

# Namoi Water

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## Submission to Australian Competition and Consumer Commission On State Water Corporation Pricing Application

April 2014



Photo : Lake Keepit

**Namoi Water** : Supporting sustainable water use in the Namoi Catchment and representing water users in the Peel, Upper and Lower Namoi Catchment Area

Executive Officer : Jon-Maree Baker

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## **Introduction**

Namoi Water is the peak industry group for irrigated agriculture in the Upper Namoi and Lower Namoi Valleys in the North West of NSW. We are a non-profit, non-political organisation supporting our members to achieve a sustainable irrigation industry that meets the environmental, economic and social needs of our local communities. Namoi Water makes this submission on behalf of our membership collectively, however each member reserves the right to independent view and submission on any issues they deem relevant.

Namoi Water appreciates the time that the ACCC has provided to ensure clear communication and understanding of the variances within Water pricing impacting on both SWC and it's customers. We are particularly pleased to see the draft determination supports the continuation of the existing tariff structure.

One of the major concerns in the pricing determination is the effect of the price increases for our Peel members. The proposed pricing for this catchment area is untenable and is recognised by both ACCC and IPART as delivering a price shock if moved to full cost recovery. Government subsidy is not a long term solution for Peel water users. Continued use of the return on the RAB, CAPEX and rate of return on the upgraded Chaffey Dam will significantly contribute to the increasing costs to Peel users in the future. These water users are significantly constrained by a water sharing plan that ensures they continue to pay for water they will never access. Peel members have indicated they would support price parity with the Namoi, with government subsidy for the remaining portion and whilst this is not a long term solution it may be the initial step to ensure the Peel can continue to afford access and use of their water entitlement. Longer term solutions need to be found to ensure balance of water sharing is maintained and productive regional economies are maintained.

Both the ACCC draft determination and SWC application includes a substantial section on metering, the Northern Basin Water users have rejected the NSW Metering Business case project on behalf of all regulated, unregulated and groundwater users and are currently looking at alternative projects. One of the clarifications provided by ACCC is that regulated water users pay for the cost of meter service charge through the bulk water delivery charges. We assume that unregulated and groundwater members will also continue to be charged through the existing cost structures of the NSW Office Water IPART determination and further that there will be recognition of the need to provide clear description and accounting of imbedded labour and overhead costs charged for this service across water resources.

The NSW Government restructure of SWC and Sydney Catchment Authority to bulk water NSW and the timing of the merger is particularly relevant to the determination period. It is our view that an OPEX review would be highly relevant to this new process to ensure that any efficiency gains are accounted for in this determination. In particular many of our members have concerns about the effect of the overs and unders under prolonged drought scenario. Further review of the rate of return due to the change in the risk profile of SWC under the new Bulk Water NSW.

## **Draft Determination Comments**

### **Allowed Revenue**

Namoi Water asks that ACCC provide a comparison between the ACCC's Draft Decision, SWC's pricing proposal and the revenue allowance in the current determination (IPART) to show the allowed revenue in the current determination and the proposed revenue allowance in the next regulatory period. This comparison would highlight the real change in overall allowed revenue which directly impacts the level of bulk water charges. It would also assist stakeholders in identifying changes to SWC's operation.

**Namoi Water requests that ACCC provides a comparison between the revenue allowance in the current determination (IPART) and the proposed revenue allowance in the next determination to reflect real change in pricing.**

### **CAPEX**

A significant portion of SWC CAPEX work is confidential thus it is difficult to assess the ACCC's proposed CAPEX. SWC has continuously under-spent on its allowed CAPEX there must be some level of accountability to ensure that SWC fulfils its proposed CAPEX plan. The Namoi Peel CSC has for sometime had a project for the Gunidgera Weir this was not included in the pricing submission and we request this be assessed by ACCC as potential part of the Namoi CAPEX projects.

### **MDBA Charges**

The Northern Science review is currently underway and highlights that there is still no baseline information for the Northern downstream requirement. Despite the fact that as a group the Northern valleys have contributed significant funding to the MDBA already we have no real evidence to support the downstream requirement for additional water. Yet we are being asked as consumptive water users to continue to contribute in terms of both water and funding without evidence to support the environmental requirements. Whilst this is outside the scope

of the ACCC process there is no real accounting for the MDBA costs in the last NOW IPART determination.

It is noted that the NSW contribution to the MDBA has been requested by NSW Government to be included in the SWC charges. It is likely that the MDBA/BRC charges recovered through SWC could lead to price shocks due to the disconnect in this process. We ask that ACCC consider a pricing scenario with recovery of these charges to determine impact on SWC customers.

## **OPEX**

Namoi Water supports the ACCC's proposed reduction in SWC's OPEX but remains concerned about the proposed overall level and trend of OPEX in the next regulatory period. In particular, SWC's OPEX continues to rise and is at a higher level than during the current regulatory period.

Namoi Water questions how we can determine if SWC OPEX is prudent and efficient, further as NSWIC has highlighted the Base and step approach could simply lead to a continuous increase in SWC's OPEX. In addition, Namoi Water questions how the ACCC can assess SWC's base OPEX if it only relies on only information from the 2012-13 financial year. Namoi Water supports the use of further information through the use of a broader dataset and timeframe would be more appropriate.

Namoi Water recommends the OPEX from the current determination is continued with annual CPI adjustment. Namoi Water has long requested that SWC provide detailed business operational costs to allow a comparative business model to be developed to assess efficient costs rather than assessment of project charges. We continue this request in this determination.

Should SWC be unable to provide relevant and important information to the ACCC, Namoi Water submits that the ACCC should not provide SWC with an allowance for these items. Only prudent and efficient costs should be reflected in future bulk water charges and if the regulator is not able to assess the efficiency of these costs, then they should not be passed on to customers. As such, we object to the ACCC's methodology of extrapolating existing labour and overhead costs

## **Hydrometric monitoring agreement with NSW Office of Water (NOW)**

Namoi Water notes our rejection of the new metering project, further the new hydrometric monitoring agreement is also a significant concern. NSW Office Water has deferred its current

determination until 2015 therefore this allowance for the 2014-15 regulatory period should be removed.

In addition, we believe there is significant uncertainty over what costs will be imposed on SWC for obtaining river gauging and data management services. Without further detail on what charges NOW will levy on SWC, Namoi Water rejects this proposed step increase by the ACCC until factual evidence is provided to the ACCC and stakeholders.

### **Regulatory costs**

The burden of two regulators is a direct result of a Federal Act (*Water Act 2007* and the associated *Water Charge (Infrastructure) Rules*), Namoi Water objects to charging bulk water users for this thematic expenditure item. Namoi Water submits that any financial obligation of SWC that is a direct result of a federal legislation must have a one hundred percent government (NSW) cost share.

### **RAB**

As per our previous submission we request that the RAB value must be based on actual expenditure figures rather than forecasts. Namoi Water suggests that the opening RAB value must be set at the end of the third quarter of 2013-14 based on updated information from SWC which includes actual CAPEX figures together with an update on forecast expenditure for the remaining quarter.

### **Environmental Water**

As a valley with very little held environmental water, but significant portion of planned e-water we are concerned at the hidden costs environmental water management brings to each valley. Namoi Water asks that a thorough cost benefit analysis of environmental planning and protection projects are undertaken and alternative methods are being considered particularly those that are more cost effective.

### **Corporate Systems & Technology**

SWC in their application has focussed on driving the business towards implementation of new technology paid for by water access licence holders along with development of corporate systems, yet the application does not contain detailed evidence to support how this contributes to efficiency gains or cost reductions. Namoi Water supports SWC developing tools to better manage water, however they must provide either an increase in service delivery efficiency or drive costs down as a part of standard operating procedures. Concern remains about the cost

allowance for this expenditure item. We believe that corporate system must be classified as standard operating procedures and hence not receive any additional CAPEX allowance.

Namoi Water submits that Corporate Systems must be classified as standard operating procedures and hence not receive any additional CAPEX allowance.

### **Regulatory Depreciation**

Namoi Water is extremely concerned that the ACCC proposes to significantly deviate from previous calculations on SWC's remaining economic asset lives. As the ACCC Draft Decision states;

"The ACCC considers that applying different remaining economic lives to each valley is more transparent and better reflects the principles of user pays than adopting a single remaining asset life for all valleys and better represents the mix of assets used in each valley." (p.174)

As the ACCC has proposed significantly lower values for SWC's remaining economic asset lives, we believe that this amendment leads to a significant price shock. This concern is furthermore supported by the following statement;

"To the extent that changes to remaining economic lives impact on State Water's regulated charges, the ACCC considers that price shocks can adversely affect the efficient development of a market and its related markets and have a perverse or unintended pricing outcome." (p.175)

In addition, the ACCC states that its own analysis shows that;

"..total revenues to be recovered from users over the entire 2014-17 regulatory period would decrease by between 1 per cent and 2.5 per cent across most valleys compared to State Water's application." (p.175)

Namoi Water believes that such an amendment is significant, in particular since some valleys are proposed to experience only a 1-3 per cent adjustment to their overall bulk water charges (i.e. NSW Murray and Murrumbidgee) while other such as the Peel will experience quite high charges. In addition, Namoi Water would like to point out that the ACCC is proposing a 1 per cent efficiency dividend from SWC in the next determination. Given the significant adjustments to SWC's asset calculations, these efficiency savings have been dwarfed by a proposed amendment in the asset life methodology.

Finally, Namoi Water does not consider it valid to claim that;

"The revenue impact of this draft decision on the remaining asset lives is over the 2014-17 regulatory period and is more than offset by the reductions to other building block costs."  
(p.175)

Namoi Water believes that an offset in another category is not a valid excuse to propose a significant price shock in another. We submit that the ACCC's proposal to amend SWC's asset lives constitute a price shock based on the ACCC's pricing principles. Namoi Water requests that the current IPART methodology must be carried over into the new Determination as the proposed amendments create significant price shocks.

### **Price Control**

The proposed new price control mechanism including overs and unders and 20 year rolling average approach will cause prices to increase when cash flows of customers decrease. This could create additional financial hardship and is, in the opinion of Namoi Water, a perverse and unintended pricing outcome.

There are significant risks that the balance in the account will significantly grow should we experience another prolonged dry period. This build-up could lead to significant price fluctuations in later years.

For equitable reasons, Namoi Water would like to also point out that the significant OVER-recovery in 2013-14 is not being accounted for in the next determination. Namoi Water considers this inequitable and proposes an adjustment of future revenue requirement based on the over-recovery achieved by SWC in this last year of the current regulatory period.

### **Conclusion**

We thank ACCC for their time again spent conducting the initial rounds of consultation and ongoing communication with CSC groups and NSWIC council members.