

Attention: Independent Pricing and Regulatory Tribunal

From: Laurie Pengelly

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Subject: Review of prices for rural bulk water services from 1 July 2017 to 30 June 2021

Thank you for giving me the opportunity to comment on the above draft report.

I am an irrigator in the Peel valley and strongly support the stance taken by the Peel Valley Water Users Association. Enclosed is the reasoning behind my support of the PVWUA stance for the pricing solution that IPART should consider.

Current Situation

The Commonwealth Water Act states the bulk water pricing should NOT result in perverse or unintended price outcomes.

Up until this draft report by IPART neither the regulator (IPART and the ACCC) nor the Commonwealth Government have provided a definition of “perverse or unintended” outcomes.

On page 210 of the draft determination IPART has created its own definition of excessive bulk water prices.

“As a fundamental pricing principle, prices should be set within the efficient pricing band. The upper limit of this band reflects customers capacity to pay. Where prices are higher than the upper limit there is a broad change in customer behaviour. This would include the surrender and return of customer licenses and a clear reduction in water usage.”

This is a very hard definition by any standards but the point is made that if bulk water prices are too high if either and or

- a) Entitlement charges result in licenses being surrendered
- b) There is a clear reduction in water usages
- c) A broad change in customer behaviour

So how does the Peel Valley’s general security irrigators fare under the criteria specified by IPART?

Demonstration of pricing impact on the Peel irrigators

Page 210 IPART DRAFT.

(a) "This would include the surrender and return of licences"

Firstly surrender and return of licences would only occur if the entitlement charge was excessive. Ie the cost of keeping the licence was so great that it was uneconomical to continue to hold the licence. The Peel's entitlement charge is at a reasonably low level and ranks the fifth lowest of the regions. There is no reason for IPART to expect the Peel licence holder to surrender their licence due to excessive pricing.

(b) "a clear reduction in water usage"

IPART claims that if prices are too high then they would expect a reduction in water usage in the Peel Valley.

The 20 year rolling average use for all water extraction in the regulated Peel has remained stable despite the massive increases in the usage charge BUT if the general security usage is separated from the total usage (total usage = GS + HS) then there is a large reduction in water use by the irrigators. The expected water usage decrease due to over the top usage charges in the Peel has taken place as demonstrated below.

1. The benchmark condition for general security usage was established in the Peel WSP process. Ref. Clause 39 subclause(2) (b) for the period 1991 to 1998 largely before full cost recovery and IPART's involvement, the general security benchmark was determined to be 7600ML.

Water use by irrigators from 1995/96 to 2005/06 dropped to an average use of 7013ML and included 4 zero start of season allocations. Bulk water pricing in the period was relatively low but higher than most Valleys and the **decrease** in water use relative to the benchmark was **7.7%**.

However in the following decade from 2006/07 to 2016/17 when usage charges skyrocketed general security usage dropped to an average of 5914ML which also included 4 zero start of season allocations.

The decrease in irrigation water use in the Peel relative to the benchmark was a massive 22.2%.

If IPART is still in doubt the below irrigation water usage figures demonstrate the impact of the so-called "*gradual increase*" in water usage charges:

- From 1995/96 to 2016/17 the average was 6465ML.
- Between 1995-2006 the average was 7013ML. This was **8.5% above the average at relatively low usage charges.**
- From 2006-2017 the average was 5914ML. This is **8.5% below the average and 17% less than the previous decade** with usage charges becoming **unsustainably high.**

IPART failed to do its job and separate town water use from irrigation water use. The town can recoup its increased cost, the irrigator cannot.

The Peel's usage charge is clearly above IPART's upper limit of the so called "efficient pricing band".

IPART's own definition of a bulk water pricing catastrophe has clearly been exceeded by the Peel's usage charge as there is no doubt there has been "**a broad change in customer behaviour.**"

Pricing Solution

Towards the end of March 2017 Water NSW proposed an 80/20 pricing structure be adopted for the Peel which would result in the following charges:

GS entitlement of \$4.09 per ML. HS entitlement of \$42.30 per ML.

The resulting calculated usage charges would be \$18.69 per ML.

This approach is supported by the Peel Valley Water Users Association. However the Tamworth Regional Council, being the largest entitlement holder by far, will see significantly increases in their entitlement charge. This is a small price to pay for the TRC's access to Chaffey dam.

For example:

- The TRC uses around 4.5GL/annum from Chaffey
- DPI's Resource Assessment reserves 15.5GL for Essential supplies (mainly TRC)
- DPI's Resource Assessment reserves 12.0GL for the next water year

The total reserves allocated mainly to the TRC totals 27.5GL. This is nearly **6 times the average usage** by the TRC representing a disproportionate level of protected water that impacts on the revenue from Chaffey Dam for Water NSW.

Tamworth Regional Council is no doubt in a position pay the increased costs arising from an 80/20 pricing model with no threat to ongoing water access.

Existing influences of General Security pricing

The method of determination of the High Security Premium and the principle behind charging a Volatility Allowance need to be reviewed and are not necessary under an 80/20 pricing structure.

High Security Premium

High security premium is applied to the High Security entitlement charge. It is calculated to reflect the greater security and reliability of water supply enjoyed by HS entitlement holders relative to GS entitlement holders.

Where the HS ent charge = GS ent charge x HS premium

The HS premium is made up of HS premium = conversion factor x reliability ratio

The conversion factor is derived from the water sharing plan LTAAEL and the reliability factor is determined by dividing the long term allocation of the HS entitlement holders by the long term GS allocation on the same period.

The problem with the reliability factor is that IPART has used the end of season allocation in their determination. It is the start of season allocation that is most important to irrigation and it is the start of season allocation that IPART should have used to determine the reliability factor.

Had IPART taken this approach then the HS premium for the Peel Valley would increase from the current 10.35 to 13.93 ie a 35% increase that is the high security entitlement charge in the Peel should be 13.93 times the GS entitlement charge – This makes a large difference in the cost distribution. ie High security charges would increase.

Volatility allowance

This is effectively a self insurance scheme paid for by the customers and unfairly levied on the GS entitlement holders.

IPART has allowed \$765,000 pa to be added to water user charges to fund this sort. Water NSW would not need to levy these charges under a 80/20 fixed/variable price structure.

Water NSW has a captive customer base who cannot go elsewhere. These charges cannot be passed on to Peel Valley irrigators' customers who have a choice to source their hay from other competitive options.

The cost of the Volatility Allowance levy to both HS and GS entitlement charges on each valley is based on their relative contribution to revenue volatility based on their actual water allocation.

ie HS customers have generally a 100% allocation and do not have any volatility allowance applied to their entitlement charge.

In the case of the Peel the HS entitlement holders apparently have not always achieved 100% allocation and are therefore deemed by IPART to pay 5% of the volatility allowance whilst the GS entitlement holders pay the remaining 95%

IPART's ERROR in all of this is that a 100% allocation does not equate to consistent water use. TRC's water use varies dramatically from year to year as does GS use as represented in the table below.

1995 - 2017 usage

	AVERAGE (ML)	RANGE (ML)
General Security usage	6465	2044 - 12654
High Security usage	4546	517 - 9151

The volatility allowances for the Peel should be 50/50 NOT 95/5. This change would also make a significant difference to cost distribution in the Peel. In this instance HS users would pay more which is how it should be.

Further to the above arguments, the question still exists as to what action is IPART going to take to redress and compensate irrigators in the Peel for IPART's and ACCC errors of past Determinations impacting on their livelihood from unsustainable usage charges.

Cheers

Laurie Pengelly