed water users.
- Administration of cost recovery (fees) and any Government assistance (subsidies) will be transparent and efficient in process.
- Government assistance in cost recovery is applied only as necessary and in the public interest (no annual ongoing measures).

It is desirable to have policy that is simple to administer and is applicable to all licensees. Each non-potable club irrigator has unique site-specific circumstances and different access to secure supplies of non-potable water. A small number of non-potable club irrigators supplement licensed non-potable use with drinking water or treated effluent to meet annual irrigation requirements. It is desirable to have policy for pricing of licensed non-potable water that does not perpetuate annual subsidies as a default position but provides accessible and targeted assistance in times of most need.

ACT Non-Potable Licenced Water Users

There are 185 licensed ACT water users (at July 2022) that extract non-potable water.

Licence holders include primary producers, large commercial operations, small businesses, community clubs and associations, schools, government irrigators and private individuals. The histogram overleaf (Figure 1) illustrates the proportion of licence holders by licensed volume. Over 75% of licensees are issued with licensed volumes of less than 40 ML/yr. Club based irrigators comprise less than 20% of licensees. High intensity golf club water users typically use in excess of 100ML of water per year, depending on rainfall.

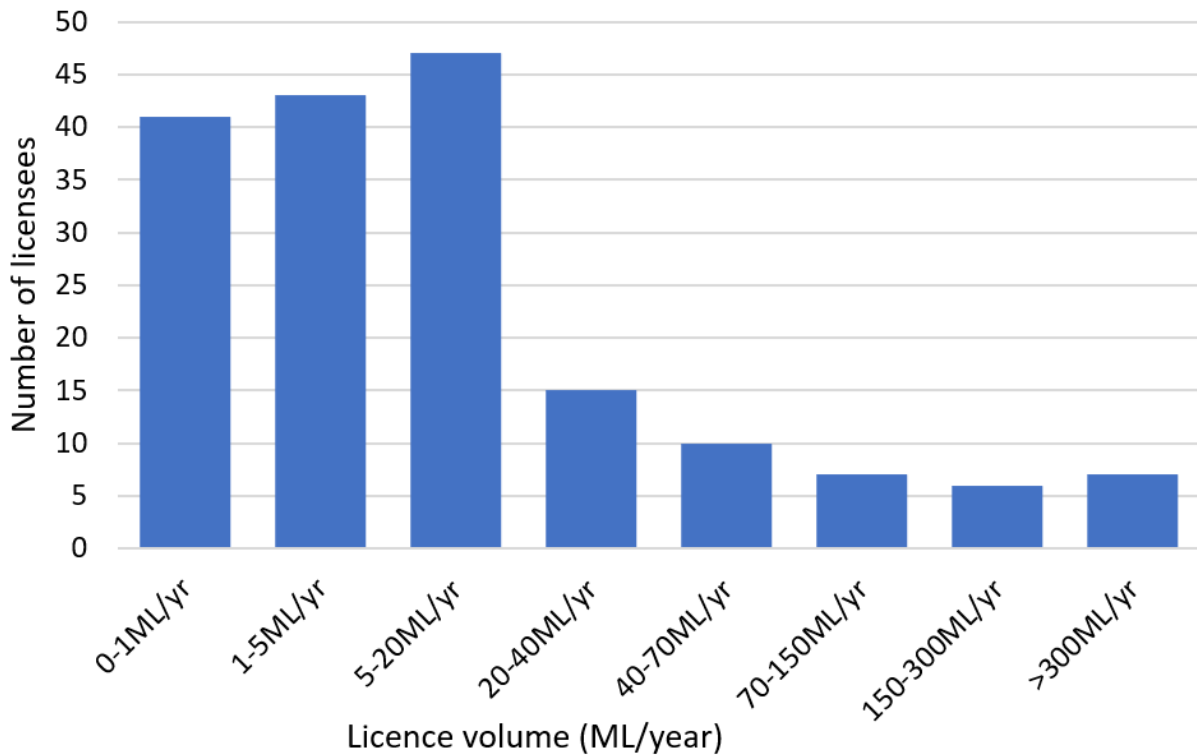


Figure 1: ACT Licences to Take Water

Current non-potable fee structure and price concessions

Each licensed water user pays an annual licence administration fee, currently \$515, collected by EPA and passed to ACT Treasury. The administration fee is irrespective of licensed water volume or amount of water irrigated in a financial year.

Licensed water users pay their own costs for privately owned irrigation pumps, energy costs to draw water, irrigation pipes and sprinklers.

Non-potable irrigators that access recycled stormwater from the Inner North Reticulation Network or treated effluent from Icon Water pay additional fees to network operators for cost-recovery of reticulated networks.

The non-potable Water Abstraction Charge (WAC) is imposed under section 107 of the *Water Resources Act 2007* through a disallowable instrument (DI) signed annually by the Minister for Water, Energy and Emissions Reduction. The objective of the non-potable WAC is to reflect the true value of water and promote the economically efficient and environmentally sustainable use of water as a scarce resource. The non-potable WAC, although not hypothecated, was put in place to cover costs incurred by the Government including the costs of urban and non-urban water supplies, water catchment management, environment protection of ACT streams and lakes, along with water policy development and administration.

The non-potable WAC is currently \$0.334 per 1,000 litres for diverting water from ACT waterways and underground aquifers. The non-potable WAC is collected from licensed water users by Access Canberra (the Environment Protection Authority, EPA), with revenue passed through to ACT Treasury.

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- Approx. 150 licensed water users, some of which provide community benefit, pay full WAC.
- 10 ACT golf clubs receive a 50% discount (Market Equity Scheme) of the non-potable WAC to recognise competition with interstate irrigators.
- Approx 25 primary producers are eligible to 98% discount (Competition Equalisation Payment) of the non-potable WAC to irrigate food and plant production and recognise competition with interstate irrigators.

The Infrastructure Offset Scheme (IOS) ended in 2020. The IOS allowed offsetting cost of golf club investment into water saving infrastructure against non-potable WAC liability. Some examples of eligible projects included re-sowing turf with water efficient grass species, earthworks to build new on-site dams or new irrigation systems. The combination of the IOS, the Non-potable Water Rebate (which ceased 31 December 2021) and the MES has meant that many golf clubs have not been required to pay the non-potable WAC for a number of years prior to 2022 and in addition, golf clubs were subsidised for undertaking water efficiency investments during the same period.

Consultation on policy options

The government recognises that the ACT golf community is the stakeholder group most likely to be affected by potential direction of the Response.

All ACT golf clubs and the ACT-Monaro District Golf Association were approached in October/November 2022 for discussion with senior government officials from the Environment Planning and Sustainable Development Directorate. These sessions included discussion of individual club water circumstances, confirmation of current pricing policy of non-potable water and information about the process to prepare a government response to the Review.

A range of policy options were presented in the report '*Consultation on policy options to inform a draft Government Response to the non-potable Water Review*'. Formal consultation was undertaken from 7 June 2023 and ended 7 July 2023 to receive written feedback on potential policy options to inform the ACT Government response to the Review.

The consultation process approached more than 200 stakeholders. The following licensees, peak bodies, community groups and authors of previous submissions to the Review were contacted and invited to respond to the consultation process.

- All 185 holders of an ACT Licence to Take Water under the Water Resources Act 2007 (includes ACT Golf Clubs)
- Clubs ACT
- Canberra Community Clubs
- Coalition of Major Professional & Participation Sports (ACT)
- ACT Rural Landholders Association of Farmers
- ACT Equestrian Association
- Australian Sports Turf Managers Association
- Golf NSW & ACT Monaro District Golf Association
- Icon Water
- Phillip Oval Management Group
- Previous submissions to the Review made by individuals

A Listening Report documented individual verbatim written submissions and summarised key insights from stakeholders.

Finalising the Government response

The following considerations were taken into account to finalise the Government Response.

- The policy principles listed on page 4
- Scope and variation of licensee base
- A range of policy and costing options scenarios
- Feedback from stakeholder consultation on policy options
- Feedback from multiple Government directorates on draft Government response
- Cabinet review, including Expenditure Review Committee review.

The Government Response

Recommendation 1

Adjusting ground and surface water charges to better align with the fixed and variable costs. This could be achieved through increasing licensing fees to ensure that all users contribute equally to cover the fixed costs and reducing the variable non-potable WAC.

AGREE IN PRINCIPLE

Increasing fixed fees (licence administration fees) and lowering variable costs (non-potable Water Abstraction Charge fees) was examined. The quantum of increasing the administration fee to be commensurate with reduced non-potable WAC presents a range of issues that are unacceptable from the perspective of resource efficiency, pricing impact and general equity, for the entire range of impacted licensees.

- Disproportionate impact and inequity for licensees. The effective cost for extracting water under a licence would shift to up to 3 times more for low water users compared to large irrigators with negative impacts for half of the 185 licensees. This is inconsistent with commitments of government under the National Water Initiative to avoid perverse or unintended pricing outcomes.
- Inconsequential impact for licensed irrigators reliant on reticulated stormwater, treated effluent or drinking water to supplement irrigation with non-potable water. Lowering the non-potable WAC has an inconsequential impact on those customers that continue to incur high-cost supply of water from third parties. Reticulated stormwater, treated effluent and drinking water are priced independently on a network cost recovery basis and are currently several orders of magnitude more expensive than other non-potable water that is subject to the non-potable WAC only.
- Any adjustment of the non-potable WAC needs to have sound basis and not be arbitrarily altered (up or down) without reflecting intent of non-potable WAC pricing that aims to reflect:
 - the costs incurred by ACT Government in maintaining water catchments;
 - the environmental costs associated with the consumption of water in the ACT;
 - and

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- the scarcity value of water as a resource that holds significant value across the broader community.
- Adjusting the non-potable WAC in isolation of other policy options would not of itself encourage efficient water use. Reducing the non-potable WAC would send a price signal to irrigators that water is less valuable and would not encourage the implementation of water efficiency measures.

The ACT Government will undertake the following actions to address recommendation one.

- The Government will consider the non-potable WAC price determination method in the 2023/24 financial year with the assurance that the non-potable WAC will not be more than the amount currently set subject to annual indexing.
- Implement any change to non-potable WAC price setting in a Water Resources (Fees) Determination made under the Water Resources Act 2007, from 1 July 2025, to apply to all licensees subject to the non-potable WAC.
- Make no change to the fee determination method for setting administrative fee, including annual indexing, for licensed non-potable water users.

Recommendation 2

Reforming assistance measures to make them simpler and more transparent and equitable.

AGREE

The ACT Government supports transparent and accountable governance.

The Review recommended future government financial assistance is provided only as targeted short-term support in exceptional circumstances and on this basis, reinstatement of previous rebates (Infrastructure Offset Scheme; Non-potable water rebate) and perpetual financial assistance in the form of the Market Equity Scheme (MES), is not proposed. Accordingly, the Government Response discontinues the MES, which means golf clubs will be required to pay the same rate of non-potable WAC as other licensees that provide community benefits.

The community wellbeing benefits provided by high-intensity clubs that irrigate with non-potable water, such as golf clubs, are recognised. Golf clubs and other high-intensity clubs that provide non-exclusive sport-based community benefits will be able to apply for financial assistance in low rainfall years when irrigation is more challenging.

The assistance measures presented at Recommendation 3 (below) are available for eligible clubs facing water scarcity in low rainfall years that need to supplement non-potable irrigation with more expensive sources of treated water.

No change is proposed to the Competition Equalisation Payment (CEP) which provides a 98% discount on the non-potable WAC for approximately 25 ACT primary producer irrigators. The CEP will be the only ongoing discount to the WAC offered to any group of non-potable irrigators in recognition that providing food and plant production is a higher order use of non-potable water than irrigating turf for sporting purposes.

The ACT Government will undertake the following actions to address recommendation two.

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- Transition to financial relief in exceptional circumstances from 1 July 2025 in tandem with discontinuing the Market Equity Scheme from 30 June 2025.
- Non-ongoing financial relief will be accessible to eligible club-based non-potable licensees, under extreme circumstances, to recognise community benefits provided by clubs (see response to Recommendation 3).
- See Recommendation 1 for implementation of measures to review non-potable WAC.

Recommendation 3

Continuing to provide targeted short-term support to some sporting clubs in exceptional circumstances such as extreme or prolonged dry weather to reflect the social benefits of community clubs. Assistance should be targeted towards clubs that have no other option than to use significant quantities of recycled or potable water for irrigation purposes.

AGREE

Non-ongoing relief proposed by the ACT Government in this Government Response is applicable to non-potable water users.

The wellbeing benefits provided to the ACT community by high-intensity club users that irrigate with non-potable water are recognised, such as greenspace, amenity and encouraging community participation in sport. The Government Response recognises the high intensity irrigation required to achieve this community wellbeing, and the additional operational stress faced by clubs during low rainfall years and drought as they seek to maintain a reasonable standard of turfed playing surfaces.

High-intensity club irrigators that facilitate community sport will be able to apply for financial assistance in low rainfall years when irrigation is more challenging in times of water scarcity. Note that irrigators with 100% reliance on treated drinking water are out of scope for the purpose of financial assistance associated with this Government Response.

The use of treated drinking water as the primary means to irrigate sports playing fields is a separate issue that requires further examination and would otherwise delay this Government Response. The Government remains open to further engagement with this group of irrigators on options to encourage water efficiency for playing surfaces that are irrigated only with treated drinking water.

In response to this recommendation, from 1 July 2025 and in low rainfall years only, financial relief will be made available for high-intensity club-based not-for-profit non-potable irrigators on an application basis and subject to the eligibility criteria described below.:

An irrigator is eligible to apply for assistance where all of the following criteria are met.

- Assistance will be available only during times of low rainfall. This is defined as when the rainfall over the previous financial year was at or below the lowest 20% of long-term average annual rainfall records for Sutton gauge 070232.
- The applicant is a community club-based not-for-profit irrigator.
- A Licence to take water is held for the property of interest.

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- The primary purpose of licensed non-potable irrigation is to facilitate community sport.
- Community benefit would be foregone if irrigation discontinued.

Non-club licensees are ineligible for financial relief.

If approved, the ACT Government will provide financial relief of up to \$20,000¹ annually, or 50% of invoiced non-potable WAC amount (whichever is less), in the form of a deduction from a licensee's annual non-potable WAC invoice.

Recommendation 4

Reviewing the application of NWI pricing principles, that suggest full cost recovery for stormwater costs, in the forthcoming review of INRN stormwater prices.

AGREE

The Inner North Reticulation Network (INRN) is already aligned with National Water Initiative pricing principles. The ACT Government supports the application of the NWI principles in review of the INRN.

A Triple-Bottom Line assessment of the INRN is being undertaken in 2023 by Roads ACT with Treasury assistance as part of reviewing the Roads ACT utility licence exemption for the INRN. The review will inform pricing policy direction for INRN. By extension, the review may inform viability considerations of reticulated stormwater application more broadly in the ACT.

The relevant NWI pricing principles for recycled water and stormwater use include:

- Flexible regulation (to improve economic efficiency);
- Cost allocation (user pay contributions and sharing costs across beneficiaries);
- Water usage charge (for volumetric use);
- Substitutes (to consider price of potable and raw water sources to inform upper pricing bands);
- Differential pricing (to reflect quality and reliability of supply);
- Integrated water resource planning;
- Cost recovery; and
- Transparency.

The ACT Government through the Office of Water support the INRN review process and application of NWI pricing principles.

¹ At publication of the Government Response and thereafter subject to Treasury consideration.