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AUST. COMPETITION & CONSUMER COMMISSION MELBOURNE
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3<sup>rd</sup> April 2014

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SUBJECT: ACCC Draft Decision on State Water Pricing Application: 2014-15-2016-17

The Australian Competition and Consumer Commission has nearly missed a great opportunity to reform Bulk Water Pricing in NSW but it is not too late for these reforms to take place providing the Australian Competition Consumer Commission has the intestinal fortitude to live up to its name.

What sort of pricing mechanism results in charges for the same Bulk Water Service varying from 1.5 times to 5 times to 10 times to 20 times and more from one Valley to another whilst at the same time rewards the valleys that use the most water and do the greatest environmental damage to their valley with by far and away the lowest prices for Bulk Water Services as demonstrated in the following table and shown graphically in figure 1.

Valley	Environmental impact* %	Bulk Water Charge** \$
Murrumbidgee	43	2731
Murray	43	3629
Border Rivers	40	6026
Gwydir	34	6852
Macquarie	27	7311
Lachlan	25	8523
Namoi	27	12049
Peel	5	14159

\* Pers com David Harris Commissioner NSW Office of Water 17.2.2012 Reduction in long term average end of stream flow due to water extraction.

\*\* IPART State Water Corporation Determination No 2- 2010 IPART NSW Office of Water Determination No4 - 2010 Water Bill criteria 500ML General Security Entitlement; 40/60 Fixed-Usage Ratio; 60% Water Usage

The average person looking at these statistics would shake their heads in disbelief.  
 Look at the impact of water extraction on the long term average end of stream flow from Valley to Valley.  
 Look at the wide variation in the water bill for the same service from Valley to Valley across NSW.  
 What is the Australian Competition and Consumer Commission going to do about this perverse outcome of Valley based Bulk Water Pricing?

Talking about "perverse and unintended pricing outcomes" which are in breach of the National Water Initiative , why does the Australian Competition and Consumer Commission " support in

Principle Valley based cost reflective pricing” for Bulk Water Services when it doesn’t support (and rightly so) Valley based pricing for .....

Police  
Schools  
Roads  
Power transmission  
Hospitals  
Etc

All of these assets including the Dams which State Water now uses as the basis for its costing and Regulatory Asset Base were paid for by the Tax Payers of this and previous generations. Why have the Dams been singled out as a special case for Valley based pricing and its perverse pricing outcomes?

Imagine the price variation if valley based pricing was applied to policing, schools, roads, power transmission, hospitals etc. What is the cost to..

Operate a small school out near the Black Stump  
Operate a police station in a small village in the Back of Beyond  
Supply electricity out in the Never Never.

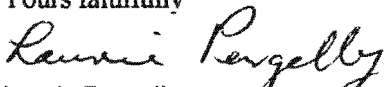
They are all (and rightly so) subsidized by the Tax Payer as is Public Transport in the Sydney Metropolitan Area. No Government would stay in office long if it corporatized public transport, introduced full cost recovery and rewarded itself 7.44% return on its regulatory asset base.

So why has Valley Based pricing been applied to Bulk Water? Answer, **The National Water Initiative.**

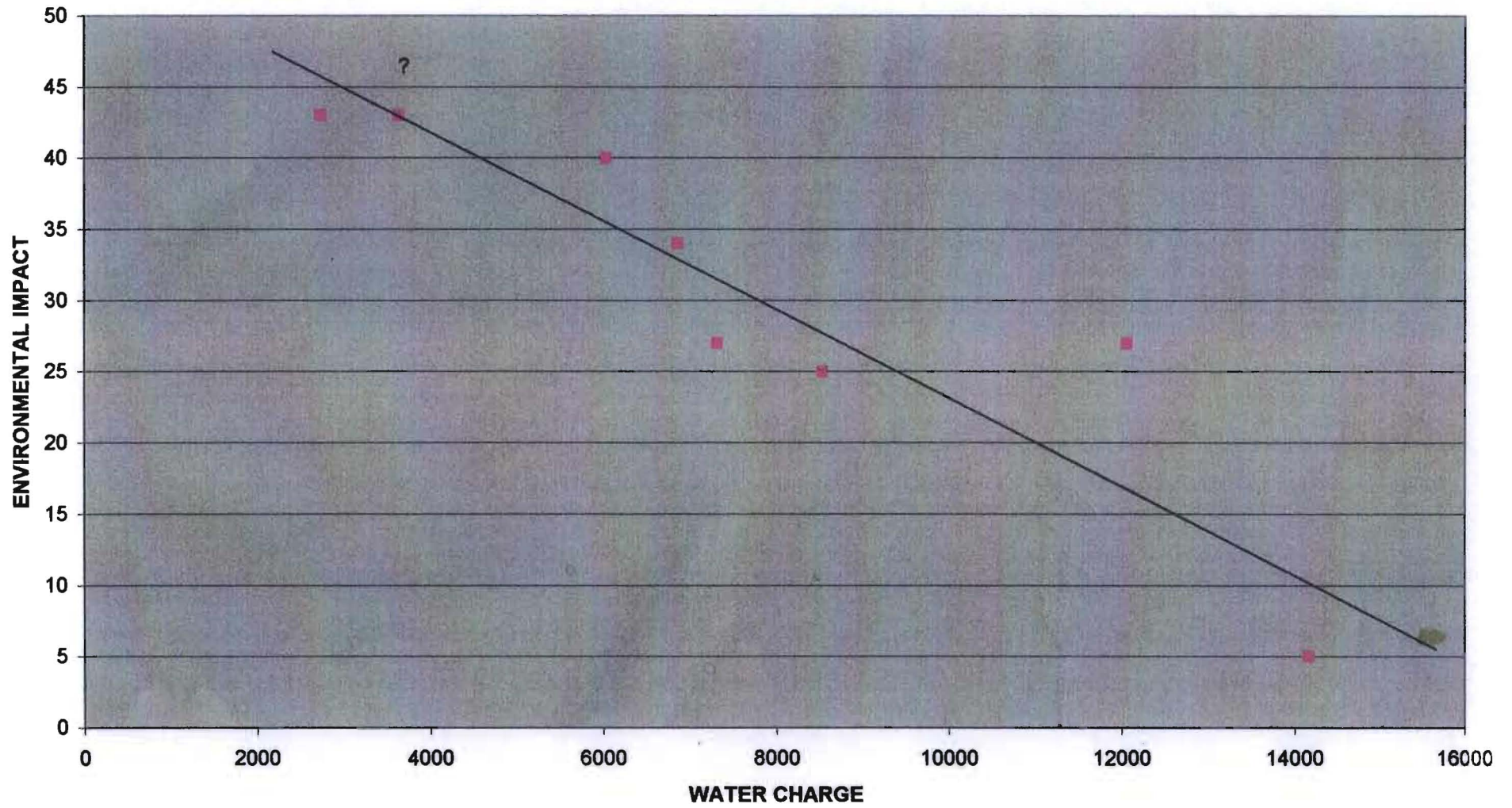
Take a look at **Appendix 1** which was presented to IPART at its Public Hearing – Rural Charging System Review 2.00pm 3<sup>rd</sup> of July 2012. It clearly demonstrates that uniform Bulk Water Pricing is easily and painlessly achievable and that Valley based Pricing results in perverse and unintended pricing outcomes which are in breach of The National Water Initiative.

Why should a Peel Valley Dairy farmer, a Lucerne hay farmer, or a Tamworth city ratepayer or water using town business pay around 10 – 15 times more for the same Bulk Water Service from a **State Owned Corporation** than their counterparts on the Murrumbidgee at Wagga Wagga. Is the Australian Competition and Consumer Commission going to live up to its mantra of a fair deal or will it be known as the A<sup>2</sup> C<sup>3</sup> (Anti Australian Competition and Consumer Commission)

Yours faithfully

  
Laurie Pengelly

WATER CHARGE VERSES ENVIRONMENTAL IMPACT (REDUCTION IN END OF STREAM FLOW)



## APPENDIX 1

**SUBJECT: NSW Government Bulk Water Pricing for State Water and NSW Office of Water in Breach of the Commonwealth Government Pricing Objectives and Principles January 2011 and the National Water Initiative June 2004.**

### **“Commonwealth Government pricing objectives and principles**

The Commonwealth *Water Act 2007* (the Water Act), made under Section 92(1) of the Water Act, creates the institutional and governance arrangements that address the sustainability and management of water resources in the Murray-Darling Basin (the Basin). Among other things, the Water Act gives the Minister for Water the role of making water charge rules. Schedule 2 of the Water Act documents the relevant objectives and principles for these charge rules.

The *Water Charge (Infrastructure) Rules 2010* contribute to achieving the Basin water charging objectives and principles set out in Schedule 2 of the Water Act.

Broadly, these objectives and principles seek to

- a) promote the economically efficient and sustainable use of water resources, water infrastructure assets and government resources devoted to the management of water resources
- b) ensure sufficient revenue streams to allow efficient delivery of the required services
- c) facilitate the efficient functioning of water markets
- d) give effect to the principle of user-pays and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management, and
- e) avoid perverse or unintended pricing outcomes.

The water charge infrastructure rules were registered on 11 January 2011 and had legal effect from 12 January 2011.” Reference 1

The Peel Valley Water Users Association would have it that the NSW Governments bulk water charges for both State Water (IPART Determination and Final Report 2010) and the NSW Office of Water (IPART Determination and Final Report February 2011) are in breach of the Commonwealth Governments pricing objectives and principles since they became legal on the 12<sup>th</sup> January 2011. Specifically they are in breach of meeting condition *e) avoid perverse or unintended pricing outcomes*.

The NSW Governments Bulk Water Charges are also in breach of the Intergovernmental Agreement on a **National Water Initiative** between the Commonwealth of Australia and the Governments of NSW, Victoria, Queensland, South Australia, the Australian Capital Territory signed into effect on the 25<sup>th</sup> June 2004 by the then Prime Minister (John Howard) and the Premiers and Chief Ministers of the above States and Territories. The breach by the NSW Government is of **Best Practice Water Pricing and Institutional**

**Arrangements – Outcomes – Section 64 (v) avoid perverse or unintended pricing outcomes. Reference 2**

As demonstrated below.

1. State Water and the NSW Office of Water Regulated River Charges 2012-13 – Water bill for a 500ML General Security Entitlement with 60 % usage of entitlement

<u>Valley</u>	<u>Water bill</u>
Murrumbidgee	\$2731.00
Peel	\$14,159.00

Given that 1 ML of water will produce about the same amount of hay or milk in either Valley this pricing outcome for the same entitlement and usage (for the same service) can only be considered as a perverse or unintended pricing outcome and in breach of the Commonwealth Government pricing objectives and principles. See Fig 1

2. State Water and the NSW Office of Water Regulated River Charges 2012-13 – Water bill for a 16,400ML High Security Entitlement with a 50% usage of entitlement (Indicative of Tamworth Regional Council)

<u>Valley</u>	<u>Water bill</u>
Murrumbidgee	\$102,090.00
Peel	\$701,346.00

This is an unfair burden on the residents of Tamworth who like many others in NSW are struggling to raise their young families against a continuous barrage of ever increasing costs of which water is but one. This price differential between the two valleys for the same entitlement and usage (for the same service) can again only be considered to be a perverse or unintended pricing outcome and in breach of the Commonwealth Government pricing objectives and principles. See Fig. 2.

3. Depending on the definition of what is considered to be a perverse or unintended outcome the bulk water charges in many valleys could be considered to also be in breach of the Commonwealth Governments pricing objectives and principles. See Fig. 3

The Commonwealth Governments Pricing Objective and Principles and the National Water Initiative can easily be met by the NSW Government implementing a price structure based on a weighted entitlement charge and a weighted usage charge across all valleys to achieve the same revenue requirement as is currently being obtained. To meet State Waters and NSW Office of Water financial requirements for the 2012-13 water year, all valleys would need to pay a

General Security Entitlement charge of \$4.30 ML  
High Security Entitlement charge of \$6.03  
Usage Charge of \$7.91

Refer Table 1

This would mean that a General Security entitlement holder in any valley in NSW MDBA with a 500ML entitlement using 60% of entitlement would get the same bill of \$4523.00 for the same service as shown in fig 3.

No valley could claim that this pricing structure would be in breach of the Commonwealth Governments Pricing Principles and Objectives or the National Water Initiative.

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Ref 1 IPART Review of Rural Charging Systems – Discussion Paper June 2012 pg 35 6.1.2  
Ref 2 Intergovernmental Agreement on a National Water Initiative 25<sup>th</sup> June 2004 page 13 64 (v)

**TABLE 1 Entitlement Usage and Water Charge Details for State Water & the NSW Office of Water - Weighted Average Pricing**

Valley	Peel	Lachlan	Macqarie	Murrumbidgee	Gwydir	Namoi	Border R	Murray	Total
<b>GS Ent 1</b>	30911	632946	631716	2264065	509665	255780	263085	2076223	6654590
<b>Ent Charge 2</b>									
SW	2.46	4.25	4.06	1.6	4.07	9.01	3.33	2.32	
NOW	1.9	1.51	1.7	1.18	1.3	2.32	2.23	1.44	
Total	4.36	5.76	5.76	2.78	5.37	11.33	5.56	3.76	
Revenue	134772	3645769	3638684	6294101	2736901	2897987	1462753	7806598	28617565
									26954 20% Peel
									28644519
<b>HS Ent 1</b>	17381	60778	42594	436928	21458	8527	3125	257438	848229
<b>HS Charge 2</b>									
SW	20.9	11.11	9.84	2.81	13.11	15.1	9.94	2.98	
NOW	1.9	1.51	1.7	1.18	1.3	2.32	2.23	1.44	
Total	22.8	12.62	11.54	3.99	14.41	17.42	12.17	4.42	
Revenue	396289	767018	491535	1743342	309210	148540	38031	1137876	5031839
									79257 20% Peel
									5111096
<b>Usage 3</b>	13052	258391	300832	1805846	247734	165558	148535	1541376	4481252
<b>Usage Charge 2</b>									
SW	36.92	17.07	13.14	3.72	12.69	19.69	9.11	4.9	
NOW	3.01	1.74	1.63	0.75	1.2	1.59	1.71	0.93	
Total	39.93	18.81	14.77	4.47	13.89	21.28	10.82	5.83	
Revenue	521166	4858980	4443278	8072132	3441025	3523074	1607140	8986222	35453126

Weighted Entitlement Charge - General Security \$28644519 / 6654590 = \$4.30ML

High Security \$5111096 / 848229 = \$6.03ML

Weighted Usage Charge - HS & GS \$354453126 / 4481252 = \$7.91

1 IPART Review of Bulk Water Charges for State Water Corporation Determination and Final Report June 2010 Table 9.2 page 120

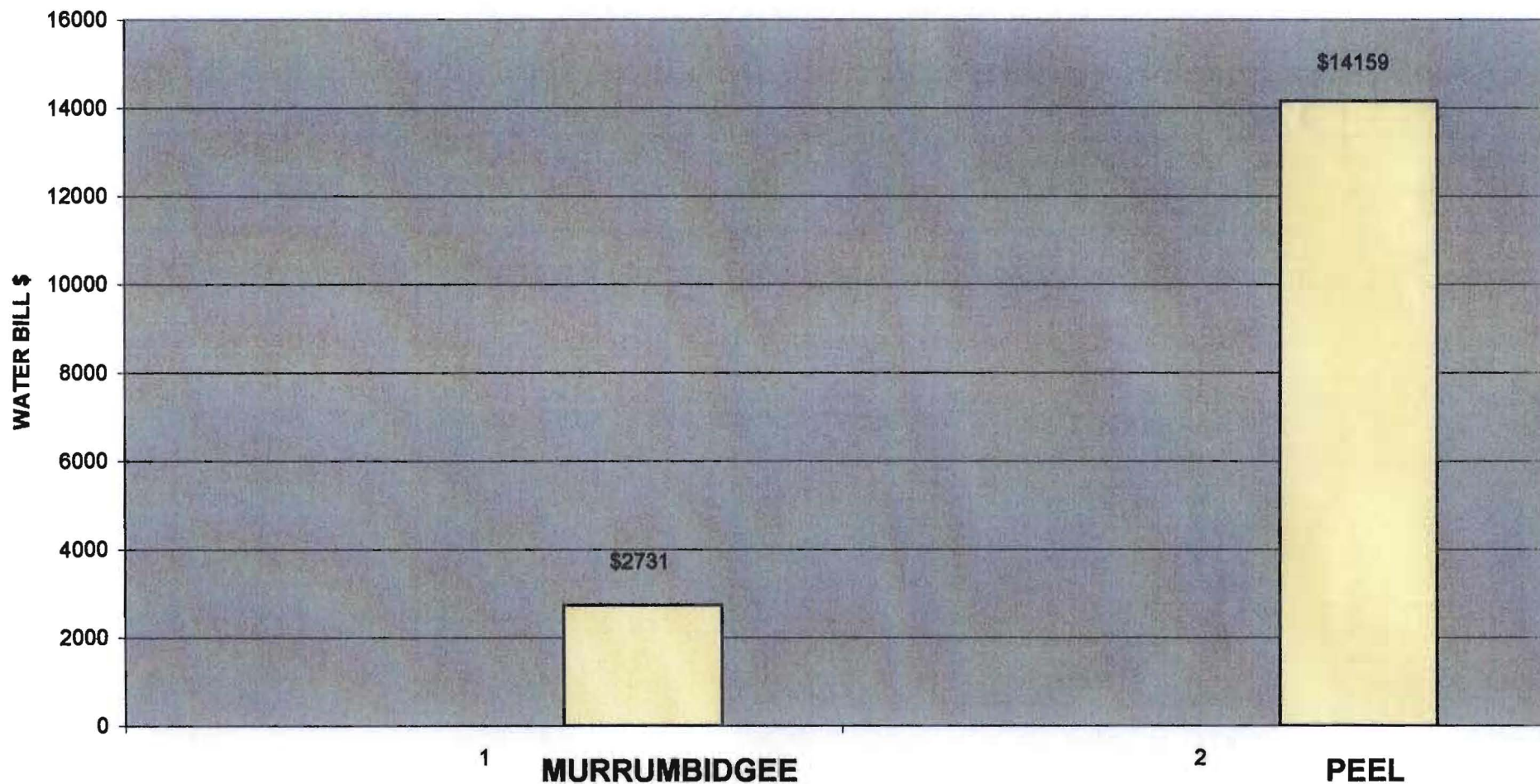
2 State Water Bulk Water Prices for 2012 - 13 Water Year May 2012

3 IPART Review of Bulk Water Charges for State Water Corporation Determination and Final Report June 2010 Table 9.1 page 119



**SW & NOW REGULATED RIVER CHARGES 2012-13 WATER BILL CRITERIA 500ML GENERAL SECURITY ENTITLEMENT; 40/60 FIXED / USAGE RATIO; 60% WATER USAGE**

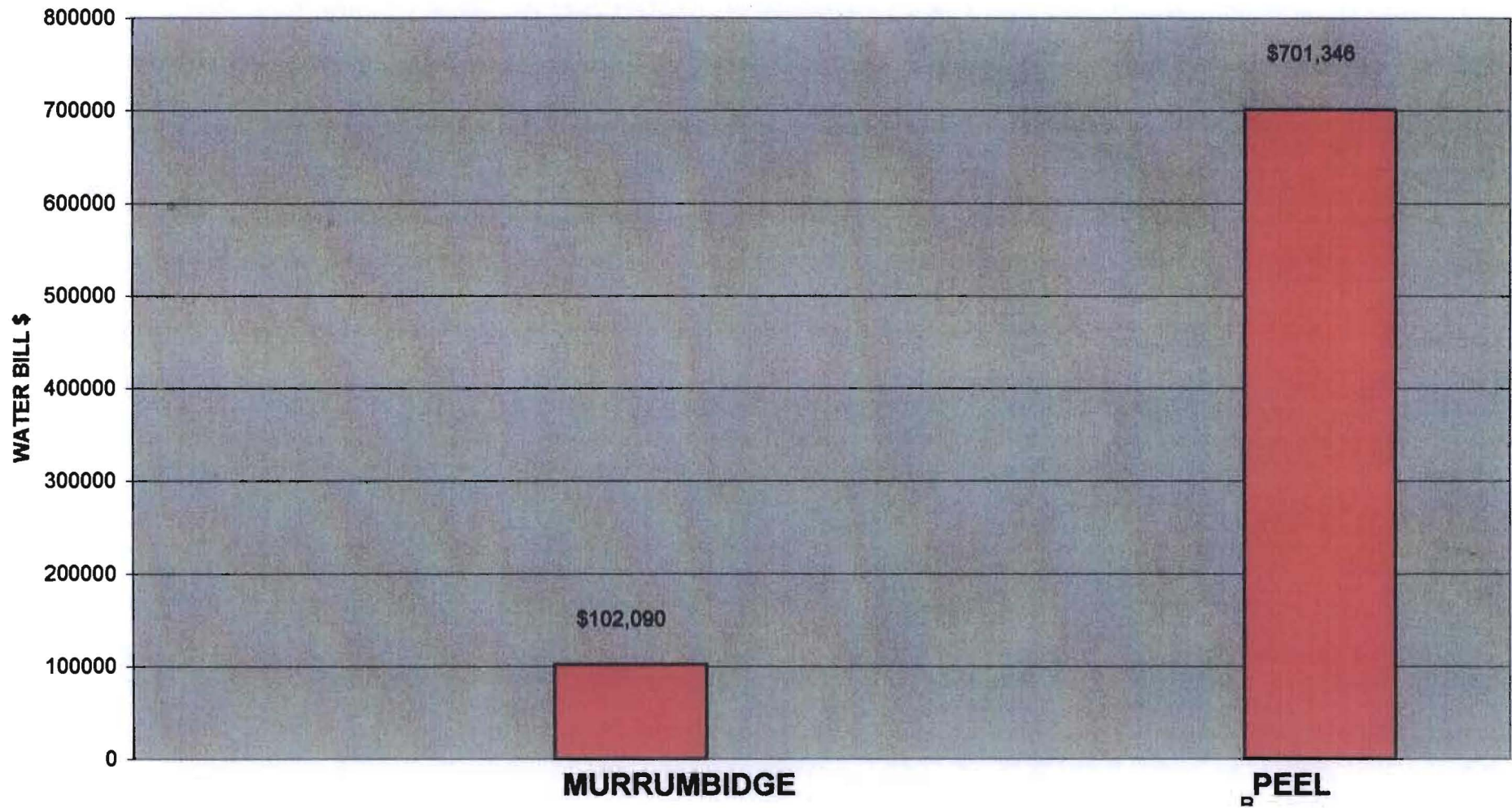
**FIG 1**





**SW & NOW REGULATED RIVER CHARGES 2012-13 WATER BILL CRITERIA 16,400ML HIGH SECURITY ENTITLEMENT (TRC) 40/60 FIXED USAGE RATIO; 50% WATER USAGE**

**FIG 2**



**SW & NOW REGULATED RIVER CHARGES 2012-13 WATER BILL CRITERIA 00ML GENERAL SECURITY ENTITLEMENT; 40/60 FIXED / USAGE RATIO; 60% WATER USAGE**

**FIG 3**

