

Peel Valley Water Users Association Inc

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

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Submission to IPART

On the Review of Water NSW's Rural Bulk Water Prices From 1 July 2021

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Introduction

The Peel Valley Water Users Association is a non-aligned entity representing the interests of about 400 irrigation licence holders in the Peel Valley. The Peel Valley is a comparatively small (but highly productive) valley located in the district surrounding Tamworth. Irrigation in the Peel Valley is used to support a variety of agricultural businesses – principally a fodder industry based on quality lucerne hay and other fodder products, a dairy industry, a burgeoning equine industry, a poultry industry, and fodder production for various livestock and stud stock enterprises. A number of local businesses in the Tamworth district are dependent on the irrigation industry, particularly during dry times.

We are grateful for this opportunity to express our views to IPART on the topic of the impacts of the proposed rural bulk water prices for Water NSW effective from 1 July 2021.

We acknowledge that during the drought some fixed water charges were suspended, and we agree that was the appropriate action to take in the circumstances. However, we highlight the fact that in some areas of NSW including the Peel Valley, there has been insufficient rain to allow a general security allocation for regulated surface water. Despite optimistic weather forecasts, we are yet to receive any substantial rainfall and therefore we may continue to remain on a zero water allocation for some considerable time.

Areas of concern for Peel Valley irrigators

1. A cost increase of 37.4% over 4 years for fixed charges, and an increase of 26.2% for water usage charges over 4 years is excessive in the current economic conditions

Given the fact that most irrigators in the Peel Valley have already endured years of drought with either a zero water allocation or a minimal water allocation, the proposed price increase is inappropriate.

In the Peel Valley, the drought is still evident, and despite some small rain events, it is highly likely that it will be some substantial length of time before any general security regulated surface water becomes available.

Further, the impacts of the COVID-19 pandemic are such that economic prosperity in rural areas has fallen dramatically – apart from the impact of drought. It is also highly likely that there will be a further significant downturn in economic circumstances within the next 6 to 12 months, and IPART cannot be oblivious to that fact.

We submit that price increases of around 37.4% and 26.2% over 4 years in the current economic climate is inappropriate and unjustifiable.

We do, however, acknowledge that the prices for 2021-2022 for the Peel Valley that were proposed by Water NSW are more reasonable, and more in line with our expectations.

2. Most other charges that are regulated by IPART do not increase by 22% over 4 years

It is interesting to compare IPART's proposed increases for Water Management Prices with other recent price reviews that IPART has undertaken. For example -

- IPART's draft report into the review of Rural and Regional Bus Fares which was released in October 2020 shows:
 - (a) Rural and Regional Bus Fares – Maximum fares - will all *decrease* from between 4.2% and 50.6% (Table 3.3)
 - (b) Comparison of current and proposed daily ticket fares – will all *decrease* from between 30.6% and 71.0% (Table 3.4)
- In the update to the pricing review for water services – metro prices for Sydney Water Corporation from 1 July 2020 – which was released in November 2019,
 - (a) Table 8.4 – Water Connection Charge – charges remain *unchanged* for the period of review
 - (b) Tables 8.6 and 8.7 – Water usage charges for both filtered and unfiltered water remain *unchanged* for the period of review
 - (c) Table 8.8 – Waste water usage charges remain *unchanged* for the period of review
 - (d) Table 8.9 – Waste Water meter connection charges remain *unchanged* for the period of review
 - (e) Table 8.10 – Deemed Waste Water usage charge remains *unchanged* for the period of review
 - (f) Table 8.11 – Stormwater drainage service charges – remain *unchanged* for the period of review
 - (g) Table 8.12 – Rouse Hill stormwater drainage charge – *decreased* by 13.3% (from \$142.91 to \$123.87)

- (h) Table 8.13 - Rouse Hill land drainage charge for new properties and redeveloped properties within the Kellyville Village area – remained *unchanged* for the period of review
- (i) Table 8.14 - Kellyville Village stormwater drainage charge - remained *unchanged* for the period of review

Of all the remaining charges, some minor increase applied, but we were unable to find a single charge which increased by anywhere approximating the 22% increase which is being proposed for Water NSW's Rural Bulk Water Prices.

- As a result of IPART's Review of OPAL Public Transport Fares for 2020, the vast majority of Rail Passenger Service Fares, Bus Service Fares (other than peak services), Light Rail Services (other than peak services), and Ferry Services – all remained *unchanged* as a result of IPART's pricing review.
- In IPART's review of prices for land valuation services provided by the Valuer General to Councils which was released by IPART in October 2018, Table 4.1 indicates that prices in real terms for the 5 years prior to the review *decreased* by 0.6% (from \$5.37 to \$5.34) for residential and *decreased* by 0.5% (from \$11.81 to \$11.75) for non-residential.

It is obvious that many of the recent reviews that have been performed by IPART have not resulted in such substantial increases as those that have been proposed for Water Management Prices.

We believe that it is incumbent on IPART to impose a much greater level of rigour in challenging the justification for the increases in Water Management Prices that have been proposed by water monopolies.

It is our considered opinion that there is a glaring discrepancy between the price increases proposed for Water NSW's Rural Bulk Water Prices and most other prices that are regulated by IPART. It may be cynical, but because the rural sector in NSW is somewhat disjointed and does not have a high profile in metropolitan media, it is an easy target for unjustifiable price hikes.

3. A cost increase of 37.4% and 26.2% over 4 years is excessive compared to changes in CPI

The Consumer Price Index figures provided by the Australian Taxation Office for the 4 years from 30th June 2017 to 30th June 2020 show an increase in the CPI in that period of just 3.7 points, or an increase over 4 years of just 3.3%.

Given the likely economic impacts of the COVID-19 pandemic as described in point 1 of our submission, it is highly likely that the increase in the CPI over the next 4 years of the period of review will be significantly less than 3.3%, and IPART must be aware of that fact.

We therefore submit that at any time it is unwarranted and unjustifiable for IPART to contemplate approving a price increase that is around seven times higher than the current rate of increases in the CPI over the period of review, but especially in the current economic climate.

4. The water charges currently under review are only part of the whole picture

IPART is concurrently undertaking a review of Water Management Prices in NSW, and as part of that review IPART has proposed that water users in the Peel Valley also incur an increase of

around 22% over 4 years for all charges levied for the Water Administration Ministerial Corporation over the same period of the review.

When the full impact of all the price increases being proposed by IPART is taken into account, it is clear that IPART needs to present a detailed justification for such substantial price increases during the current economic conditions.

5. These are Monopoly charges, and IPART must control monopoly pricing

IPART is fully aware that the Water Management Prices that are the subject of this review are monopoly charges.

All water users ultimately have no option other than to pay the prices that are determined by IPART, as there is no alternative supplier in the market.

Therefore, we believe that IPART must use all available rigour to challenge the justification for price rises sought by a monopoly, rather than simply 'rubber stamp' the proposed increases.

6. What consideration has IPART given to cost control?

Any prudent business manager will understand that there are times that costs simply have to be cut. At the very least, control must be exercised to ensure that costs do not continually spiral upwards out of control.

Yet this does not appear to be the case from the contents of the Issues Paper.

The basic problem with costs is that Water NSW can endlessly propose any cost increases that they like - and they appear to be doing exactly that. What is required is a regulator with enough backbone to stand up to the monopoly and challenge every proposed increase – because customers have no alternative source of supply.

IPART obviously has several reviews and other projects running simultaneously, and if there are insufficient resources available within IPART to undertake a proper review of the proposed Water NSW charges, then IPART should consider either delaying the implementation date until a thorough investigation has been completed, or outsourcing the task to a reputable management accounting firm.

7. Other comments on the Issues Paper

There are many other comments on the Issues Paper that could be raised, but we will constrain our comments to the following –

- (a) Table 2.3 on page 14 of the Issues Paper indicates that expenditure on Corporate systems will be around \$37 million over the 4 year term of the determination. The table indicates that a similar amount was spent on Corporate systems over the last 4 years. Given that the customer share of this expenditure is 80% (why does the customer wear 80%?), surely this figure deserves investigation - \$74 million spent on corporate systems over 8 years (?)
- (b) On page 14, without further explanation or comment, environmental expenditure is increasing from \$3 million to \$72 million. Surely this figure deserves investigation – the NSW

- Government has a whole department that is dedicated to environmental issues – does Water NSW really need to duplicate this activity – and pass 80% of the costs to customers?
- (c) In section 2.3 on page 15, IPART states that DPIE proposed total MDBA costs will increase by 34.2%, and further that the proposed MDBA costs will be split \$130 million to Water NSW rural bulk water (73.5% above the 2017 allowance). Is there no limit to these massive cost increases that customers must bear?
 - (d) Table 4.5 on page 31 contains curious figures for Peel Valley general security users. We would be interested to see the calculations, and we would like to know how many Peel General Security licence holders used 500ML during the previous term of the determination. Unless we are provided with additional information, we have no confidence in the validity of the figures in the table for the Peel Valley.
 - (e) What is not mentioned in the Issues Paper is the fact that Peel Valley irrigators are facing substantial costs prior to 1st December for the retro-fitting of meters which meet the new standard. The new meters provide no benefit to the water users, and since significant costs will be incurred, IPART should take this fact into consideration.

8. Response to list of questions in the Issues Paper

- 8.1 How well has Water NSW delivered its bulk water services since 2017?
It is difficult to comment properly – in two of the four years there was a zero AWD in the Peel Valley, and one year had a minimal AWD
- 8.2 Was Water NSW’s capital expenditure over the 2017 period efficient?
On page 8 of the Issues Paper, Water NSW spent \$70.1 million on capital expenditure - 43% more than the allowance that was set by IPART for the 2017 determination period, and 78% of that over-spend is allocated to customers. We submit IPART already has the answer to this question right there. Water NSW has thumbed its nose at IPART and done whatever they wanted, regardless. And what will IPART do about it? IPART will probably approve a proposed increase in capital expenditure of a further 38% over the next 4 years of the determination period. Is it any wonder that customers are frustrated with IPART’s apparent inability to regulate the spending habits of this government-owned monopoly?
- 8.3 Is Water NSW’s proposed expenditure on maintenance efficient?
On page 8 of the Issues Paper Water NSW spent around \$84 million on maintenance expenditure - 66% more than the allowance that was set by IPART for the 2017 determination period of \$50 million. Given that table 3.2 on page 21 shows that 95% of the routine maintenance charges are allocated to customers, we submit IPART already has the answer to this question right there. Again, Water NSW has thumbed its nose at IPART and done whatever they wanted, regardless. And what will IPART do about it? IPART will probably approve the proposed level of maintenance expenditure of \$84 million over the review period (proposed \$21 million per year). Is it any wonder that customers are frustrated with IPART’s apparent inability to regulate the spending habits of this government-owned monopoly?
- 8.4 Do you have any comments on Water NSW’s operating activities and associated operating costs?
On page 6 of the Issues Paper, IPART states that ‘Water NSW’s actual operating expenditure over the 2017 determination period was \$208.3 million, which is \$51.4 million (or33%) more than our allowance when we set prices in 2017’. Can IPART recognize a pattern of spending by Water NSW here? And Water NSW is now seeking what IPART itself has described as a ‘significant’ increase in operating expenditure of 37% over the review period. Our comment is that whatever level of operating expenditure that is approved by IPART appears totally irrelevant – Water NSW will

simply do as they please regardless of the regulator and pass the majority of the costs on to customers. On what basis is this monopolistic behavior acceptable?

- 8.5 Is the current structure of the Risk Transfer Product efficient and equitable?
Our starting position is that Water NSW is in a business that has inherent volatility. Water NSW is not alone in that regard, and it is a flawed business model that attempts to cover fixed costs and provide a return to the shareholder irrespective of the nature of the business that they operate. In the middle of a pandemic, can Qantas bill their customers because they need to cover fixed costs and need to generate a return for their shareholders? With respect to the RTP itself, the original concept where Water NSW received a benefit in bad years and the insurer received a benefit in the good years was a tolerable compromise. However, out of sheer greed Water NSW wrecked that concept by keeping the benefit to themselves in both the bad years and the good years. We would be interested to know whether IPART regards that style of behaviour as 'efficient and equitable'?
- 8.6 How should Water NSW manage its volatility risk?
First, we are a group of farmers – we are not economists or insurance experts, so it is probably inappropriate to ask us to solve the problems of a multi-million dollar government-owned monopoly. Consultants get paid handsomely to do that task. That said, the corporatisation of Water NSW was a decision taken by the NSW Government several years ago, at which time they would have been fully aware of the volatile nature of revenues from selling water. This is therefore a matter that should have been dealt with at the outset – many years ago. It is not good business practice to now attempt to retro-fit a solution into a well known and long existing problem. The need for generating a return for the shareholder is a good place to start investigating, and the RTP product may be worth re-considering, provided that Water NSW passes the benefit in the good years back to the insurer, as was originally intended. In Table 3.2 on page 21, the full cost of the Risk Transfer Product is transferred to customers under the impactor pays principle – we strongly disagree with that approach, because it is a business risk of Water NSW, and not a cost that is either generated by or beneficial to, customers
- 8.7 How should Water NSW most effectively meet its requirements for fish passageways?
At present there are no fish passageways either in existence or planned for the Peel Valley that we are aware of. However, under the impactor pays principle described in section 3.3 on page 20, the full cost of fish passageways should be allocated to the government share. The passageways are for the common good of the community, and they are neither required by nor beneficial to the customers of Water NSW.
- 8.8 What are your views about Water NSW's overall level of core capital expenditure over the 2021 determination period?
On page 8 of the Issues Paper, IPART states 'Relative to the allowances we used to set prices in 2017, Water NSW overspent across all capital expenditure categories'. On the same page, IPART also states Water NSW proposes to allocate 78% (\$182.4 million) to customers...'. Well, what a surprise! Another massive over-spend, another massive allocation of costs to customers, and another case of total disregard for the allowances set by the regulator for a government-owned monopoly. If IPART cannot work out what our views are about the lack of financial performance by Water NSW, and the demonstrated inability of the regulator to control monopolistic financial behavior, then we have wasted our time.
- 8.9 Should Governments bear all the costs of increasing water security and availability for licence holders?
The purpose of this question is unclear – is the question aimed at town water licences, High security licences, or general security licences? We suspect that the answer would be different in each case. However, as a general principle we would agree that increasing the security and availability is a Government responsibility, and the costs are

recouped over many decades by way of fixed and usage charges. Alternatively, the costs would not be borne by Governments if private enterprise had approval to operate in that space.

- 8.10 Who should pay for future expenditure on major drought-related projects, including asset renewals and upgrades?
Again, the purpose of this question is unclear – Is the question aimed at the specific drought-related projects that have been identified in the Issues Paper – (Wyangala Dam, Dungowan Dam, Mole River Dam and emergency works in the Peel and two other catchments)? Or is the question aimed at the wider principle of drought-proofing inland towns in the longer term? If IPART intends to apply the ‘impactor pays’ principle in some cases, is there then not an argument that the principle should apply here? We consider that we do not have sufficient information on this topic to answer the question properly.
- 8.11 Over what determination period (ie how many years) should we set prices?
We consider that a 4 or 5 year term is appropriate
- 8.12 Are there policy and industry reforms that make 4 year forecasts of costs and usage difficult? Has COVID-19 hampered Water NSW’s customer consultation?
Two separate questions here –
(a) 4 year terms for Water NSW and WAMC reviews are appropriate - We do not consider that a term shorter than 4 years is warranted because of the effort involved with obtaining the required level of information in order to lodge a submission. The Peel Valley Water Users Association represents a comparatively small number of comparatively small irrigators, and we are not in a financial position to employ someone to continually respond to pricing determinations over a short period of time – such as one year. We also don’t understand what benefits a one-year review period would provide anybody. We consider that a 4 or 5 year term is appropriate. Apart from the duration of the term, we consider that it is essential that both WAMC charges and Water NSW rural bulk water charges are submitted for determination at the same time. All water users pay a charge for water, regardless of the source of the charge. It is totally inappropriate to have two separate determinations at different times and different terms of duration of the review periods.
(b) Clearly Water NSW has been impacted by COVID-19, but so has every other business in Australia. We suspect that COVID-19 has been a convenient excuse for some examples of lack of performance.
- 8.13 Do you agree with the cost share ratios set in the cost share review? If not, for which activities should we modify the cost share ratio? Please specify an updated cost share ratio and explain why it is appropriate.
In previous pricing rounds we have debated the cost share ratios for various activities with Water NSW and IPART, but to no avail. We are reluctant to engage in another round of debate with IPART on this matter, as it has previously proven unproductive.
- 8.14 We are required to set prices that recover water NSW’s efficient costs in the MDB valleys. If efficient costs are increasing, how should costs be recovered over the determination period?
No comment – not relevant to the Peel Valley
- 8.15 How should we set prices in the coastal valleys?
No comment – not relevant to the Peel Valley.
- 8.16 What is the appropriate mix of fixed and usage charges?
The Peel Valley went through years of excruciating negotiations on this matter. The ratio was recently changed to 80:20, and we are unaware of any proposal to change the current situation in the Peel Valley.

Conclusion

In summary, we consider that the proposed increases in prices for Water NSW are excessive and unjustifiable in the current economic conditions for the Peel Valley.

It is apparent that some government-owned monopolies consider that ongoing price increases will continue to be, for the most part, approved by IPART. But there has to be a point at which somebody says, on behalf of the customer, 'enough is enough'.

Does IPART have the intestinal fortitude to make that declaration, because otherwise Water NSW will simply keep overspending beyond the limits set by the regulator at each determination, and nobody other than the long-suffering customers will care.

A culture within a government-owned monopoly that allows endless and substantial cost increases for no material benefit to the customer is not appropriate. The regulator should consider initiating a comprehensive overhaul of the costs and operational practices of government-owned monopolies by a reputable management accounting practice on a periodic basis.

Otherwise, customers will forever be subjected to excessive and unjustifiable price increases such as those proposed for the Peel Valley. Only a government-owned monopoly could propose such a pricing scenario, because private enterprise operators attempting the same thing would go out of business.

We look forward to IPART's determination with interest.