

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 Management Prices** **From 1 July 2021**

October 2020

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 water management prices 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 22% over 4 years is excessive in the current economic conditions

On Page 2 of the Issues Paper, IPART made the statement that “WAMC proposes capping annual price increases at 5% per year”. However, over the 4 year period of the review, that amounts to a price increase of around 22%. That is the figure that IPART should be focusing on – irrigators in the Peel Valley are facing a price increase of around 22% over the period of the IPART review. It is an attempt to mask the truth by quoting a 5% annual price increase.

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 a price increase of around 22% over 4 years in the current economic climate is inappropriate and unjustifiable.

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 Management 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 Management Prices in rural areas 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 22% 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 NSW’s Rural Bulk Water Prices, and as part of that review IPART has proposed that regulated water users in the Peel Valley also incur a

37.4% increase in the general security entitlement fixed charge (from \$4.33 to \$5.95/ML), and a 26.2% increase in the water usage charge (from \$19.78 to \$24.97/ML) 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. Under section 1.3 on page 3, *WAMC proposes significantly higher costs..... It is forecasting operating expenditure to increase by 46.4% and net capital expenditure to increase by 181.2%....* We submit that this is reckless mis-management under the current economic circumstances, given that water users will be responsible for a substantial component of all expenditure.

We also dispute that there is any valid justification for the cost-shifting that has been highlighted in section 3.2 on page 21 of the Issues Paper –

- (a) Business Governance and support costs – *WAMC is proposing to shift 80% of these costs to customers*
- (b) Corporate Capital expenditure – there were no corporate capital expenditure costs in the previous determination, yet *WAMC is proposing to apply a 94% weighted average share* for corporate costs to customers
- (c) *WAMC's proposed customer share of costs is 83%... This figure is 9% greater than the 72% customer share of costs in the 2016 determination*

We submit that it would be highly inappropriate for IPART to simply accept these changes, and they should be vigorously opposed. It is highly irregular for a monopoly to propose such unsatisfactory cost increases, and it is the role of IPART to challenge them.

If left unchecked, these monopoly charges will just escalate out of all proportion. We submit that the increases that are being sought are unjustifiable in the current economic circumstances.

The basic problem with costs is that WAMC 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 withing IPART to undertake a proper review of the proposed Water Management Prices, 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. Misleading data in the Issues Paper

From page 33 to page 36 of the Issues Paper, there are 9 separate tables (A1 to A9), all of which show an increase of 5% from the existing charges for the Peel Valley.

We have previously criticised the method that IPART uses to present this information, because it is clearly misleading.

IPART is conducting a review of prices for a period of 4 years, not one year. During the 4 years of the review period, the charges in the Peel Valley will increase by more than 21%, and most increases are closer to 22%.

The fact that IPART chooses to show the increase for just one year out of the 4 year period of review is misleading. We again request that in future IPART representations of cost increases, IPART adopts a presentation of the figures that reveals the true extent of the price increases during the review period.

8. 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) In Table A 14 on page 39 the proposed charges for ‘verification in situ’ (which many Peel Valley irrigators will probably incur at some stage) will increase by 2,386%. That’s right – *two thousand, three hundred and eighty six per cent increase!!!!* Dear IPART members, please be prepared to clearly explain your justification for allowing this exorbitant increase if you ultimately approve the proposed increase.
- (b) In Table A 10 on page 37 all proposed charges (except one) will increase between 175% and 204%. If IPART elects to approve these proposed pricing increases, then IPART is obliged to provide a detailed explanation of the justification of such massive price increases by a monopoly organisation.
- (c) On page 25 there is a reference to floodplain harvesting. As floodplain harvesting does not exist in the Peel Valley, how will IPART ensure that no costs attributable to floodplain harvesting are apportioned to the Peel Valley?
- (d) On page 25 there is also a request for stakeholders’ views about Border Rivers charges and MDBA charges. Again, Border Rivers charges do not apply to the Peel Valley, and we are keen to know how IPART will ensure that no costs attributable to the Border Rivers are apportioned to the Peel Valley. Regarding MDBA charges, we reluctantly acknowledge that the system has levied some MDBA charges on the Peel Valley. But the Peel Valley is such a small valley compared to others in terms of water use, number of irrigators, and geographical area that we believe that on the user pays principle, the Peel Valley should ever incur only minimal MDBA charges, and we believe that if these charges are levied they should be shown transparently and clearly.

- (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

9. Response to list of questions in the Issues Paper

It is evident that we simply do not have sufficient information available to answer many of the questions below. We submit that if IPART intends to continue this line of questioning in future pricing determinations, then the information on which respondents can base an opinion ought to be provided.

- 9.1 How well has WAMC performed its water management functions?
Insufficient information available to comment
- 9.2 Do you agree with WAMC's proposed areas of focus for water management (and their associated costs)?
Insufficient information available to comment
- 9.3 How well has NRAR performed its water regulation functions?
Insufficient information available to comment in general, but NRAR has performed very poorly in some specific cases
- 9.4 Will NRAR's proposed activities and costs facilitate effective and efficient water regulation?
Insufficient information available to comment
- 9.5 How well have Water NSW and NRAR performed their licence processing functions?
Insufficient information available to comment in general, but in some specific cases Water NSW has performed abysmally poorly
- 9.6 Do you agree WAMC should focus on providing better services (eg more information and consultation) to customers, supported by higher levels of expenditure?
In general, we do not support even higher levels of expenditure than those that have already been proposed. We would need to know specifically what better levels of service are under consideration before we would commit to anything in this area. It is not appropriate to ask such an open question in a survey such as this one.
- 9.7 Do you consider DPIE, NRAR, and Water NSW consulted adequately with stakeholders on their pricing policies?
We do not recall any consultations with either DPIE or NRAR on pricing policies. Water NSW consulted adequately.
- 9.8 How important is it to improve the incentives for DPIE to actively engage in negotiating MDBA and BRC contributions to ensure only efficient costs are passed on to WAMC customers?
Insufficient information available to comment
- 9.9 Was it efficient for Water NSW to apply capital expenditure from its water monitoring program to cover its shared capital costs?
Insufficient information available to comment
- 9.10 Is WAMC's water monitoring program efficient?
Insufficient information available to comment
- 9.11 Given the increase in WAMC's capital costs, is the arrangement of Water NSW providing WAMC's capital program efficient?
Insufficient information available to comment
- 9.12 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.
Insufficient information available to comment

- 9.13 Over what determination period (ie how many years) should we set prices?
We consider that a 4 or 5 year term is appropriate
- 9.14 If we set a shorter period for Water NSW rural bulk water prices, are there benefits in aligning WAMC's determination period with Water NSW rural bulk water? What are the costs and benefits of setting a one-year period for WAMC to potentially align with Water NSW rural bulk water? Alternatively, what are the costs and benefits of setting a longer period (eg five years) and aligning these two determinations at the next review?
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 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.
- 9.15 What are your views on WAMC's proposed price structures?
For the reasons already provided in our submission, we consider that the WAMC's proposed price structure is excessive, especially in the current economic conditions.
- 9.16 Is there merit in setting separate charges to recover MDBA and BRC costs?
Insufficient information available to comment
- 9.17 How should we transition prices to achieve full cost recovery? Or, what is a reasonable price path that would enable transition to full cost recovery? How would this affect customer affordability?
We query the justification for attempting to reach full cost recovery for WAMC charges. We have not seen any detailed justification for this objective, and we would like to receive properly documented reasons for this proposal. We would also like to know whether Sydney trains, Sydney buses, or Sydney ferries are at full cost recovery? If not, what is the rationale for transitioning to full cost recovery for WAMC charges?
- 9.18 Do you agree with Water NSW's proposal to introduce a demand volatility adjusted mechanism for WAMC to address its revenue risk? Should we effectively allocate more risk to customers?
No – Water NSW is in the business of selling water. If there is no water to sell, there is no income – just like an irrigation farmer with no water, a fisherman who catches no fish, or Qantas in a COVID-19 pandemic with no passengers. The notion that Water NSW needs a fixed revenue stream to cover fixed costs and generate a return for their shareholder does not fit with the type of business environment in which they are operating. Like most other businesses, Water NSW should take the good with the bad, and adjust its business model to something more appropriate to the business that they are operating. It is abhorrent to suggest that Water NSW would consider shifting the risk of their own business onto customers – particularly since at the same time that Water NSW would be suffering a downturn in revenue, so would their customers also be suffering from a corresponding downturn in revenue. It is total nonsense and grossly offensive for Water NSW to try to offload its business risks on customers – can IPART please nominate any example where this principle has been implemented successfully, and if not, why is it being even contemplated for rural NSW?

Conclusion

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

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'.

Now would be a good point in time for IPART to make that declaration, because the price increases that are being sought for the Peel Valley are unreasonable in the circumstances.

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.