

Mr Sebastian Roberts
General Manager – Water Branch
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Sir

SUBMISSION ON THE ACCC'S DRAFT DECISION ON STATE WATER PRICING APPLICATION 2014/15 – 2016/17

Ref: *BL/SF2229*

I refer the Australian Competition and Consumer Commission's (ACCC's) draft decision on State Water Pricing Application 2014-15 to 2016-17 and call for public submissions.

Council has considered the draft decision and appreciates the opportunity to comment before the ACCC hands down its final decision.

Please find Council's submission attached.

Yours faithfully



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Director, Water Enterprises
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8 April 2014



Tamworth Regional Council

**Response to ACCC's Draft Decision on State Water
Pricing Application 2014-15 to 2016-17**

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1 Introduction

Tamworth Regional Council would like to thank the Australian Competition and Consumer Commission (ACCC) for the opportunity to provide comments in relation to the ACCC's draft Decision on State Water Pricing Application 2014-15 to 2016-17.

Council does not propose to address every issue; however comments on key concerns identified in the draft decision are presented below.

2 How bulk water charges are determined and varied

State Water proposed recovering 80% of its costs through entitlement charges and 20% through usage charges (80:20). Council is pleased to see the ACCC recognised this split as unsustainable and supports the retention of the existing split of 40:60. However, Council encourages the ACCC to look at reducing the entitlement/usage charges split further to 25:75 and provides the following in support;

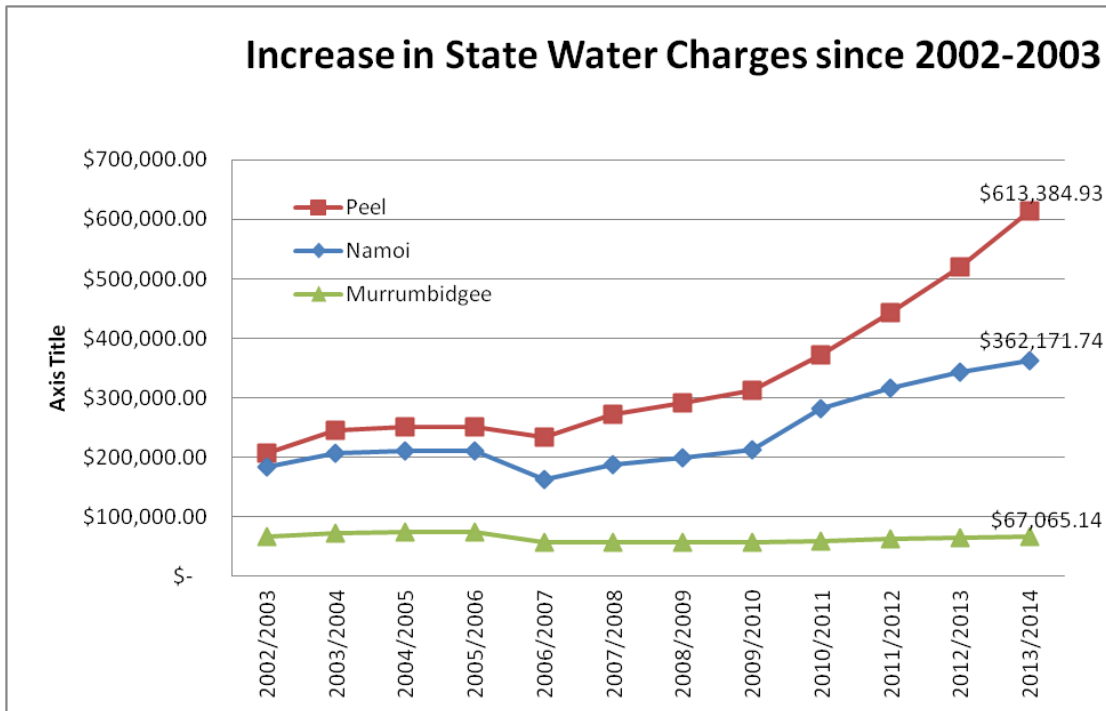
- in its own document, Best Practise Management for Water Supply and Sewer Guidelines – August 2007, the NSW Government recommends local water authorities raise 25% of income from fixed charges and 75% of income from consumption. Failure to comply with this guideline may exclude the Council from receiving funding subsidies from the NSW Government for projects. Yet the same State Government allows it own corporation to propose a completely different, and more onerous, split up
- Council is in the selling water business as well. It has to accept, and budget for, increases and decreases in revenue in its water reserve based on climate conditions – in dry times more water is consumed and revenue rises, in wet times water use falls and with it revenue. It is untenable that local Councils are required to accept and work with revenue volatility but State Government owned corporations do not.

3 Charges for the Peel Valley

In relation to the charges detailed for each valley in the draft decision, it is commendable the ACCC recognised the proposed price rises for the Peel Valley in State Water's submission could not be supported, however, the decision to increase the Peel Valley charges by 10% per year is extremely disappointing given the incredibly high prices Council already pays for water from the Peel. Further points are noted below:

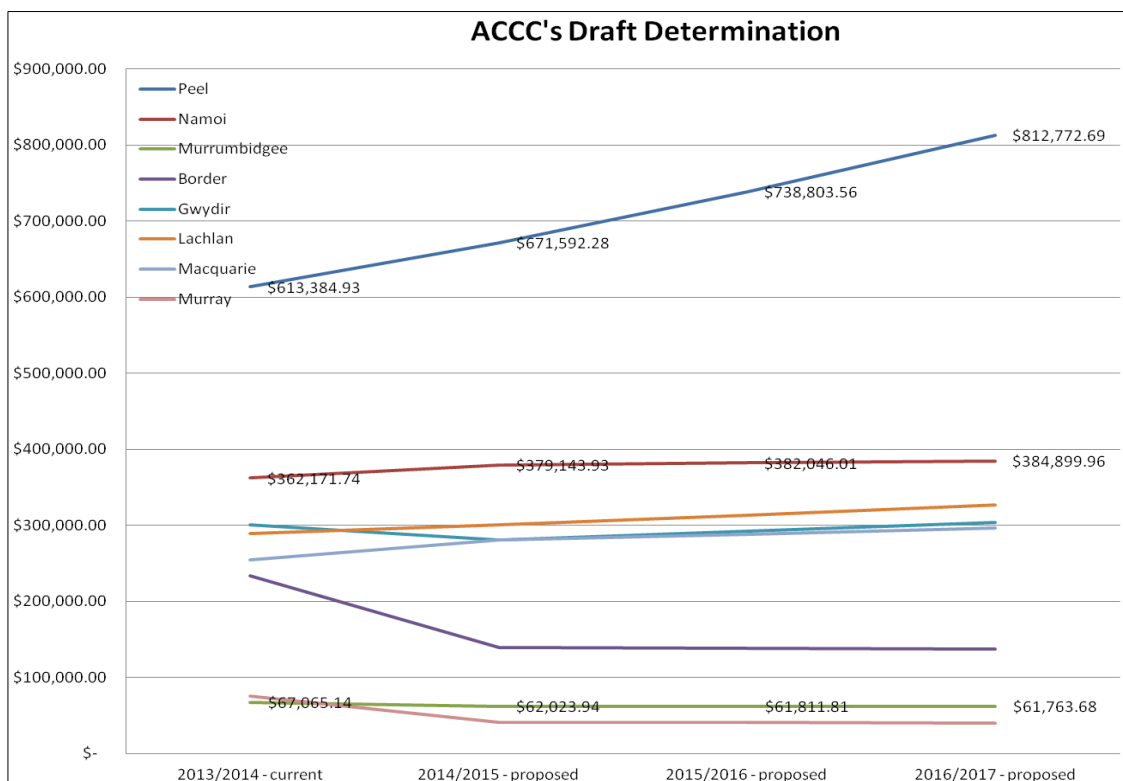
3.1 Increases in charges since 2002-2003

- The cost of high security water in the Peel River has already increased by 196% since 2002-2003 to the current price in 2013-2014, from the various IPART determinations. See chart below;
- Council believes the ACCC should take into account this fact when considering any future prices rises because, while the ACCC may consider the annual increases if 10% a year are acceptable, when those price rises start from a point already many times what other valleys pay, the benefits of such a decision fast evaporate;



3.2 Price rises in the Peel under the Draft Decision

- The cost of water for Tamworth will increase by 33% by 2016-2017 to \$812,772 per annum for 4,813 Megalitres;
- The chart below shows how the price paid by Tamworth would change over the next three years, based on an entitlement of 16,400ML/year and an average annual usage of 4,813ML's if Tamworth drew water from any of the Murray Darling Basin valleys based on the draft decision:



- And the table below shows the percentage increase or decrease from the current charges if Tamworth could draw its water from any of the Murray Darling Basin valleys under the draft decision:

Valley	Percentage Increase from current in 2016-2017
Peel	33%
Namoi	6%
Murrumbidgee	-8%
Border	-41%
Gwydir	1%
Lachlan	13%
Macquarie	16%
Murray	-47%

3.3 Tamworth is being penalised because of its location

- In 2013-2014 if Tamworth was moved to where Wagga Wagga is on the Murrumbidgee and sourced its high security water from that river the cost would be one ninth of the cost it is from the Peel;
- Even if Tamworth moved to Gunnedah – 75 Kilometres away and sourced it's water from the Namoi, a river which the Peel drains into, the cost of sourcing water in 2013-2014 would reduce by 41%;
- It is accepted that the Peel Valley and Chaffey Dam are relatively small and therefore, relatively speaking, quite expensive to run, but Council was not involved in the original decision about Dam size etc, and should not be penalised now for poor decisions made in the past.

3.4 Equity

- Council has significant concerns that the proposed price increases unfairly discriminate against towns and cities that, through no fault of their own, happen to be receiving water from a state owned source that is, relatively speaking, expensive to operate. The cost of water should not be a primary consideration for industry wishing to relocate to particular regional areas, but repeated significant price rises, already experienced in the Peel and proposed for the future, are contributing to the cost of water becoming just such a consideration;
- no other Murray Darling Basin town will experience such increases in costs as Tamworth under the draft decision – how can this be equitable?

3.5 State Wide postage Stamp Pricing

- Council has previously, and continues to, support the introduction of postage stamp pricing across the State, or at the very least, the merging of the Peel and Namoi Valleys for pricing purposes;

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- whilst the principle of user pays is accepted there are many examples where economic rationalism should be, and has been, set aside and a common sense approach applied – postage stamp pricing for raw water is one of them;
 - State Water modelling suggests the following state wide prices would arise in 2013/14 if determined using a postage stamp (all valleys across NSW pay the same) recovery methodology;

Postage Stamp Price (all valleys):

- state usage charge \$7.37; and
- state high security entitlement charge \$5.89.

Under this scenario Tamworth's water charges for 4,813ML would reduce from \$613,385 in 2013 -2014 to \$132,068. That is the new cost would be 1/5 of the old.

State Water modelling suggests that a combined price for Namoi and Peel valleys if they were to merge would be:

Namoi Peel combined:

- usage charge \$21.54; and
- high security entitlement charge \$19.75.

Under this scenario Tamworth's water charges for 4,813ML would reduce from \$613,385 in 2013-2014 to \$427,572. A reduction of 30%;

- Council could charge each of its seven water supply schemes differing costs based on the cost to produce and supply treated water, just like State Water. However, Council has decided to apply postage stamp pricing across the communities in its Council area so that everyone pays the same regardless of cost. If Council can see the equity in such a decision why can't State Water, the State Government and the ACCC?

3.6 Council's contribution to the Construction and Augmentation of Chaffey Dam is not recognised

- Council contributed ¼ of the budgeted cost of the initial construction of Chaffey Dam yet Council receives no financial recognition of this contribution in ongoing water charges;
- Council is again contributing to the cost of the augmentation of Chaffey Dam to a larger storage. Once again where is the financial recognition of this contribution in ongoing charges?

3.7 Environmental Flows from the Peel

- 95% of all water that falls in the Peel Valley flows into the Namoi and valleys beyond. Why then does Council have to pay more than two times (in 2016-2017) as much for that water at Tamworth than if it was intercepted at Gunnedah, 75 Kilometres away on the Namoi?
- When flow from the Peel into the other valleys occurs and State Water allows supplementary pumping to occur, the price paid for that water is based on the charges levied for the valley where the water is extracted from not on the valley that the water originated in. Given the Peel is the most expensively priced valley in the Murray Darling Basin and 95% of all water that falls in the Peel Valley flows into the Namoi, why aren't downstream consumers who consume water from the Peel

charged at the same price as consumers in the Peel Valley? The introduction of such a scheme would spread the cost of the operating Chaffey Dam across all consumers who access water from Chaffey Dam and/or the Peel Valley, rather than just Peel valley customers, potentially lowering costs within the Peel. This is also another argument in support of postage stamp pricing as water would cost the same regardless of where it was intercepted and where it originated from.

3.8 Capacity to pay

- Council understands the ACCC does not consider capacity of customers to pay during their deliberations. Council believes this is a flawed approach as the increase in prices in the Peel Valley since 2002-2003, where the cost has trebled, does have a significant impact on costs for consumers. In the case of irrigators in the Peel these increased costs cannot be simply passed on to consumers. Council considers it would be perverse for State Water and the ACCC, through its pricing mechanisms, to render an entire valley unable to sustain an irrigation industry, leaving the City of Tamworth as the only significant customer of Chaffey Dam - a significant State asset.