Namoi Water

Submission to Australian Competition and Consumer Commission

On State Water Corporation Pricing Application

September 2013

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

PO Box 548
Narrabri NSW 2390
PH: 02 67925222
EM: eo@namoiwater.com.au
Web: www.namoiwate.com.au

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 has several representatives on the Namoi Peel State Water Customer Service (CSC) Committee and has had a long involvement in lobbying to ensure customers are informed and feedback is received. The consultation process for this application has been limited to the CSC mechanism. State Water has at times appeared deaf to customer feedback, blind to the impacts highlighted and mute on this issues it did not wish to provide detail or address in the new determination process. From a customer's perspective at all times efficient service delivery must be at the forefront of assessment to operational functions and funding of State Water. State Water Corporation (SWC) are seeking an 8% increase in revenue from the Namoi Valley, yet they have not included the key projects proposed and supported by the CSC for the Gunidgera off take (suggesting it was too late for the application – which was delayed by 2 months) and should have been included.

The Namoi Peel CSC has noted their rejection of the proposed change to the tariff structure from the existing 60/40 split as fixed/variable to the proposed 80/20. SWC did not provide sufficient evidence to support the need for this change. SWC base their case for change due to the under recovery of "allowed revenue". Namoi Water notes that SWC have at all times made a profit and returned a dividend to their shareholder the NSW Government.

The SWC application includes a substantial section on metering, the Northern Basin Water users have a commitment from the NSW Water Minister to remove regulated water users from the project. As it stands Namoi Water rejects the project described as the NSW metering business case the premise for the SWC metering charges. At our recent Annual General Meeting Unregulated and Groundwater users voted to reject the project and also be removed from participation. SWC at a meeting with all Northern Valleys (Macquarie, Namoi, Gwydir, Border River) agreed to provide options in the application for the following three scenarios 1. New Meters under Metering Business Case, 2. Meters under State Water funding model and 3. Meters owned & upgraded by Water Access Licence holders. We note that option three is missing in this application. Computer Aided River management is proposed as an alternative for the regulated users, at this time the project is pending a further 18 months of analysis under a Water for Rivers project to assess feasibility in the north. SWC is aware of the above yet the application appears to have somewhat misrepresented the agreements & views of customers.

SWC – Summary of Application

In summary SWC proposes the following changes we wish to comment on;

1. Change Tariff Structure from 60/40 to 80/20 fixed/variable
2. Not include volatility allowance as no precedent exists under ACCC
3. Increase the proposed operational expenditure 13% average increase (8% Namoi)
4. Base RAB rollover on forecast in last year of determination
5. Increase the WACC from 7.4% to 8.96%
6. Inclusion of revenue CAP
7. Include carryover or correction mechanism
8. Metering

The interpretation of the ACCC rules appears to be the main issue of contention, SWC have interpreted the rules such that a volatility allowance is not permissible. Yet at the NSWIC meeting it was noted that ACCC were not ruling out the inclusion of this mechanism in future determinations. It is our understanding that the ACCC will only be asked to provide determination on the information contained in the State Water submission, to improve this process clear information should be provided regarding the new rules, their interpretation and if State Water can and should include a range of options based on including this allowance. A good example of providing appropriate options is the metering project. SWC have chosen to ignore their own commitment to providing three options in this application in regard to metering (federally project – funded by water transfer, user pays funded through SWC charges and users pays/own install meter). We request ACCC direct SWC to provide these options in their application.

SWC have proposed to involve themselves in the issue of the Murray Darling Basin Plan, setting a target for the development of Sustainable Diversion Limit (SDL) projects as a Key Performance Indicator in their strategic plan. Namoi irrigators have provided clear direction to the NP CSC, if projects can be developed that result in efficiency of operation then these projects should be looked at for the benefit of the water access licence holder as the customer and not used as offsets for the SDL's. It is concerning to see this issue continued in the SWC application in terms of attributing costs associated with the implementation and interpretation of the Basin Plan in the development of Water Resource Plans by 2019. Neither of these issues is the remit of SWC and should be removed from the submission.

SWC in their application has focussed on driving the business towards implementation of new technology paid for by water access licence holders, 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 and the current business transformation program based on metering and computer aided river management does not have customer support in the North as there is no evidence to suggest it does either of these things. These are wants not needs.

At the May NP CSC meeting SWC presented their revenue requirements:

"State Water's revenue requirement will decrease over the determination period and therefore overall users will be better off. Government contributions will also decrease."

- Reduction of the WACC, removal of MDBA charges & discontinuation of volatility charges.

"These decreases will be partly offset by increased operating costs and the effects of inflation over time."

This statement is disappointing, on one hand SWC are going to lessen costs by removing collection for a third party, but are going to increase wages and operational costs resulting in users paying more for the same service. SWC has presented a comparison between allowed and actual revenue rather than actual costs and actual revenue, actual costs are presented to each local CSC quarterly in the Valley operating report and we note the ongoing profitability of water delivery and service. Why then are we paying more if the business of delivering water has not changed?

1. Change to Tariff Structure

SWC indicated they have consistently under-recovered and at our May NP CSC meeting presented that there had been under-recovery of revenue in the order of $145 million in $2012-13 terms (the application states $79.1 million). Namoi Water has raised repeatedly the issue of profits being returned over this same period, therefore under-recovery is not reason enough to support a substantial change in tariff structure. It appears SWC is seeking to transfer more risk to the customer, when they already have in place a minimum revenue stream to overcome volumetric sales risk.

SWC claim of climate change increasing risk can easily be countered by the draft IPCC report which indicates that over the next several generations, the overall effect of climate change will be positive for humankind and the planet. SWC can rest assured there is a 50/50 chance of climate change being good for water sales in the future.

The real impact of the tariff change is that over time if 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 80/20 proportion reportedly 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 their entitlement due to lack of access and restrictions imposed by allocations. This may results in perverse outcomes whereby irrigators may be encouraged to pump water based on price or future rather than water use efficiency.

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

* prices approved by IPART includes MDBA levy

SWC faces less revenue risk than its customer base using the current tariff structure, which already provides mechanism to allow them to manage revenue fluctuations through proviso of minimum revenue stream of 60%. We support continuation of the current tariff structure of 60:40 fixed variable ratio.

2. Not include volatility allowance as no precedent exists under ACCC

"For the next determination period, State Water will not propose the inclusion of a revenue volatility allowance in its submission to the ACCC." May Namoi Peel CSC Meeting report.

SWC in their application notes that ACCC legislation does not explicitly prevent the inclusion of a revenue volatility allowance. However there is a lack of precedent for this approach and not established methodology for calculating such an allowance. SWC are basing their application on the under recovery of "allowed revenue" again Namoi Water argues that profitability on assets and equity is a better measure of SWC financial viability.

State Water has a methodology for calculating this allowance, they have deliberately chosen not to include this as an option in their application as part of a new risk management approach designed for a corporate business, not a monopoly service provider.

3. Increase the proposed operational expenditure 13% average increase (8% Namoi)

State Water seeks a considerable increase in its required revenue for the next determination period on top of the change to the tariff structure. There has been little 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 would result in a higher revenue requirement in the future.

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.

Namoi Water and the Namoi Peel CSC support the following projects inclusion in this year's pricing determination.

Project Name: Increasing Channel Flow Capacity at Gunidgera / Pain creeks

Project Description: Increase the storage height of Gunidgera Weir by up to 500mm to increase the discharge from 1230ML per day to approximately 1670ML per day.

Benefits: Being able to deliver peak summer irrigation demand, rather than implementing channel capacity restriction roster system. This issue was particularly difficult to manage and require considerable staff time to manage this year.

Indicative Cost: $753K Capital for approximately 440ML per day increase

4. Base RAB rollover on forecast in last year of determination

It is noted that SWC has considerably underspent on capital expenditure in the first three years of the current determination. Yet the forecast capital expenditure is likely to influence the rollover RAB. Namoi Water agrees with NSWIC submission request that the opening RAB value is set at the end of the third quarter in 2013/14 based on updated information from SWC that includes actual CAPEX together with an update on forecast expenditure for the quarter. The RAB value must be based on actual expenditure figures rather than forecast.

5. Increase the WACC from 7.4% to 8.96%

Given the use of continuous accounting in northern systems the risk and volatility argument is somewhat void with stability provided by dam storage over the next determination period being somewhat smoothed. This coupled with on-farm storage results in planting areas being maintained at current "average" levels do not support the SWC argument that an increase in WACC is required. Further to this we seek a return to the use of the IQQM model for forecast rather than 20 year rolling average.

SWC in their presentation to the May NP CSC meeting reported one of the factors influencing the overall cost of water reducing was their assessment ACCC will apply a low WACC. It is therefore confusing that SWC in their application note the ACCC pricing principles do not support change to the WACC to compensate for revenue volatility rather that other mechanisms exist. Yet the application seeks a change to the WACC to 8.96%? The WACC needs to be calculated using realistic financials.

6. Inclusion of a revenue CAP

The current price cap approach provides transparency and certainty to customers. The carry over provision allows the deficit or surplus to be carried forward, in any irrigation business it is likely to be a deficit carried over in drought if the "allowed revenue" model is continued 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 businesses and price shocks.

The 15% annual adjustment in conjunction with the revenue cap will limit the upper and lower boundaries but does not allow for any real forecasting by customers outside the first year of the determination. The adjustment of 15% results in an addition $4 per meg per year to either be +/- from each bill, based on current pricing determination this is range would be around $1.70 hence the proposal nearly doubles the impact of any annual adjustment based on the change to the fixed and variable tariff.

8. Metering and the Northern Valleys

ACCC needs to consider the history and sensitivity around the metering project! (Emphasis added). SWC have been happy to blame the project and its poor business plan on NSW Office of Water, Office of Water place the blame for the project developer George Warne previous SWC CEO. The premise of the metering business case and now project is to meet the new national metering standards by 2019, the project proposes to transfer "water savings" to the commonwealth in return for funding to roll out new meters. We reject in every way the assumptions and content of the application by SWC regarding the costings, benefits, service charges, alternatives and assumptions used for metering. Namoi Water and other northern valleys clearly requested SWC price three options for this determination.

The installation of telemetry is not a requirement of the new standard when it finally comes into place – it is a SWC want, and to date SWC has not demonstrated any evidence of efficiency or cost savings. In fact the costing in the application support our case that the new meters chosen would be an expensive, unnecessary activity that does not provide any tangible efficiency to the customer. We submit no further action is required till pattern approved meter is available where by customers will have a choice in meter type to meet the new standard.

No amendments should be made to current metering charges. Water Access Licence holders in the Namoi have agreed to meet the new standards by 2019 at their own cost. 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 particularly as telemetry in this application is not offering any efficiencies of reduction in costs.

SWC provides a valuable service however with this determination our board and members are questioning the direction and efficiency of the services provided. Particularly in light of this application, we ask ACCC reject the application and direct SWC engage with the their customer base regarding detailed operational costs and further resubmit an application including a volatility allowance. The function of SWC has not changed just the organisation that determines the process for bulk charges, SWC have taken liberty to shift risk to their customer base due to this change without evidence to support the need or efficiency of this change.

As customers of SWC we have no choice in whether we use their services or pay the charges. SWC monopolise the market, therefore they have no need to create efficiencies and in this application continue to pass the extra costs to customers. Perhaps in the not too distant future we may be better to buy they dam outright and manage our own future. It may well prove more cost effective in the long run.