Gwydir Valley Irrigators Association Inc.

458 Frome St, PO Box 1451, Moree NSW 2400

13 May 2014

Australian Competition and Consumer Commission
Attn: Mr Darren Kearney
GPO Box 520
Melbourne VIC 3001
Darren.Kearney@accc.gov.au SENT VIA ELECTRONIC MAIL

Re: Submission on ACCC Draft Determination for Regulated Water Charges

Dear Mr Kearney,

The Gwydir Valley Irrigators Association is pleased to provide the Australian Competition and Consumer Commission (ACCC) with our submission on the Draft Determination for State Water Corporation's (SWC) Regulated Water Charges.

We thank the ACCC for this opportunity and for granting the GVIA an extension to provide this submission. Due to timing, we has also had the opportunity to briefly review the SWC submission on the draft determination. Our submission therefore also includes some comments specific to SWC claims.

The GVIA supports the approach taken by the ACCC and considers that this robust assessment may lead to an end of SWC exploiting their monopoly business over customers. We are therefore, not surprised at the SWC response to the draft determination and their continued claims for elevated fixed revenue and impacts to their business.

The GVIA rejects many of SWC claims and rather supports most of the ACCC's decisions, in particular that to maintain the current 40:60 fixed to variable tariff structure, initiation of an 'unders and overs' account to manage revenue volatility and a rejection of inflated and unsubstantiated operational and capital expenditure.

However, upon review of the draft determination we have developed 19 recommendations for further review prior to the finalisation of prices for our region.

We would welcome the opportunity to present to the ACCC our findings and are more than willing to provide additional information as requested by the ACCC.

I look forward to working with the commission on this matter.

Kind regards

Zara Lowien
Executive Officer
Gwydir Valley Irrigators Association

Gwydir Valley Irrigators Association Inc
Chairman: Joe Robinson EO: Zara Lowien
ABN 49 075 380 648
Ph 02 67521399 Mob 0427 521399
gvia@gvia.org.au www.gvia.org.au

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Submission to the Australian Competition and Consumer Commission on:

Draft Decision on State Water's Pricing Application:

2014–15 — 2016–17

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1 Purpose of this submission

This document has been developed by the Gwydir Valley Irrigators Association (GVIA) on behalf of its members as a formal submission for consideration by the Australian Competition and Consumer Commission (ACCC) on State Water Corporation's (SWC) Pricing Application for NSW Regulated Water Prices 2014-2017.

This document represents the concerns and views of GVIA's members. However, each member reserves the right to express their own opinion and is entitled to make their own submission.

2 About the Association

2.1 Where we are and what we do

The Gwydir Valley Irrigators Association (GVIA) represents in excess of 250 water entitlement holders in the Gwydir Valley, centred around the town of Moree in North-West New South Wales. Our mission is to build a secure future for its members, the environment and the Gwydir Valley community through irrigated agriculture.

Our members hold entitlements within the Gwydir regulated and un-regulated surface water areas, in addition to groundwater resources. All of which are managed through water sharing plans.

The main broad acre irrigated crop is cotton with irrigated wheat, barley and Lucerne also occurring depending on commodity prices. Currently there are also pecans, walnuts, oranges and olives being grown within the region covering approximately 1,500 hectares. There is however, significant and potential for expansion into horticulture.

The Gwydir Valley Irrigators Association organisation is voluntary, funded by a cents/megalitre levy on regulated, unregulated and groundwater irrigation entitlement. In 2010/11 the levy was paid on in excess of 87% of the eligible entitlement (excludes entitlement held by the State and Federal Government).

The Association is managed by a committee of 11 irrigators and employs a full-time executive officer and a part-time administrative assistant, as well as hosting a Regional Landcare Facilitator and Project Officer for externally funded research.

Much of the activity the association revolves around negotiating with government at a Federal, State and Local level to ensure the rights of irrigators are maintained and respected.

While the core activities of the Association are funded entirely through a voluntary levy, the Association does from time to time, undertakes special projects, which can be funded by government.

The GVIA and its members are members of both the National Irrigators Council and the NSW Irrigators Council.

We support the submissions made by NSW Irrigators Council on behalf of the irrigation industry of NSW.

2.2 Association Contacts

Gwydir Valley Irrigations Association

ABN: 49 075 380 648

458 Frome Street (PO Box 1451)

Moree, 2400

Chairman: Joe Robinson

Executive Officer: Zara Lowien

Ph: 02 6752 1399

Fax: 02 6752 1499

Mobile: 0427 521 399

Email gvia@gvia.org.au

3 Executive Summary

The Gwydir Valley Irrigators Association (GVIA) has welcomed many of the positions outlined by the Australian Competition and Consumer Commission's (ACCC) draft determination on State Water Corporation's (SWC) Regulated Water to apply from 1 July 2014.

The GVIA considers that the ACCC approach may lead to an end of SWC exploiting their monopoly business over customers to the detriment of the irrigation industry and local communities. We are therefore, not surprised at SWC response and continuation of ardent claims for elevated fixed revenue and potential business risk.

The GVIA supports the ACCC's approach to pricing and in particular the decision to maintain the current 40:60 fixed to variable tariff structure, initiation of an 'unders and overs' account to manage revenue volatility and a rejection of inflated and unsubstantiated operational and capital expenditure. However, the GVIA do believe there is opportunity to further lower prices before July 2014.

Following a review of the ACCC draft determination the GVIA have developed 19 recommendations for further review or analysis by the ACCC prior to the finalisation of prices for our region. We have also listed the areas of which we support the ACCC decision for easy reference.

The GVIA have also taken the opportunity to review the SWC submission and have as a result provided commentary on this and our submission seeks to address many of the points outlined by SWC.

4 Introduction

The Gwydir Valley Irrigators Association (GVIA) was pleased to receive the Australian Competition and Consumer Commission's (ACCC) draft determination on State Water Corporation's (SWC) Regulated Water Charges and to see that many of SWC claims within their pricing application had been largely denied and re-evaluated potentially putting an end to SWC profiteering of our industry for its investors.

The GVIA welcomed the ACCC's approach and in particular the decision to maintain the current 40:60 fixed to variable tariff structure, initiation of an 'unders and overs' account to manage revenue volatility and a rejection of inflated and unsubstantiated operational and capital expenditure. All areas where the GVIA agree with the ACCC are listed for easy reference in Section 5 and detailed throughout this submission. The GVIA rejects SWC claims that these decisions will adversely impact their business.

However, the GVIA are disappointed that while there was a decrease in total revenue for the valley and subsequently general security and high security prices, we believed that this decrease should have be lower given the removal of external charges, the minimisation of revenue volatility and the current market conditions. We believe that prices should be lowered more substantially through a reassessment of a number of pricing parameters, greater efficiency drivers, a rejection of historical costs (like labour and equipment) and an acknowledgement that State Water have considerably over-recovered these last financial years and that this should be accounted for in opening calculations.

The GVIA also believes that with the merger of SWC with Sydney Catchment Authority (SCA) (to be finalised in 2015), further efficiencies will be found and these will warrant a review of certain pricing parameters and indeed should result in further price reductions. We urge the ACCC to consider a mid-determination review to incorporate these efficiencies into revenue requirements.

We do not believe that further decreases in total revenue for SWC will put their business at risk as claimed by SWC. It was evident throughout the drought that through a series of years of under-recovery they maintained services, key personnel and a profit for the NSW Government.

The GVIA were alarmed by the difficulties encountered in determining labour and overhead costs throughout the pricing parameters. While customers were frustrated at the lack of data within the initial pricing application by SWC, we assumed that the ACCC would have had better access to undertaken their assessment of prices. We are therefore very concerned that there remain unresolved issues, as a result of poor reporting by SWC, which suggests that there is an attempt to double account costs and buffer revenue.

The GVIA has made 19 recommendations for the ACCC to consider before finalising the regulated water prices for our region and these are listed below in Section 6 and detailed throughout the submission.

5 Principles in Agreement

The GVIA agrees with or supports the following decisions by the ACCC:

- Reduction in Capital Expenditure;
- Removal of contingency allowances;
- Removal of projects costs like CARMs for the Gwydir from capital expenditure;
- Decrease in operating expenditure;
- Removal of step increases for certain activities like the collation of crop statistics, Environmental Management Systems and the Basin Plan commitments for the Gwydir;
- Efficiency target should be set following forecast wage savings;
- Maintenance of 40:60 fixed to variable tariff;
- Initiation of the overs and unders account;
- Adoption of a 1.81 Water Sharing Plan ratio for High Security entitlements;
- Maintenance the metering service charges for customer owned meters at the current rate;
- Reduction in the metering service charges for meters owned by others;
- Inclusion of the environmental gauging station charge; and
- Reduction in the allocation trade charge.

6 Recommendations

The GVIA provides the following recommendations for the ACCC to consider prior to finalising water prices for our region, including:

1. The ACCC review the rate of return to take into consideration lowering of risk through the creation of Bulk Water NSW

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2. The ACCC review the ability for SWC to complete proposed capital expenditure and adjust expenditure accordingly.
3. The ACCC seek to clarify and review the cost assumptions with capitalised labour and overhead costs and adjust revenue accordingly.
4. The ACCC apply costs associated with fish ways triggered by Dam Safety upgrades to both users and government 50:50.
5. The ACCC only include costs associated with finalised fish way designs rather than estimates.
6. The ACCC remove non-urgent IT upgrades so that they are put on hold until the completion of the establishment of Bulk Water NSW.
7. The ACCC review SWC actual capital expenditure prior to the determination to adjust the opening RAB.
8. The ACCC investigate the delay (lag) in RAB allocation between users and the NSW Government and determine its impact on customers.
9. The ACCC review operating expenditure, in particular the setting of base opex against the ACCC rules.
10. The ACCC adopt a 1.5% p.a. efficiency target for SWC.
11. The ACCC review cost levels for operating expenditure following the completion of the creation of Bulk Water NSW.
12. The ACCC complete bill impact assessments for 100%, 60%, forecast consumption, 40% and 20% usage scenarios if alternative tariff structures are being considered.
13. The ACCC investigate customer support for greater customer choice in regards to tariff structure.
14. The ACCC adopt a 5% price cap be utilised following extended below forecast delivery periods.
15. The ACCC reject SWC claims for:

    a. an adjustment to the ‘unders and overs’ mechanism to include an annual repayment of the debt (if the ‘unders and overs’ account is negative) applied to General Security licence holders and

    b. annual indexation of the ’unders and overs’ account balance to preserve its value over time.

16. The ACCC apportion a percentage of the current over-recovered revenue for the Gwydir to the starting balance of the overs and unders account for the valley.
17. The ACCC expand the user base to include: planned environmental water; individuals receiving basic landholder rights; individuals receiving replenishment flows; and other discretionary water users.
18. The ACCC adopt the Long Run Average IQQM for consumption forecasting.
19. The ACCC further reviews the calculation of High Security prices in particular the use of average water allocations.

7 Comments on Gwydir Revenue Requirement

The GVIA welcomes the reduction in total revenue from SWC application of $13.9M and the current revenue of $14.4M (approved by IPART) to $11.9M for the Gwydir Valley.

We support many of the changes made by the ACCC but question why the total requirement remains at this level considering the approach applied by the ACCC to calculating total revenue, the removal of pass through costs like MDBA charges and the application of the overs and unders account to manage volatility rather than applying an allowance. With these and the fact that market conditions are positive and SWC are in the process of merging, by deduction, total revenue should be lower. The magnitude of change remains the concern for the GVIA and an eight percent reduction over the period is questionable.

Following review of the draft determination, we believe there are a number of areas that remain a concern for the GVIA and explain why the total revenue remains elevated.

7.1 Weighted Average Cost of Capital (WACC)

The GVIA welcomed the reduction in the Weighted Average Cost of Capital (WACC) to a 7.44% down from the SWC proposal of 8.95%, which was also below that of our recommended rate, which rightly reflects the positive market conditions and the improved stability of SWC business.

However, the GVIA does question this rate considering the merger of SWC with SCA into Bulk Water NSW. Once merged together, there will be systematic efficiencies to be realised and a reduction in overall business risk as the overheads are broadened. Not to mention the fact that SCA have a lower Beta than SWC indicating that the combined new entity would also have a lower Beta value than that currently applied to SWC.

The ACCC review the rate of return to take into consideration lowering of risk through the creation of Bulk Water NSW

7.2 Capital Expenditure

The GVIA welcomed the reduction in SWC capital expenditure by $1.5M in the Gwydir, in particular the exclusion of contingency allowances for projects and the removal of projects like Computer Aided River Management (CARM) for our valley. The GVIA do not support projects like CARMs being included in pricing determinations without a fully tested business case supported by customers.

However, considering SWC historical inability to meet their capital expenditure allowances we remain concerned at whether SWC have the capacity to meet even this reduced requirement in the proposed period. In particular, the historical underspend on fish ways for our valley which although 'proposed' remain in draft, without designs or true cost estimates.

The GVIA remain concerned that customers will continue to pay for projects without realising the benefits and ask that the ACCC review SWC ability to complete these projects and reconsider a further adjustment of expenditure.

The ACCC review the ability for SWC to complete proposed capital expenditure and adjust expenditure accordingly.

The GVIA also agree with the reduction in capitalised labour and overhead costs included in capital projects. The GVIA are concerned that the ACCC and SWC had difficulty disaggregating this information for the purposes of the pricing assessment and recommend that further information is obtained from SWC to clearly breakdown capital costs and allocate accordingly. The GVIA remain very wary of SWC attempt to hide or double account for costs between capital and operating expenditure, as a means to secure higher revenue.

Also in-light of recommended reviews to operating expenditure and overheads (explained in Section 7.4) any capitalised labour costs or overheads should also be further amended accordingly.

The ACCC seek to clarify and review the cost assumptions with capitalised labour and overhead costs and adjust revenue accordingly.

<u>Fish way projects:</u>

The GVIA continues to remain frustrated with the dam offset fish ways projects that continue to be delayed due to green tape, ultimately resulting in higher costs but also the lack transparent detail in designs and costing. Whilst we agree in the concept that these fish ways are a cost-effective alternative to the requirement to have pathways on major dams, as the requirement was triggered with Dam Safety upgrades the cost sharing of these projects should not be borne only by users but also by the NSW Government and the process for determining costs should be more transparent.

The ACCC apply costs associated with fish ways triggered by Dam Safety upgrades to both users and government 50:50.

The GVIA reject the use of completed designs for other valleys as a suitable process for the costs in our own, as supported by Deliote as part of their capital expenditure review. Each fish way is unique to the location and the valley and therefore they are unlikely to be comparable. We ask that prior to determining a total cost of these projects that finalised designs are costed, which can then be assessed against the ACCC pricing principles for inclusion in total revenue.

The ACCC only include costs associated with finalised fish way designs rather than estimates.

<u>IT upgrades:</u>

The GVIA continues to question the requirement for continual upgrades to SWC IT systems. In particular we question the urgency of the proposed IT upgrades considering the merger of SWC into Bulk Water NSW and the operational changes that may occur. As such we recommend that such expenditure be put on hold pending the finalisation of the merger with Sydney Catchment Authority.

The ACCC remove non-urgent IT upgrades so that they are put on hold until the completion of the establishment of Bulk Water NSW.

7.3 Regulated Asset Base (RAB)

Due to SWC historical under-expenditure on capital projects, the GVIA have concerns with the determination of the opening RAB and RAB projections. Whilst the ACCC are clear on their process for determining opening RAB and projections, the fact that these are based on estimations of expenditure by SWC, the calculation in this instance will be flawed by their overzealous nature to seek revenue, rather than their ability to spend that.

The ACCC review SWC actual capital expenditure prior to the determination to adjust the opening RAB.

As part of our submission on SWC pricing application the GVIA also recommended that the ACCC investigate the perceived delay in RAB allocation between users and the NSW Government, so that there are no negative impacts on customers. As the issue remains unresolved we again raise it with the ACCC to investigate.

The ACCC investigate the delay (lag) in RAB allocation between users and the NSW Government and determine its impact on customers.

7.4 Operating Expenditure

The GVIA welcomes the decrease in operating expenditure in the Gwydir Valley by $1.0M. We support the removal of step increases for certain activities like the collation of crop statistics, Environmental Management Systems and the Basin Plan commitments as they are normal business activities.

The GVIA notes that the ACCC are using the 12/13 financial year to determine the base operating expenditure for SWC. The GVIA are concerned with this approach as the12/13 water year was a high water delivery year, with a total of 427,967ML delivered in the Gwydir which was 180,233ML above the 20-year rolling average. Hence, operating expenditure may be an extreme example rather than a ‘base’ or starting point of which to model future expenditure from;

The GVIA are also concerned at the ACCC’s willingness to accept ‘past’ performance of operating expenditure. There is no evidence of the ACCC assessing the prudency and efficiency of these costs incurred in 12/13 to determine if they are appropriate but rather appear to accept the allowable amounts set by NSW IPART.

Considering the lack of information within parts of the SWC pricing proposal and the issues around determining labour and overhead costs in operating and capital expenditure items, the GVIA consider there significant evidence to warrant a more thorough review of operating expenditure against the ACCC rules.

The ACCC review operating expenditure, in particular the setting of base opex against the ACCC rules.

The GVIA remain disappointed in the nominal efficiency target of 1% set within this draft determination, although we do agree that this should be in addition to efficiencies gained from forecast wages. Efficiency targets are just that, targets to encourage innovation within the business and should not be determined at achievable levels. The GVIA recommend setting a more challenging efficiency target to offset the impact of consumer price index increases that are borne by customers, as such we propose an efficiency target of at least 1.5% per annum.

The ACCC adopt a 1.5% p.a. efficiency target for SWC.

This is a decrease from our previous position where were believe at a minimum the SWC should aim to absorb any consumer price index increases through efficiencies gains, a practice reflective of their customers businesses. Customers cannot be expected to absorb elevated water prices because SWC are incapable of operating an efficient and effective business model.

Furthermore, as outlined earlier with the merger of SWC and SCA there will be operating efficiencies and overhead savings to be realised. As such the GVIA recommend that cost levels are reviewed following the completion of the merger.

The ACCC review cost levels for operating expenditure following the completion of the creation of Bulk Water NSW.

8 Comments on Indicative Pricing

The GVIA welcomed the ACCC's draft decision on pricing for the Gwydir although as outlined in Section 6, we would anticipate that if our recommendation are considered that these prices may be subject to change following further review of cost building blocks by the ACCC.

The GVIA support the ACCC decision to maintain the current 40:60 fixed to variable tariff structure and adopt a new price control and volatility management mechanism, the unders and overs account. The following sections look at these components in more detail.

8.1 Tariff Structure

The GVIA support the maintenance of the 40:60 fixed to variable tariff structure. Any alternative structure proposed by SWC like 80:20 fixed to variable, clearly shifts SWC business risk onto customers, which is unwarranted considering other revenue control mechanisms likes the unders and overs account to be discussed following in Section 8.2.

The GVIA in particularly are concerned with alternate tariff structures considering the reliability of our entitlements and the financial impact for our members in times of low usage (water availability). As a valley with high variability in water availability, where our long term reliability (likely allocation) is 36% and is measured mainly through very large water years followed by low water years, it is highly likely that Gwydir irrigators will find themselves needing to pay for a resource that they will not get to utilise. For example, in our first submission on SWC pricing application[1] we outlined the significant concerns for Gwydir irrigators to pay under different usage scenarios rather than the 100% and 60% presented by SWC. This analysis highlighted the significant cost impact to customers during their alternative scenarios. As such, the GVIA consider it essential that the impacts at a valley level are looked at for a range of usage scenarios and that these should be provided to industry prior to making any movement away from the current draft decision.

The ACCC complete bill impact assessments for 100%, 60%, forecast consumption, 40% and 20% usage scenarios if alternative tariff structures are being considered.

A preview of the Boyce Australian Cotton Comparative Analysis for 2012[2] with the inclusion of the 2013 interim results[3] reinforces the impact that water prices can have on low water availability years as summarised below in Table 1: Summary of Results by Boyce Chartered Accountants for the Australian Cotton Comparative Analysis for 2013 – interim.. This analysis is across all irrigated cotton growing regions (including the Gwydir) and highlights that in low water years when crop area is also low, the percentage of total expenses for water increases while profit declines. This is best calculated in a $/Ha value of the total cost of water per hectare of cotton grown, which was as high as $486/Ha and reducing to $92/Ha in large crop years. The total cost on an average basis can be extrapolated to be $236,511 for 2009 and $172,132 in 2013.

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[1] Page 20: GVIA submission to the ACCC on 'State Water Corporation's Pricing Application to the ACCC for regulated charges to apply from 1 July 2014'

[2] Full results can be downloaded: http://www.boyceca.com/assets/uploads/1/files/Corporate%20Ag/Australian%20Cotton%20Comparative%20Analysis%202012.pdf

[3] Full results can be downloaded: http://www.boyceca.com/assets/uploads/1/files/Corporate%20Ag/201309%20Boyce%202013%20CCA%20Interim%20Report.pdf

Table 1: Summary of Results by Boyce Chartered Accountants for the Australian Cotton Comparative Analysis for 2013 – interim.

	Average water charges expenses $/ha	Extrapolated average total water charges	% Total Expenses	Profit/Ha
2003	319	$ 170,636.29	9%	599
2004	364	$ 181,304.76	9%	569
2005	113	$ 116,131.23	4%	1,421
2006	188	$ 175,971.76	6%	415
2007	399	$ 211,920.87	10%	96
2008	439	$ 197,150.51	10%	37
2009	486	$ 236,511.90	11%	534
2010	189	$ 117,401.13	5%	1,026
2011	134	$ 191,148.32	4%	1,919
2012	141	$ 236,269.47	4%	1,192
2013	92	$ 172,132.00	2%	849

Furthermore, a comparison of the averages presented by the Boyce in Table 1 to an actual business in the Gwydir reinforces the fact that a movement away from the current tariff structure will severely impact on the sustainability of the industry by placing undue cost pressure on irrigators in times of low water availability. Whereas the current supported tariff model allows irrigators to incur a greater total cost during times when they have the best opportunity to manage these costs in total and over the crop area.

Our irrigator highlighted that in 2012 they grew 3924 Ha of irrigated cotton with a total water of $369,388 (fixed $245,314 and variable $124,074 costs), whereas, in 2008 they grew 172 Ha of irrigated cotton with total water cost of $174875 (fixed $141,145 and variable water $33,730). Whilst the irrigator in 2012 also leased three additional licences than in 2008, increasing the total fixed cost, the total customer owned entitlement was the same. For the above example, you would see a true water cost during low water availability at $1016/Ha rather than the Boyce average value of $188/ha. If an alternative tariff structure was proposed, this real cost per Ha would be greater again.

Whilst irrigators accept some level of annual costs associated with maintaining their asset, the potential price impacts will place considerable undue pressure on customers and jeopardise the industries sustainability in the long-term. As such the GVIA urge the ACCC to maintain their position on the tariff structure as outlined in their draft determination.

The ACCC reject SWC claim for a change in the tariff structure from the 40:60 fixed to variable.

The GVIA rejects the SWC claim that customers have a variety of risk mitigation strategies to manage risk and SWC are without. The GVIA believe that the ACCC draft determination has provided the SWC with a number of mechanisms to manage their risk. Not to mention that we believe the ACCC principles are not to investigate risk mitigation strategies for businesses or customers, but rather focus on the efficiency and prudency of costs and price shocks to customers. The following looks at this *perceived* opportunity for irrigators to mitigate risk posed by an alternative tariff structure:

- Lower variable costs when plantings are reduced – REJECT: SWC are seeking higher fixed proportion and therefore the majority of water costs will not be reduced even when plantings are reduced. When there are no plantings there is no income;

- Farm management deposit schemes – REJECT: FMDS are available for use in high production years, to put away profit to be utilised in low income years, however the funds put aside may not be suitable to cover the full impact of price hikes proposed by SWC under a higher fixed proportion of costs and in reality, the majority of business use profits to fund maintenance and innovation like technology upgrades that are held off during poor profit years;

- Water trading market – REJECT: water trading cannot be considered an effective risk management tool as the commodity being traded is finite and in low water years, when prices are a problem, it is a limited resource, with only a few irrigators able to benefit from transactions. Not to mention that the Commonwealth Environmental Water Holder and NSW Riverbank in the Gwydir hold more than 25% of entitlement and are unlikely to trade large volumes of water for irrigation use – although they have capacity; and

- NSW and Commonwealth Government assistance – REJECT: Government assistance is only triggered following a number of consecutive years of low water availability and was not accessed during the peak of the millennium drought, therefore unlikely to be readily available as a strategy.

The ACCC reject SWC claims that customers have a variety of risk mitigation strategies.

Whilst we support the maintenance of the status quo for the 40:60 fixed to variable tariff structure the GVIA would like to note to the ACCC that many customers have requested that they be provided choice to select a tariff structure that best suits their business. This was rejected by SWC as too difficult and complicated despite SWC continuing to seek a broader change with detrimental impacts to majority of customers. The GVIA rejects SWC argument and recommends the ACCC consider canvassing customers on their support for greater choice of tariff structures as a means to provide customer's choice in a monopoly market.

The ACCC investigate customer support for greater customer choice in regards to tariff structure.

8.2 Overers and Unders Account

Despite initial concerns, the GVIA support in principle the unders and overs accounting system but are concerned with possible perverse outcomes following extended dry periods. As such we recommend that a price cap also be placed to limit price increases and shocks between years at 5% following extended below forecast water delivery years.

The ACCC adopt a 5% price cap be utilised following extended below forecast delivery periods.

The GVIA reject SWC claims that this process will place undue financial risk on State Water in the form of unsustainable borrowing levels, reduced credit ratings and higher debt costs. The GVIA are of the opinion that the process allows sufficiently for SWC to seek additional revenue if required to 'bridge the revenue gap' and that this process is applied at a valley level, when in fact SWC manage their business as a whole. As such, whilst the SWC may have an under in one valley, this in reality can be offset by an overs in another, negating any impact.

The GVIA do not support the application of an annual repayment of debt for the unders and overs account or the application of consumer price index on top of the already allowed for rate of return. The GVIA consider that the process outlined by the ACCC already accounts for the allowance to repay debt through the application of a rate of return by applying the WACC already allows for changes in market conditions and therefore inherently reflects the real cost.

- **The ACCC reject SWC claims for:**
  - **an adjustment to the 'unders and overs' mechanism to include an annual repayment of the debt (if the 'unders and overs' account is negative) applied to General Security licence holders and**
  - **annual indexation of the 'unders and overs' account balance to preserve its value over time.**

The GVIA are also concerned that the significant over recovery by SWC this year (2013/14) and last (2012/13) are not being captured by the ACCC as part of their pricing determination. In the Gwydir, SWC have delivered 427,967ML in 2012/13 and are on track to deliver over 400,000ML this water year, resulting in an estimated $4.1M additional revenue collected over the determined requirement for these two years alone, with the total period over-recovery estimated at $3.3M. The GVIA consider it imperative that the ACCC consider mechanisms to allow for this over-recovery to offset any future under-recoveries by allowing a portion of this to be allocated to the starting balance of the overs and unders account.

The ACCC apportion a percentage of the current over-recovered revenue for the Gwydir to the starting balance of the overs and unders account for the valley.

8.3 Customer Base

The GVIA continue to raise concerns over the limited customer base that the SWC determine their user shares from. The customer base used by SWC to share user costs is not reflective of the full suite of water users who receive the services and benefits of water delivery. With the majority of valleys at full cost recovery (the Gwydir in particular), the burden to cover the full value of water storage and delivery is by default shouldered irrigation and commercial water entitlement holders only.

The GVIA propose that the ACCC undertake an analysis on the price benefits on expanding the customer base and adopt a framework that shares the total revenue costs across a more reflective user base that includes:

- Planned environmental water;
- Individuals receiving basic landholder rights;
- Individuals receiving replenishment flows; and
- Other discretionary water users.

The ACCC expand the user base to include: planned environmental water; individuals receiving basic landholder rights; individuals receiving replenishment flows; and other discretionary water users.

8.4 Consumption Forecasting

The GVIA continues to have reservations with the application of a 20-year rolling average forecast for consumption. By only using a 20-year rolling average, the water delivery sequence is selected for a period of low water availability and results in a skewed consumption forecast.

The 20-year rolling average forecast essentially provides SWC a revenue buffer by increasing the likelihood of using a greater volume of water than forecasted. Conversely, this practice results in higher prices for the customer. The GVIA perceive this as an inefficient way that SWC can control revenue volatility and that it is not required considering the ACCC decision to utilise an unders and overs account.

The GVIA support a longer term view to forecasting and support the reinstatement of the Long Run Average determined from the NSW Governments Integrated Quantity and Quality Model (IQQM). The GVIA support IQQM forecasting because:

1. IQQM is the primary water management and policy tool for NSW. It forms the basis of the Gwydir Regulated River Water Sharing Plan

2. It is the most robustly constructed and tested water availability model for the Gwydir Valley.

3. It fairly accounts for volatility, while providing long-term certainty.
4. It matches water availability with the natural business cycles of those that depend on water – be they irrigators or SWC.

The ACCC adopt the Long Run Average IQQM for consumption forecasting.

8.5 Security Premium

The GVIA concurs with the ACCC adoption of a 1.81 Water Sharing Plan ratio and had initially concluded that this would also be the High Security Premium applied to determine prices. However, the ACCC's calculation process which includes a conversion for average available water has resulted in unintended perverse pricing outcomes with prices for high security users for the period increasing by 1% in comparison to general security prices decreasing by 11%.

The GVIA accepts and agrees with the ACCC that there should be a premium paid for high security water. However, in the Gwydir high security water has a reliability of 95%, has not carryover provisions and is only secured for a minimum of two years, therefore there remains considerable risk associated with owning the entitlement, in particular its availability and the timing of this availability. As a result we question the scale of the difference between high and general security users in the Gwydir and seek further review of the calculation methodology, in particular the utilisation of average water allocations that do not take into account when allocations are announced and whether it was utilised.

The ACCC further reviews the calculation of High Security prices in particular the use of average water allocations.

9 Additional Charges

9.1 Metering Service Charge

The GVIA supports the ACCC decision to amend the metering service charges proposed by SWC and the maintenance of metering service charges for customer owned meters at the current rate. We would however like to see further information on actual costs of the metering projects incorporated into future cost assumptions, as the GVIA has reservations about the accuracy of the proposed charges and the impact on customers with large offtakes which is common in our area.

The GVIA continues to maintain that the inclusion of metering service charges for SWC or Commonwealth funded meters in our valley is premature, as negotiations continue on how irrigators in our region will fund future metering requirements.

9.2 Environmental Gauging Station charge

The GVIA supports the adoption of environmental gauging station charges as outlined by the ACCC. All users of water should be held accountable to the same level of accuracy and therefore, the GVIA believe it is a positive approach to include environmental water use as well. The GVIA request that this is applied to all environmental water use; both held and planned water as per Water Sharing Plans.

9.3 Allocation Trade Process charge

The GVIA supports the reduction in allocation trade processing charge to $38/trade with a $0.50/ML charge up to $150, provided that SWC maintain their current processing timeframe. The GVIA believe that reducing the charges associated with water trades should help to further facilitate market activity.

10 Conclusion

The GVIA welcomed the opportunity to provide additional feedback to the ACCC during their determination on State Water's Regulated Water Charges to apply from 1 July 2014.

The GVIA were angered and frustrated at the application presented by SWC and we are reassured in the fact that the ACCC has robustly assessed their claims for prudency and efficiency of costs.

The GVIA support many of the changes proposed by the ACCC as part of their draft determination on prices and welcome the maintenance of the current tariff structure, the reduction in total revenue for the valley and the subsequent price decreases for both high security and general security customers. However, the GVIA acknowledge that there are some costs still to be determined and passed through which may result in the final result for customers being very similar to current prices.

The GVIA has had the opportunity to also review SWC submission to the ACCC on the draft determination and has as a result; we have provided commentary and evidence against their claims.

In reviewing both the draft determination and SWC's submission, the GVIA have provided 19 recommendations for further assessment by the ACCC before finalising the determination in June 2014.

Submission ends…