

Peel Valley Water Users Association Inc

The only organisation that represents the Irrigation Industry in the Peel Valley

Mr Sebastian Roberts
General Manager – Water Branch
ACCC
GPO Box 520
Melbourne Vic 3001

16th April 2014

Dear Mr Roberts

Re: ACCC Draft Decision on State Water Pricing Application:
2014/15 to 2016/17

Thank you for the opportunity to comment on the ACCC's Draft Decision.

We have made our observations in the attached document, but we realise that there is little prospect of the ACCC making any significant changes to the Draft Decision now, irrespective of our comments.

That is a great pity, because we consider that the ACCC has not met its obligations as far as the regulated water usage charges in the Peel Valley are concerned.

All that we are asking is that the Peel Valley be given a "fair go" in regard to water usage charges.

But once again, the regulator has imposed the highest charges in the Murray-Darling Basin on the Peel Valley, and the highest water usage charges in history on the Peel Valley, while other valleys enjoy charges that are a mere fraction of those in the Peel Valley.

We believe that the action of the regulator is anything other than fair, and the ACCC has not lived up to the rhetoric on its website about "promoting competition and fair trade". These lofty ideals are meaningless if the national regulator does not deliver decisions that achieve those outcomes.

Yours faithfully

Peel Valley Water Users Association Inc
The only organisation that represents the Irrigation Industry in the Peel Valley

Ildu Monticone
President

Summary of comments

1. Ratio of fixed to variable costs (a rare bouquet to the ACCC)

We acknowledge that the ACCC has held the existing ratio of fixed to variable costs constant for the review period, rather than accepting State Water's proposal to migrate to a ratio of 80:20 fixed to variable costs. We believe that this is a logical decision, and we appreciate it.

Members of the ACCC review panel will recognise that this decision has a huge impact in the Peel Valley, where this year the Available Water Determination ("allocation") has been 45% of entitlement. By comparison, the Namoi Valley has had an allocation of 123% this year. Next water year, the start of season allocation for regulated general security water in the Peel Valley is zero. So we are grateful that the ACCC has held the existing ratio of 40:60 fixed to variable for the review period, because changing that ratio would cripple the irrigation industry in this area. The Peel Valley has very unreliable access to water, and a high entitlement charge would make irrigation unsustainable in the Peel Valley – particularly when coupled with excessive usage charges.

2. Perverse outcome

The ACCC is well aware that the Water Act 2007 prohibits the charging of fees that "produce a perverse or unintended outcome".

Therefore, we cannot fathom how that ACCC can allow water usage charges in one area of NSW of \$2.49 per ML, and \$55.13 (or \$71.92) per ML in the Peel Valley.

Why is this not a perverse pricing outcome?

We believe that this is perverse pricing exemplified. You could not get a clearer example.

Further, we believe that if State Water implements the charges as recommended by the ACCC, State Water will be in breach of the Act.

We know that the ACCC would not permit a major fuel company to charge \$2.49 for petrol in one area of NSW and \$55.13 (or \$71.92) in another area of NSW. So why is it any different for water? Why is a Government owned monopoly allowed to charge perverse prices in the Peel Valley and justify the charges on the basis of a flawed method of accounting?

This is a grossly unfair result, and we cannot understand how the ACCC can allow this perversity to continue in the Peel Valley.

No other commodity in NSW has such diversity in the charges from one area to another – why water?

3. Government subsidy for the Peel Valley

The ACCC has determined a water usage charge of \$55.13 per ML in the Peel Valley in 2016/17.

However, that figure is only valid while there is a NSW Government subsidy in existence, and without the subsidy the water usage charge in the Peel Valley rockets up to \$71.92 per ML in 2014/15 (the ACCC has not provided figures for any of the years beyond 2014/15).

We cannot understand why the ACCC has taken this approach. There is no guarantee that the NSW Government will continue the subsidy even into the next financial year – at which time the usage charge could be \$71.92 per ML. And in March next year there will be a NSW State election, and anything could happen to the subsidy after the election.

The ACCC has left the Peel Valley in a perilous and precarious position.

No other Valley in the Murray-Darling Basin is dependant on a Government subsidy. And even with the subsidy the water usage charges in the Peel Valley has the highest water usage charges in the Murray-Darling Basin.

4. “Full cost recovery”

The ACCC has agreed with the previous regulator (IPART) that full cost recovery is never likely to be achieved in the Peel Valley.

So why does the ACCC permit State Water to continually force up the prices in the Peel Valley in order to approach full cost recovery, when everybody knows that it is an unachievable goal?

It is appalling that the ACCC has just followed in the footsteps of the previous regulator in allowing State Water to pursue an unachievable goal.

5. A picture for the ACCC review panel

The following diagram illustrates the water usage charges in the Peel Valley compared to other valleys in the Murray-Darling Basin over the last few years and during the period of review.

The ACCC review panel should look carefully at this picture, and hang their head in shame.

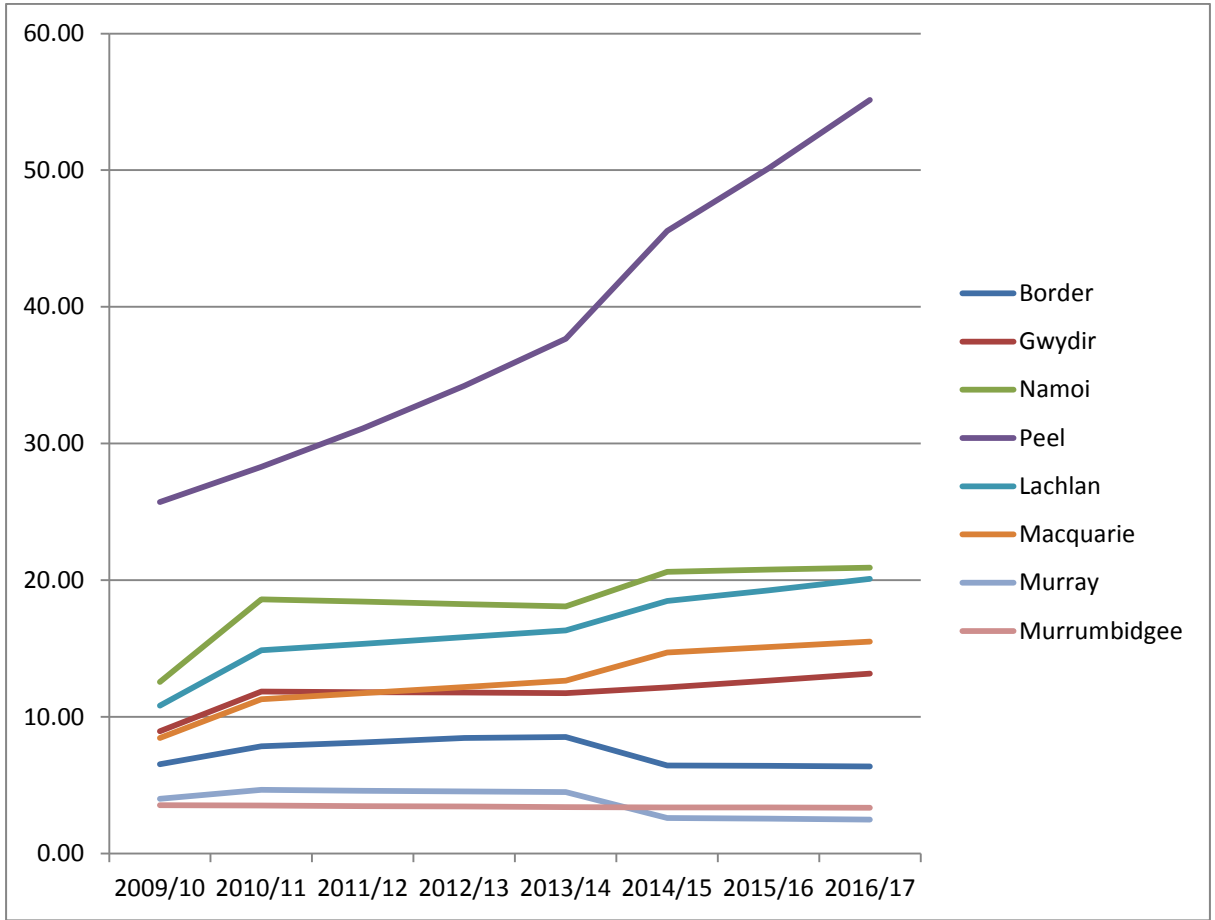
All of the other valleys in the Murray-Darling Basin are in a uniform band at the bottom of the page.

But the Peel Valley is a standout. And the figures shown include the Government subsidy – without which the figures for the Peel Valley would be off the scale.

From the beginning of the graph to the end of the graph, the water usage charges in the Peel Valley are miles higher than each and every one of the other valleys.

Why is it that the regulator cannot comprehend the gross inequity that they are imposing on the Peel Valley?

“Promoting competition and fair trading”? You are joking.



GRAPH SHOWING THE WATER USAGE CHARGE IN DOLLARS PER ML
IN THE VALLEYS OF THE MURRAY-DARLING BASIN

6. Suggested possible solutions to the excessive water charges in the Peel Valley

We recognise that most of the following suggestions are outside the scope of the ACCC's role, however, the ACCC's review panel may be in a good position to bring the suggestions to the attention of decision makers in the Federal and State Governments.

(a) Introduce a Bill limiting the water usage charges in the Peel Valley to a weighted average figure

- As indicated earlier, both IPART and the ACCC have stated separately that 'in some valleys (such as the Peel Valley), full cost recovery could not be achieved without substantial increases in tariffs that would have a damaging impact on users... In some instances, the Tribunal considers that cost reflectivity will never be achieved'.
- In spite of statements like that, the bureaucrats and the regulators are continuing to attempt to achieve full cost recovery, even though it will never be achievable in the Peel Valley.
- It appears to us that a quick fix to the problem would be the introduction and passing of a Bill which states "that the water usage charges in the Peel Valley are to be set no higher than the weighted average of the water usage charges for all regulated rivers in the Murray-Darling Basin".
- This Bill would recognise that full cost recovery is unachievable in the Peel Valley, and it would resolve the pricing problem in the Peel Valley without any protracted arguments.
- It would also protect the Peel Valley against the ever-present threat that the current Government subsidy might be discontinued by the current Government or any future Government. This itself is a major threat to the Peel Valley.

(b) Introduce State-wide water usage charges

- The fairest and most appropriate solution to the current inequitable charges for regulated water usage is to introduce a state-wide price. Thereafter, all water users pay the same amount for regulated water usage, irrespective of the river from which the water is sourced.
- State-wide pricing would bring the pricing of water into line with all other commodities in NSW – such as electricity, fuel, motor vehicle registration charges, and the typical example of postage stamps.
- If this pricing policy was introduced, the ACCC would then genuinely be 'promoting competition and fair trade' amongst all water users throughout the state.
- The Peel Valley Water Users Association and Tamworth Regional Council have both been seeking this outcome for decades.
- The most recent state-wide price for water usage calculated by State Water is \$7.37 per ML – a far cry from the \$55.13 (or \$71.92) that water users in the Peel Valley will pay in 2016/17.

(c) Privatise Chaffey Dam – similar to Murray Water Ltd and Murrumbidgee Irrigation Ltd

- State Water and the NSW Office of Water have both jointly and severally demonstrated such a chaotic track record of managing the revenues and expenditure in the Peel Valley that consideration should be given to privatising Chaffey Dam.
- Precedents have already been established – such as Murrumbidgee Water Ltd and Murrumbidgee Irrigation Ltd
- This option is worthy of further investigation

(d) Introduce an 'Environmental Levy' in the valleys with the greatest impact on the environment

- The statistics prove that the valleys with the greatest impact on the environment (ie they extract the greatest quantity of water) have the lowest water usage charges in the state, while the valleys with the least impact on the environment (ie they extract the least quantity of water – such as the Peel Valley) pay the highest water usage charges in the state
- This outcome is an environmental and moral anomaly, which could be corrected by the introduction of an 'Environmental Levy' which is applied to those valleys that have the greatest impact on the environment. The 'Environmental Levy' could then be used to subsidise the more environmentally sound valleys – such as the Peel Valley.
- The 'Environmental Levy' could be determined at a level which is sufficient to subsidise the Peel Valley to the weighted average water usage charge for all other valleys in the Murray-Darling Basin region.
- We acknowledge that this may result in the creation of a new problem in order to fix a pre-existing problem, but we offer it as one of the potential solutions that should be considered - particularly if the core problem of inequitable water pricing is not going to be rectified.