

From: [REDACTED]
Sent: Wednesday, 18 September 2013 3:08 PM
To: State Water Submissions
Subject: ACCC water pricing in Namoi Valley

Mr Sebastian Roberts
General Manager - Water Branch ACCC
GPO Box 520
Melbourne VIC 3001

Dear Mr Roberts,

I am an irrigator from the Namoi Valley, in response to the questions ACCC have asked of stakeholders I wish to make the following comments. As a customer I do not have a choice whether I use State Waters facilities and pay State Water charges. If I had that choice I would vote with my feet and move to an efficient operator that works within our business environment and manages their financial reserves accordingly. The real issue of the submission is the return of the full dividend to State Waters shareholder – the NSW Treasury each year. State Water has delivered a profit each year to NSW government but has under recovered on forecast. This is premised on a number of issues of which State Water are now seeking to provide their business with five price risk mechanisms and nothing equivalent is available to irrigations. State waters submission is based on forecast rather than actual of RAB WACC and revenue requirement.

1. Was the consultation State Water undertook regarding this pricing application adequate?

State Water despite clear response from the Namoi Peel Customer Service Committee has submitted a proposal that is not supported by their customer base. Nor did the consultation process extend out past the Customer Service Committee meeting. The need for change and the pricing arrangements were not clearly explained nor has evidence to support their increase in pricing been substantiated.

2. Is there other information that should be made available by State Water or the ACCC that would assist with consultation?

The interpretation of the ACCC rules appears to be the main issue of contention, State Water have interpreted the rules such that a volatility allowance is not permissible. Yet at the NSWIC meeting it was reported that the ACCC were not ruling out the inclusion of this mechanism in future determinations. It is my understanding that the ACCC will only be asked to provide determination on the information contained in the State Water submission, to improve the process clear information should be provided regarding the new rules, their interpretation and if State Water could and should have provided a range of options based on including this allowance within the rules and it not including it.

3. Has State Water made an acceptable case for its proposed changes to its tariff structure?

No. State Water seeks a considerable increase in its required revenue for the next determination period on top of the change to the tariff structure. They have not provided evidence to support this need for an increase in revenue of 13% on average across the state, nor for the 8% required from the Namoi. This revenue increase does not include all Namoi projects put forward to the CSC for consideration which could possible result in a higher revenue requirement in the future.

4. What would be the implications of a move to higher fixed charge?

The impact is that over time if the allocations are low (in drought) when the landholder is already under great financial stress the real cost of water is higher than when full allocation is available. This proportion ensures State Water recovery is resilient to fluctuations of the natural resource system they are managing. The licensee will have a high standing cost of entitlement while unable to use this entitlement due to lack of access and restrictions imposed by allocations. This sees an increase of up to 20% in pricing in years where only 50% allocation is available.

Customer type	Water allocation as % of 500ML	FY 14 or 40:60	FY 15 or 50:50	FY 16 or 65:35	FY 17 or 80:20	%change 2013-14 2016-17
High	100%	\$18,100	\$17,230	\$16,530	\$15,815	-13%

Security	50%	\$13,105	\$12,260	\$13,030	\$13,805	5%
General Security	100%	\$14,535	\$15,770	\$14,620	\$13,455	-7%
	50%	\$9,540	\$10,800	\$11,120	\$11,445	20%

5. Is a move to the proposed 80:20 fixed variable ratio within a three year regulatory period appropriate or would a more gradual change over a longer period of time enable a smoother transition?

No. The fixed variable ratio change is not acceptable. The transition period is not a consideration. If the farmer has no choice but to use State Water services we must retain control over the fixed/variable ratio to ensure our business functionality is not compromised.

6. Would this proposed change impact on

a. The volume of water access entitlements held by irrigators?

To pay this cost up front, particularly in a year where we do not have access to the water or a year that we do not use much water would be totally unworkable from a financial perspective of the business and would put us in a position to have to exit the industry. If this is a truly customer based business, it will not take long to loose all your customers.

b. Decisions to use water?

Currently we are trying to make irrigation efficient decisions on the use of our water and be conservative to allow us longevity in our business trading, as is all of the Australian population and Governments are expecting the Australian irrigation industry to do so. If changes to the fee structure like this one happens, it makes it not financial to follow this attitude and philosophy.

c. The type of water access entitlements held?

I hold both types of entitlements and would be pay \$41,000 be for I received any water to try and generate any income. This over head would be to great for my business to bear. We have currently seen this double, and triple in recent times till now, it would effectively see it double again.

STATE WATER's PROPOSED PRICES IN THE NAMOI

As reported in pricing application to ACCC

Water Source	2013 Actual	2014/15	2015/16	2016/17	Period ↑
High Security (\$/ML)	16.22	14.58	19.06	23.59	45%

General Security (\$/ML)	9.09	11.66	15.24	18.87	108%
Usage (\$/ML)	19.98	19.88	14.00	8.04	-60%

7. **Has State Water through the pricing application and through previous consultation with stakeholders made an acceptable case for its proposed shift from annual price caps to revenue cap regulation where prices could go up or down by no more than 15% each year?**

No, State Water has not made an acceptable case for this shift away from the current price cap. The revenue cap is unlikely to drive further efficiency savings within State Water, as actual revenue is not compared with costs but “allowed revenue”. What it does do is provide an insurance mechanism for State Water.

8. **If prices were able to go up or down on an annual basis, would a cap of 15% on annual charges be acceptable? If not what percentage change would be acceptable?**

The current price cap approach provides transparency and certainty to me as customer. The carry over provision allows the deficit or surplus to be carried forward, in our business it may well be deficit carried over in drought and the deferral results in large bills falling due when the business is often in recovery mode. This will ultimately cause greater price volatility which means greater uncertainty for my business.

9. **Do you consider state Waters future water demand forecast based on average of water extractions over the past 20 years in each valley it services to be reasonable?**

IQQM is the model used by the department for the water sharing plans it covers 125 years of climatic conditions and if its good enough to use for the determination of access then its good enough to use for the consumptive use forecasts.

10. **What are your views on the Metering charges proposed?**

Namoi Water at our Annual General Meeting in September this year voted to remove the Namoi from the metering project – all sources of water Regulated, Unregulated and Groundwater. No amendments should be made to current metering charges until such time as meter standard compliant products are available. Namoi Water has rejected the project “The Metering Business Case” this project is the basis of State Waters pricing increases. As an irrigator I will meet the cost of ensuring my meters are compliant with the new standards by 2019. As such require no additional services from State Water in this pricing determination and given they will not own nor be required to provide any additional service as such there is no evidence that meeting the new standard will require any additional staff.

As an irrigator in the Namoi I reject the State Water pricing application and ask ACCC to send the application back to State Water without any approval provided. If ACCC can only provide a determination on the information provided by State Water please listen to us the customer now and know that further challenge will be forthcoming if this proposal proceeds.

There is no natural competition or comparison available without a detailed comparative business model. This application continues to incorporate comparatively high rates of return on capital. It also allows State Water to set a price that delivers income / dividend certainty and shift responsibility for asset costs away from shareholders to consumers. State Water returns on capital be kept as retained earnings in a State Water managed infrastructure fund. We ask that ACCC develop a comparative business model for State Water to properly assess it for efficient cost and not simply examine the project management cost of state water business rather to look at the whole business. That user shares be re-examined to review the cost shares of flood mitigation and recreational water use.

I support both the Namoi Water and NSW Irrigators Council Submission on this pricing application made by State Water.

Yours Sincerely

Irrigator effected by drought, price shocks and Monopoly Abuse

Have a great day!

Regards,
Carbs.

