Gwydir Valley Irrigators Association Inc.

458 Frome St, PO Box 1451, Moree NSW 2400

Submission to the Australian Competition and Consumer Commission on:

State Water Corporation's

'Pricing application to the Australian Competition and Consumer Commission for regulated charges to apply from 1 July 2014'

Gwydir Valley Irrigators Association Inc

September 2013

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

Contents

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) welcomes the opportunity to participate in this Australian Corporation's (SWC) Regulated Water Charges to apply from 1 July 2014.

The GVIA acknowledges the considerable improvement in SWC's business over the past few determination periods and in particular their operational performance during very high water usage years and their continual improvement in communication with their customers.

In closely considering the ACCC information paper and the SWC application, the GVIA has developed 28 recommendations for ACCC's consideration in their draft determination process.

The GVIA principle concerns are:

- SWC continue to undertake consistent price creep and exploitation of their business monopoly on customers through further increasing prices and increasing price volatility.
- SWC have requested total revenue that is unjustified and unsubstantiated. Their application lacks specific detail at the valley level for customers to make informed decisions on the prudency and efficiency of costs.
- SWC have requested a myriad of revenue and price control mechanisms that suggest SWC are attempting to buffer total revenue, as a means to deliver profits to investors at the detriment of customers.
- SWC appear reluctant to structure their business in a way that drives efficiency savings but rather demand fixed income from customers.
- SWC have attempted to mislead customers and the ACCC by selectively presenting potential customer impacts and buffering components of the businesses building blocks resulting in an elevated revenue requirement.

In response to these concerns the GVIA are recommending the ACCC undertake a full determination of SWC prices and requests the ACCC to further tease out the valley specific costing that result in elevated total revenue and a continuation of historic price creep. The GVIA cannot accept the SWC proposed indicative pricing until an agreed and cost reflective total revenue requirement has been determined.

In addition to recommending further assessment of SWC building blocks, key recommendations include:

- The ACCC set challenging efficiency targets for SWC to help build long-term business viability and stability.
- 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.
- The ACCC assess whether each of the revenue and price control mechanisms are required to meet ACCC pricing principles and the cost-benefit to customers of incorporating these mechanisms.
- The ACCC investigate customer support for greater customer choice in regards to tariff structure options.

4 Introduction

While the Gwydir Valley Irrigators Association (GVIA) as a representative of Gwydir irrigators and by definition, Gwydir customers of State Water Corporation (SWC), welcome the opportunity to provide feedback to the Australian Consumer and Competition Commission (ACCC) on SWC's regulated water price application. The GVIA are disappointed and angered that the current application is just another chapter in SWC's long history of attempting to justify continual price creep and increasing financial burden on their customers, whilst delivering profits to investors.

The GVIA have been firm supporters of the corporatisation of the SWC business as a means to deliver greater transparency and accountability to customers, which has resulted in much needed benefits for customers. We are also acutely aware of the inherent need by our industry and members, that this business remains commercially viable. We are however, not supporters of SWC culture of exploitation of their monopoly business over our industry.

The GVIA have participated in each of SWC previous pricing determinations through the Independent Pricing and Regulatory Tribunal (IPART) and consider ourselves well placed to provide historical context on SWC culture of price gouging. Historical price creep has can be visible below in Figure 1. With prices for fixed components of since 2005/2006 for high security users have increased by 68% and general security by 26%, with their variable/assuage charges fluctuating up by 64%. This creep is more evident in the user share of total revenue required for SWC to undertake their business, which has increased from $2.9M in 2005/2006 to $5.6M in 2013/2014, which is nearly a 50% increase for what many believe that with technology improvements (as adopted by SWC), should actually remain steady over-time.

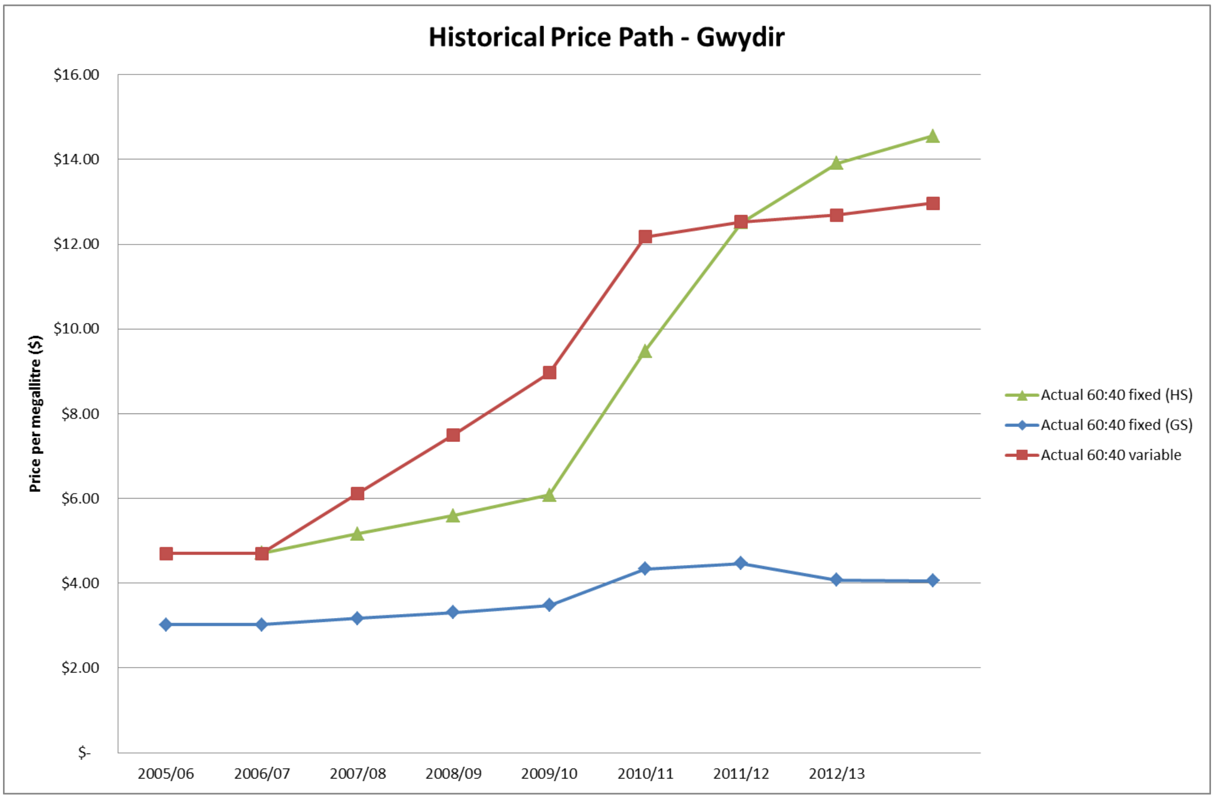

Figure 1 Gwydir Price Path

As part of the regulated price determination process in the past, the SWC have continually presented their business as highly risky, primarily due water availability/supply fluctuations to justify this price creep and the need for a volatility allowance and higher weighted average cost of capital. Yet over this period, the SWC have managed to produce profits, delivered in dividend payments to their investors (the NSW Government) through a period of very low water availability for both itself and its customers. Such profiteering has been to the detriment of the financial viability of customers.

Furthermore, during this period the SWC have historically also sort additional funds (asked to increased revenue required) to help reform the organisation following corporatisation. Such reforms and projects like the establishment of iWAS (internet water accounting system) have been supported by the GVIA under the assumption that reform will result in greater efficiency and improved performance and hence, in the long-term stabilise prices. The GVIA is concerned that nearly 10-years down the price path, the SWC continue this culture of justifying their price and revenue increases on these long-standing issues.

The GVIA and their members believe that the performance of SWC in operating our river system, delivering water, actioning trades and communicating with customers has reached a point where they believe SWC operations should be business as usual. When asking members, what could SWC improve? The reply is often met with silence or a delayed response suggesting an improvement in electronic access of information and billing. Whilst, customers may not be 100% satisfied with SWC service delivery, clearly customers do not see a pressing need and/or opportunity for change in SWC services. It will be interesting to assess if SWC own customer satisfaction survey presents a similar view.

However, despite customers expecting SWC business requirements to stabilise, if this application remains unchallenged, SWC will seek to increase the user share of revenue, resulting in a total increase in fixed components for Gwydir high security users in the by 127% and general security users by 66%, while reeling in variable costs to a 12% increase over the 2005/2006 – 2016/2017 period.

What angers the GVIA most about this current application is the SWC attempt to hide this price creep by either presenting misleading information or no information at all, on the impacts at the valley level. SWC withhold specific detail on what is contained within costs and continue to present their business as intensely risky, even though their application includes a myriad of revenue and price controls that reduce SWC risk. This ‘buffering’ of their total revenue whilst also reducing revenue volatility, results in significant and unsubstantiated increases in components of total revenue required and a net negative impact to customers with no improvement in service.

The GVIA is also concerned that SWC will promote that there is actually a price decrease in moving to a higher fixed charge. Not only is there limited information contained within the application to firstly justify the total revenue required for operation, the GVIA would anticipate a greater price discount than presented if moving to a higher fixed tariff. In fact, the GVIA find it difficult to find any real evidence of a discount for customers over the long-term

Most frustrating of all, is that GVIA consider the SWC to be misleading in their application by their attempts to justify the change in tariff structure and promoting less than accurate bill impacts. In reality, usage in the Gwydir is highly variable with last year's usage, which was the just short of being the highest on record and was only at 58% of the general security entitlement issued (or 49% of the available allocation), yet SWC have neglected to provide more realistic usage scenarios with full knowledge that in many valleys, usage is more than likely below 60% and that bill impacts would be significantly increase as usage declines.

The SWC have failed their customers by neglecting to engage with customers but rather perform information only consultation. SWC refused to consider alternative approaches to the tariff structure and other price control mechanisms, whilst continuing to use a limited customer base. As a result key aspects of the SWC application have been decided without customer support.

As it stands the GVIA rejects the current price application by State Water as unjustified and requests the ACCC to further tease out the valley specific costing that result in continued price creep whilst now also shifts business risk onto customers by not only moving to a higher fixed tariff structure but incorporating a revenue cap, carryover allowance and annual price adjustment mechanisms.

The GVIA as part of this submission recommends a number of areas for the ACCC to investigate within the SWC application and requests much more information to help us understand the reasons behind the price changes. Where possible, we have tried to structure our submission in line with SWC building block approach, whilst also addresses questions raised by the ACCC as part of their information paper.

5 Recommendations

1. The ACCC assess the efficiency and prudency of SWC's historical and proposed capital expenditure.
2. The ACCC must reject SWC capital expenditure items until SWC provide further information on the:
    a. Suitability (assessment of the requirement and customer benefits);
    b. Valley allocations;
    c. Statements of customer support.
3. The ACCC investigate SWC calculation of the Regulated Asset Base to ensure that it is representative of actual expenditure and the true value of assets.
4. The ACCC investigate the delay (lag) in RAB allocation between users and the NSW Government and determine its impact on customers.

5. The ACCC review SWC calculation of Weighted Average Costs of Capital and consider at a minimum, reducing it to its current level of 7.9%.
6. The ACCC investigate the suitability of straight line depreciation for SWC assets.
7. The ACCC assess the impact that the change in average remaining useful lifespan of SWC assets has on customers.
8. The ACCC scrutinise the prudency and efficiency of SWC's operating expenditure and cross reference this expenditure with proposed capital costs.
9. The ACCC remove costs associated with the state-wide metering project from valleys where such projects will not be implemented.
10. The ACCC remove costs associated with additional tasks requested by the NSW Office of Water.
11. The ACCC set challenging efficiency target for SWC to help build long-term business viability and stability.
12. The ACCC analyse the price benefits of expanding the customer base.
13. 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.
14. The ACCC update the definition of customers irrespective of the current regulatory framework.
15. The ACCC assess the suitability and accuracy of long run average Integrated Quality and Quantity Modelling for consumption forecasting.
16. The ACCC request the updated long run average consumption from IQQM from the NSW Office of Water to be adopted as the consumption forecast for the Gwydir.
17. The ACCC adopt the 1.81 premium for high security entitlements in the Gwydir.
18. The ACCC reject the revenue cap requested by SWC and maintain a price cap.
19. The ACCC scrutinise how the proposed carryover mechanism would be applied.
20. The ACCC analyse the necessity of each of SWC proposed revenue insurance mechanisms; the revenue cap, carryover and change in tariff structure with consideration to reducing the requirement for each change.
21. The ACCC limit annual price adjustments to yearly consumer price index.
22. The ACCC consider the impact that timing of any annual adjustments to price has on customers.
23. The ACCC assess the cost-benefit of SWC proposed changes to the revenue and price control mechanisms to determine if they adversely impact customers.
24. The ACCC assess whether each of the revenue and price control mechanisms are required to meet ACCC pricing principles.
25. The ACCC investigate customer support for greater customer choice in regards to tariff structure.
26. The ACCC request bill impact assessments for forecast consumption, 40% and 20% usage scenarios for each valley.
27. The ACCC reject SWC proposed tariff structure.

28. The ACCC remove additional charges for SWC funded meters from the pricing application.

6 Comments on Gwydir Revenue Requirement

The GVIA are disappointed in the lack of valley specific information provided by SWC for justification for their requested total revenue requirement and the 14% increase from current prices to the end of the determination period as shown in Table 1. With a movement to higher fixed charges, the removal of Murray Darling Basin Costs and the volatility allowance, the GVIA had anticipated a total revenue reduction as business risk was removed and borne by customers.

	2013-14	2014-15	2015-16	2016-17	% Difference
Total Revenue Requirement	$14,360,000	$13,970,000	$14,940,000	$15,150,000	**6%**
User Share Revenue Requirement	$5,627,130.00	$5,420,000	$6,250,000	$6,420,000	**14%**
User Share of Total (%)	39%	39%	42%	42%	

Table 1 Revenue Requirement for the Gwydir Valley

As a fundamental business principle, the GVIA do not accept a total user revenue increase greater than the consumer price index. Any requirement to achieve greater revenue should be found from efficiency savings from within the business. It is unacceptable that SWC do not outline any efficiency targets for the pricing period. The GVIA remain extremely concerned that as a monopoly business, customers will be forced pay elevated prices due to poor business drivers.

The GVIA cannot be more frustrated with the lack of information presented within SWC application. Whilst you may consider there significant information within the 205 pages and supporting spread sheets, the application lacks valley specific detail on the breakdown and allocation of building blocks. Not to mention the detail behind capital and operational expense accounts. Many of the GVIA concerns could be addressed by SWC providing more detail and focus not only on the total business but also at the valley level, so that stakeholders and customers can make more informed decisions on the revenue being requested.

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

As such the GVIA reject the total revenue requested by SWC as elevated due to suspected cost buffering, which is exacerbated by the lack of detail provided within the application.

The following sections include comments on each of the revenue building blocks in an attempt to determine how SWC calculated the required revenue.

6.1 Return on projected capital base

The GVIA have significant concerns on how SWC have calculated the return on projected capital base as part of the total revenue. Table 2 presents a summary of the information accessible on the building blocks used to calculate the Gwydir Valley's projected capital base and return of capital and highlights where SWC have significantly altered their approach to calculating components of the capital base, resulting in an elevated return.

	Current 13/14	**14/15**	**15/16**	**16/17**	**% Increase**
User Share RAB ($'000)	Approx $20,000	22,577	32,266	36,007	
(Capital Expenses) ($'000)		9,044.6	3,175.5	727.3	
WACC	7.90%	8.95%	8.95%	8.95%	13%
Return on Assets ($'000)	1,665	2,021	2,888	3,223	71%
Regulatory depreciation ($'000)		- 196	- 33	- 380	
Operating Expenses ($'000)	3,596	4,348	4,236	4,189	16%
MDBA/BRC pass through ($'000)	60	-	-	-	N/A
Volatility Allowance ($'000)	306	-	-	-	N/A
Calculated Revenue Requirement ($'000)	5,627	5,560	6,562	6,917	23%

Table 2 Summary of Gwydir Capital Calculations and Percentage Increase

<u>Capital Expenditure</u>

The SWC historically do not meet their capital expenditure allowances and yet, they continue to request further work without previous projects being finalised. The GVIA remain concerned that customers will continue to pay for projects without realising the benefits. As a result the GVIA recommend that ACCC assess the efficiency and prudency SWC's historical and proposed capital expenditure, and this study includes a benchmarking their capital expenditure against a similar efficient organisation.

The ACCC assess the efficiency and prudency of SWC's historical and proposed capital expenditure.

Furthermore, the GVIA seek more detailed information from SWC on the proposed capital expenditure items, at the valley level. For example, what is the $1.2M expenditure for water delivery and other operations projects and the $1M for corporate systems deliver for the Gwydir customers and how did SWC determine, if part of the state wide investment, the Gwydir's share. In addition to understanding the total forecast capital costs, the GVIA are seeking more information on these capital items so that a judgement of whether the expenditure is required and/or supported by industry can be made, as we are extremely concerned that the proposed expenditure is presented without a fully formed business cases supported by customers.

The GVIA recommend the ACCC reject SWC capital expenditure until further valley-specific information on the allocation, suitability and customer support for capital items as part of the application.

The ACCC must reject SWC capital expenditure items until SWC provide further information on the:

1. ***Suitability (assessment of the requirement and customer benefits);***
2. ***Valley allocations;***
3. ***Statements of customer support.***

Regulated Asset Base (RAB)

The GVIA have difficulty in ratifying the starting user share of the regulated asset base along with the projected RAB over the pricing period. The GVIA cannot find evidence within the SWC pricing application to justify a doubling of the asset base without any significant investment. Whilst the GVIA are aware of residual expenditure for past under expended projects, like the dam safety upgrade and fish ways offsets, the proposed capital expenditure does not align with the increase in the RAB.

As the application stands, with the significant impact that the RAB has on the total revenue requirement and therefore, pricing at a local level, the GVIA cannot support such an increase in the RAB nor can we support the proposed capital expenditure.

As a result, the GVIA recommend that the ACCC investigate the calculation of the RAB and to ensure that the RAB represents the true value of the valley's assets and any actual expenditure on these assets.

The ACCC investigate SWC calculation of the Regulated Asset Base to ensure that it is representative of actual expenditure and the true value of assets.

The GVIA also recommends the ACCC investigate the perceived delay in RAB allocation between users and the NSW Government, so that there are no negative impacts on customers.

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

Weighted Average Cost of Capital (WACC)

The SWC have historically used elevated weighted average cost of capital (WACC) to offset the risk associated with the volatility of their revenue return and therefore, the ability to source and replay debt. By combining assets and proposing an 8.96% WACC, SWC are suggesting that there is significant risk associated with any investment, which is not supported by current market conditions or the changes in business risk posed by higher fixed charges and the other revenue assurance mechanisms. The GVIA as with NSWIC believe that the increase as an attempt to further buffer their revenue and essentially compensate their investors i.e. the NSW Government and is therefore unacceptable.

A higher than necessary WACC is putting great pressure on the financial sustainability of Gwydir irrigators, and the NSW government's head long pursuit to generate short-term revenue streams will completely backfire if the very real possibility of the collapse of the Gwydir irrigation industry eventuates.

As such the GVIA recommends that the ACCC review the WACC and consider, at a minimum maintaining it at 7.9% or lowering it further to realistically reflect the current market conditions.

The ACCC review SWC calculation of Weighted Average Costs of Capital and consider at a minimum, reducing it to its current level of 7.9%.

6.2 Return of capital

The GVIA has previously had concerns over SWCs decision to adopt straight line depreciation on the life-span for all its assets. We believe it would have been more appropriate to depreciate assets in accordance with their actual useful lives and therefore have a more reflective depreciation schedule. Clearly, this straight line approach is creating difficulties in calculating remaining lifespan of all their assets, as SWC requested to reduce the average remaining useful life as part of this application due to reviews on only few different types of assets.

The GVIA recommends that the ACCC investigate the suitability of SWC applying a straight line depreciation approach and assess the impact that the change in average remaining useful lifespan has on customers.

The ACCC investigate the suitability of straight line depreciation for SWC assets.

The ACCC assess the impact that the change in average remaining useful lifespan of SWC assets has on customers.

6.3 Operating and Maintenance Expenditure

Operating expenditure in the Gwydir is forecast to decrease by 4% over the application period. However, it is the significant increase from the current 2013/2014 operating and maintenance expenditure that the GVIA seeks further explanation from SWC. Operating and maintenance expenses increase by 17% between 2013/2014 and 2014/2015, rendering a pricing period increase of 16%. Such an increase in expenses without any further explanation of the costs is unacceptable.

The GVIA recommend that the ACCC rigorously scrutinise State Water's operating expenditure proposals to ensure that only efficient, non-discretionary expenditure is recovered from customers. Furthermore, the GVIA recommend that during this process the ACCC cross reference operating and capital expenses to ensure that there is clear demarcation of operational versus capital expenses and that SWC are not attempting to double account costs, for example, environment and protection activities, dam safety compliance, CARMS and corporate systems.

The ACCC scrutinise the prudency and efficiency of SWC's operating expenditure and cross reference this expenditure with proposed capital costs.

The GVIA reject the valley-wide allocation of increased metering and compliance costs required due to the roll out of the state-wide metering project. Not all valleys are included or have elected to be included in this program and hence, will not incur additional expenditure as suggested. Any costs associated with the NSW Sustaining the Basin: Metering project should be funded by that unique project. As such the GVIA recommend that the ACCC amend these costs by removing any costs directly associated with the stat-wide metering project from valleys, where this project will not be implemented, like the Gwydir.

The ACCC remove costs associated with the state-wide metering project from valleys where such projects will not be implemented.

SWC indicate that a number of operating costs have increased due to regulatory burdens by NSW Office of Water, for example, metering and compliance, and environment and protection. The GVIA submits that if the NSW Government continues to request additional tasks of SWC than those costs should be allocated to the government share or via a dividend adjustment. GVIA believe that in principle, if these tasks are not for or will not benefit customers than they should not be required to pay. As such, the GVIA recommend that the ACCC reject cost increases associated with tasks requested by the NSW Office of Water.

The ACCC remove costs associated with additional tasks requested by the NSW Office of Water.

The GVIA are disappointed in SWC lack of efficiency targets in this current pricing application. Whereas previously the GVIA have commended SWC on their efficiency goals, a one percent per annum target is unacceptable. At a minimum the GVIA recommend 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.

As such, the GVIA recommend that the ACCC set challenging efficiency targets to see SWC further reduce its operational expenditure and move towards what can be considered a top performing company. The GVIA suggest considering benchmarking SWC against other similar businesses.

The ACCC set challenging efficiency target for SWC to help build long-term business viability and stability.

7 Comments on Indicative Pricing

The GVIA reject SWCs indicative pricing for the Gwydir. As explained the Section 6: Comments on Total Revenue Required, these prices are inaccurate due to the unjustified total revenue required by SWC. Furthermore, the GVIA reject the fundamental changes proposed by SWC to determine and control pricing into the future.

The following section looks at a number of areas where the GVIA believe that SWC are utilising multiple revenue insurance mechanisms that will result in significant price volatility for customers. The determination to maintain, under any circumstance this elevated revenue will be at the detriment of the sustainability and future of the irrigation industry and the communities that they support.

The SWC have continuously ignored alternative proposals from stakeholders and indeed customers and have continued to pursue these fundamental changes with limited customer support. SWC have neglected to engage with customers on their proposal but rather opted to provide information for digestion and not discussion.

7.1 Customer Base

The GVIA have been a long-standing advocate for the expansion of the customer base. Currently, 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 analyse the price benefits of expanding the customer base.

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.

In the Gwydir, participating in environmental planning discussions and implementing this program through planned and passive water delivery absorbs significant resources which are predominately paid for by irrigators. For example, as part of the supplementary sharing rules within the Gwydir Regulated River water sharing plan, the first 500ML of uncontrolled (supplementary) flow is provided to the Gwydir wetlands and any further flows are shared 50:50 between the environment and irrigators. In 2012/2013 this resulted in 116,000ML[1] of supplementary water ordered and used by irrigators at $12.69/ML[2] or a total investment by irrigators of nearly $1.5M for their water. Whereas, as a result of the sharing rules the environment received the remaining share plus any surplus water, equalling 195,327ML[1] diverted at zero cost. By including planned environmental water as a user, SWC could have generated an additional $2.5M in revenue or alternatively, reduced the price per megalitre to $4.73/ML (assuming the true cost to deliver supplementary water is represented only by the irrigator share of $1.5M).

As water delivery is 100% user share, there is no justification why the user base shouldn't be reflective of all the users in the system. By having a more representative user base the total cost burden would be more equitably shared and the overall cost to an individual would be less.

However, SWC continue to reject this request by GVIA (and others) to the financial detriment of their own customers citing charging restrictions within the water sharing plans.

With many of the missing customers, represented by the NSW Government, it is not likely that the Government will alter water sharing plans but rather continue to support a flawed customer base as a means to generate income for themselves. Where these missing customers are not government users, like with stock and domestic users and basic landholder rights, the NSW Office of Water continue to stall on preparing mechanisms to charge these individuals.

The GVIA call on the ACCC update the definition of 'customer' to be irrespective of any current regulatory barriers of ownership, so that the customer base can more holistically give effect to the user pays principle.

---

[1] Draft Gwydir Water Balance Report 2012/2013 www.statewater.com.au
[2] Gwydir usage cost per mega litre for 2012/2013

The ACCC update the definition of customers irrespective of the current regulatory framework.

7.2 Consumption Forecasting

The GVIA does not agree with SWC application of a 20-year rolling average forecast for consumption. By only using a 20-year rolling average, SWC selects a period of low water availability and results in lower consumption.

A lower consumption 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 of SWC attempting to control revenue volatility.

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 GVIA recommends the ACCC assess the suitability and accuracy of the reinstatement of the Long Run Average IQQM for consumption forecasting.

The ACCC assess the suitability and accuracy of long run average Integrated Quality and Quantity Modelling for consumption forecasting.

Furthermore, as the GVIA supports IQQM forecasting we recommend that the ACCC adopt a consumption forecast equal to the current output of the updated IQQM for the Gwydir. The ACCC will need to request this forecast directly from the NSW Office of Water.

The ACCC request the updated long run average consumption from IQQM from the NSW Office of Water to be adopted as the consumption forecast for the Gwydir.

7.3 Security Premium

The GVIA have been vehemently against the elevated high security premium adopted by SWC. As such, the GVIA accepts the reduction in the high security premium from 5.27 to 1.81 as reasonable and more reflective of the cost associated with providing more secure water resources. This conversion factor is also more reflective of the price premium paid for high security entitlements.

The ACCC adopt the 1.81 premium for high security entitlements in the Gwydir.

7.4 Revenue Control Mechanisms

The GVIA views SWC request to move from a price cap to revenue cap as another attempt by SWC to buffer their revenue across the application period. The process of annual adjusting prices to allow SWC to achieve their allowed revenue would result in perverse outcomes for customers, by increasing business uncertainty, resulting in greater price volatility and limiting the industry's ability to efficiently utilise water. Not to mention, that the application of a revenue cap limits the need for SWC to achieve any efficiency savings by guarantee of a fixed income.

The GVIA rejects the change to a revenue cap as inefficient and submits that the current price cap is maintained.

The ACCC reject the revenue cap requested by SWC and maintain a price cap.

SWC also propose to move to a carryover system, where shortfalls and windfalls can be averaged across financial years. Whilst the GVIA could in principle support such a concept, we believe there needs to be a more thorough assessment of the impact that this practice would have on customers. For example, if applied during the last three years Gwydir customers would be looking to have a revenue carryover of $1.4M but if looking at the longer term (2005-2013) the shortfall is nearly $10M.

The GVIA would also prefer more information on how this carryover mechanism works with:

a) SWC's dividend agreement to share profits with the NSW Government;
b) the calculation (or annual recalculation) of the regulated asset base; and
c) annual price adjustments.

The ACCC scrutinise how the proposed carryover mechanism would be applied.

And the GVIA recommend that the ACCC assess the necessity of both the revenue cap and carryover mechanisms with consideration of whether they are required with consideration that SWC propose to move to a greater fixed charge component.

The ACCC analyse the necessity of each of SWC proposed revenue insurance mechanisms; the revenue cap, carryover and change in tariff structure with consideration to reducing the requirement for each change.

In terms of industry supported price increases, the GVIA recommend that a price change greater than the consumer price index is considered a 'shock' to our industry and can result in undue financial pressure on customers. We therefore, reject the 15% price adjust mechanism.

The ACCC limit annual price adjustments to yearly consumer price index.

Furthermore, the timing of annual adjustments would be critical to allow irrigators to make informed decisions on their water use. Irrigators will also utilise available water for its most valuable use, with annual price changes there may not be sufficient lead time to adjust operations to ensure efficient use. The GVIA recommends that annual adjustments are communicated in a timely manner to allow customers to be informed business decisions.

The ACCC consider the impact that timing of any annual adjustments to price has on customers.

The GVIA recommends the ACCC further assess the potential price impacts to customers of SWC adopting the proposed revenue and price control mechanisms against any benefit to SWC reduced risk portfolio. The GVIA would like the ACCC to determine whether each of the proposals are required under ACCC principles.

The ACCC assess the cost-benefit of SWC proposed changes to the revenue and price control mechanisms to determine if they adversely impact customers.

The ACCC assess whether each of the revenue and price control mechanisms are required to meet ACCC pricing principles.

7.5 Tariff Structure

The GVIA consider that SWC have seized the opportunity in moving to a new pricing regulator to overhaul their tariff structure without much consideration on the impact to their customers. SWC defend their move to higher fixed charges as a result of *their* interpretation of the ACCC pricing principles but were reluctant to consider others views or pursue other tariff arrangements. For example the potential to provide greater choice to customers on their preferred tariff, where higher fixed charges may align with some business models and others may opt for the status quo was consistently rejected as too difficult and complicated in the current application period. The GVIA rejects SWC argument and recommends the ACCC consider canvassing customers on their support for greater choice of tariff structures.

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

Table 3 represents the indicative prices proposed by SWC as part of the current application. The percentage difference in price per meaglitre from the current approved prices to the end of the proposal period highlight shift in risk onto customers with SWC proposing a glide path towards 80:20 fixed to variable pricing.

	2013-14 (Current)	**2014-15**	**2015-16**	**2016-17**	**% Difference**
High Security	14.55	8.94	13.41	16.95	16%

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

($/ML)					
General Security ($/ML)	4.06	4.94	7.41	9.36	131%
Usage ($/ML)	12.97	11.94	9.64	5.66	-56%

Table 3 Indicative Prices and Percentage Difference

By shifting risk onto customers, the GVIA would have anticipated that SWC's ability to recover revenue would have been more stable and hence, there would be price discounts evident as this price paid for increased risk is removed. If evident, price discounts maybe seen positively by some sections of the industry and would lead to further justification of greater user choice of tariff arrangements. Unfortunately, the GVIA cannot find any evidence of a price discount within this current application but rather significant price risks.

The GVIA disagrees with SWC assessment that there are minimal bill impacts associated with their proposal to move to an 80:20 fixed to variable tariff structure over the application period. In particular we believe that have been misleading in presenting only 100% and 60% usage scenarios, knowing that they have forecast mush lower usage for the period.

By looking at more realistic usage scenarios as presented in Table 4, it is clear that the potential impact on a Gwydir valley general security customer with a 500ML licence is more significant than SWC would like to present. By just looking at SCW forecast usage for the application period, the impact in the Gwydir would be 14% increase over time and if usage is below forecast at 20%, even without the possible 15% price adjustment requested by SWC, the a bill could increase by 49%. The SWC have been misleading in their submission by cleverly presenting only 100% and 60% usage patterns, which indicate smaller impacts rather than also including the valley forecast usage, which is a valley specific average potential usage.

Usage %	13/14	14/15	15/16	16/17	% Difference
100[3]	$8,515	$8,449	$7,829	$7,108	-17%
60[3]	$5,921	$6,059	$6,058	$6,037	2%
44.5[4]	$4,916	$5,134	$5,374	$5,623	14%
40[4]	$4,624	$4,865	$5,175	$5,502	19%
20[4]	$3,327	$3,670	$4,290	$4,966	49%

[3] Bill impacts provided by SWC in Table 1.2 of the Pricing Application
[4] Bill impact threshold selected and calculated by GVIA

Table 4 Indicative cost for 500ML General Security licence under variable usage patterns

The GVIA recommend that the ACCC request from SWC additional bill impact assessments rather than the limited scope of 100% and 60% usage scenarios. It is important for the ACCC to understand have a more realistic picture of usage for each valley so that a more complete (and realistic) picture of possible bill impacts can be assessed.

The ACCC request bill impact assessments for forecast consumption, 40% and 20% usage scenarios.

The GVIA is extremely concerned with this 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. To our knowledge there is no other business where you would pay for services that may or may not be rendered.

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 reject the SWC proposal to shift the tariff structure until further analysis on the revenue required is finalised and that SWC present evidence of a price discount for moving to a more stable revenue stream. If changes in the tariff structure are required, the GVIA supports a glide path mechanism to allow customers to adjust.

The GVIA recommends that the ACCC reject SWC proposed tariff structure until a final determination on the total revenue requirement is concluded.

The ACCC reject SWC proposed tariff structure.

8 Additional Charges

The GVIA does not support the inclusion of the metering service charges proposed by SWC as additional charges within their application. These costs have been included to counteract the fact the GVIA, along with other northern NSW valleys have rejected the roll-out of commonwealth funded meters in our valleys.

The GVIA rejected the NSW Sustaining the Basin metering project (outlined in the business case[5]) prepared by NSW Office of Water and their proposed methodology for implementing standardised metering in NSW. Our concerns can be summarised as follows:

1. Inequity in sharing the project cost and the volume of entitlement transferred to the Commonwealth and disproportionate sharing of project risks between:

    a. different water users; regulated, unregulated and groundwater with regulated entitlement holders subsidising other water users; and

    b. valleys in question, with the Gwydir valley sponsoring other valleys installation.

2. There is not a pattern approved meter that would meet the National Metering Standards and therefore, it is unknown what type of meter may need to be installed and associated installation costs.

3. The use of out-dated data within SKM report (2010)[6] using data from 1999-2002 to determine the current suite of meters within the valley and therefore an unrealistic assessment of the number of meters requiring replacement.

4. Lack of industry engagement prior to the public release of the business case (NSW Office of Water and State Water have been extremely supportive in providing additional information since the public release and GVIA acknowledges their patience and assistance in this matter).

Each of these concerns remain current with the inclusions of potential charges for a SWC project within the current pricing application. In particular, there is still not a patterned approved meter applicable for meters requiring replacement in the Gwydir and SWC have not (to our knowledge) completed their updated audit of meters within Gwydir to determine potential meter numbers etc.

Furthermore, whilst SWC indicate these costs have been based on true costs from the metering pilot in the Murrumbidgee Valley, the GVIA holds significant concerns on their applicability to the Gwydir. In particular the GVIA would be concerned that costs assumptions for meters applicable in the Gwydir valley would be made on a small sample size, with limited technology options (lack of choice) and the pilot would not have generated robust maintenance costs.

The GVIA consider the inclusion of these costs as premature. A review of these costs by members revealed that there were grossly elevated from the costs that they would pay to

---

[5] NSW Office of Water and State Water (2010) - NSW Sustaining the Basin Metering Business Case
[6] Gwydir Macquarie Lachlan Water Savings Study, Sinclair Knight and Mertz (2010) – Report prepared for State Water Corporation

purchase and maintain similar equipment. As a result, the GVIA recommend that the ACCC remove these additional charges for SWC funded meters.

The ACCC remove additional charges for SWC funded meters from the pricing application.

9 Conclusion

The Gwydir Valley Irrigators Association (GVIA) welcomes the opportunity to participate in this Australian Competition and Consumer Commission (ACCC) Determination on State Water's Regulated Water Charges to apply from 1 July 2014.

The GVIA are angered and frustrated at the application presented by SWC and the bulk of our submission outlines why the GVIA believes that SWC are continuing to exercise their business monopoly to the detriment of their customers and the sustainability of the irrigation industry.

The SWC have not provided the GVIA enough valley specific information for them to make a thorough assessment of the efficiency and prudency of costs and as a result we reject the price application and recommend the ACCC undertake their own assessment of SWCs building blocks, with consideration of our recommendations contained within this submission. The GVIA cannot accept the SWC proposed indicative pricing until an agreed and cost reflective total revenue requirement has been determined.

The GVIA have presented a total of 28 recommendations to the ACCC for consideration during their draft determination process. 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.

Submission ends