

Independent Pricing and Regulatory Tribunal
P O Box K35
HAYMARKET POST SHOP NSW 1240

Dear Sir

REVIEW OF PRICES FOR WATER NSW – RURAL BULK WATER SERVICES FROM 1 JULY 2017, ISSUES PAPER

Ref: BL/SF2229

On behalf of Tamworth Regional Council thank you for the opportunity to provide comments on the issues paper related to IPART's Review of prices for Water NSW.

Council's submission follows.

Please contact the undersigned should you wish to discuss this matter further.

Yours faithfully



Bruce Logan
Director Water and Waste

Contact: 

14 October 2016



Tamworth Regional Council

Response to the Independent Pricing and Regulatory Tribunal

**Issues Paper Associated with Review of Prices for
Water NSW – Rural Bulk Water Services from 1 July
2017**

Table of Contents

Background	4
Issue 5 - Is Water NSW's proposed user share revenue requirement for the 2017 determination appropriate	4
Issue 7 - Are WaterNSW's proposed operating costs over the 2017 determination period efficient, taking into account drivers of this expenditure and bulk water services delivered?	4
Issue 8 - What scope is there for Water NSW to achieve further efficiency gains over the 2017 determination period	4
Issue 10 – Is WaterNSW's forecast capital expenditure for the 2017 determination period prudent and efficient?	4
Issue 11 – Is WaterNSW's proposal to have a capital maintenance allowance in addition to its building block allowance for depreciation reasonable?	4
Issue14 - Are there any reasons to depart from a straight-line depreciation method for calculating the allowance for regulatory depreciation?.....	4
Issue 18 - Under current price structures, what measures should be used to manage risk (positive and negative) to WaterNSW?.....	5
Issue 19 - What rate should be applied to the Unders and Overs Mechanism (UOM) account?	5
Issue 20 - Should an UOM be introduced for users in the Peel Valley?	5
Issue 21 - What implications, if any, should WaterNSW's proposed risk transfer product (RTP) have for the Unders and Overs Mechanism and the annual adjustment to prices (and vice-versa)?5	
Issue 22 - Should water users pay for WaterNSW's purchase of a risk transfer product?	5
Issue 23 - Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of a risk transfer product (or a similar means of managing risk to WaterNSW of revenue volatility)?.....	5
Issue 30 - What regulatory measures can enhance WaterNSW's incentives to pursue efficiency gains?.....	5
Issue 32 - Is WaterNSW's proposed 40:60 fixed to usage charge split appropriate?	6
Issue 33 - Are there reasons to depart from the current approach for setting high security and general security entitlement charges?	6
Issue 40 - Are WaterNSW's proposed bulk water prices reasonable?	6
Issue 45 - Do customers support the introduction of credit card payment options?.....	6
Issue 46 - Is there any reason for IPART to regulate these fees?.....	6
Issue 47 - Are WaterNSW's proposed meter service charges reasonable?	6
Issue 48 - Should WaterNSW recover meter reading costs through a separate charge rather than including them in standard bulk water charges?.....	6

Issue 54 – Is WaterNSW’s analysis of the impacts of its proposed prices on customer bills reasonable?.....	6
Issue 55 - Can we improve our proposed approach to assessing customer impacts?.....	6
Postage Stamp Pricing	7

Background

Tamworth Regional Council holds

- a 16,400 Megalitre local water utility license for bulk raw water delivered from Water NSW's Chaffey Dam to supply the City of Tamworth.
- a 150 Megalitre local water utility license for bulk raw water delivered from Water NSW's Split Rock Dam to supply the town of Manilla.
- a 365 ML local water utility license for bulk raw water from Water NSW's Split Rock Dam to supply the town of Barraba.

Split Rock Dam is in the Namoi Valley and Chaffey is in the Peel Valley for the purposes of pricing and both valleys are in the Murray Darling Basin.

The Issues paper released contains a number of issues where IPART has requested comment. Some of those issues relate to valleys other than the Peel and Namoi and therefore Council has chosen not to make comment on those issues. The issues Council does wish to comment on are detailed below;

Issue 5 - Is Water NSW's proposed user share revenue requirement for the 2017 determination appropriate

Council supports Water NSW's proposal as this will lead to a reduction in overall costs for Council for bulk water supplied by Water NSW

Issue 7 - Are Water NSW's proposed operating costs over the 2017 determination period efficient, taking into account drivers of this expenditure and bulk water services delivered?

Council supports the proposed reduction in operating expenses.

Issue 8 - What scope is there for Water NSW to achieve further efficiency gains over the 2017 determination period

Whilst unable to comment directly about opportunities for further efficiency gains within Water NSW because of a lack of knowledge of the actual business, Council encourages Water NSW to investigate and implement further efficiency gains at all times.

Issue 10 – Is Water NSW's forecast capital expenditure for the 2017 determination period prudent and efficient?

Council accepts the reasons for the increased user share but expresses concern identified capital works are necessary and will be performed as forecast to avoid revenue being generated for capital works which will not/cannot, or should not, be undertaken during the determination period.

Issue 11 – Is Water NSW's proposal to have a capital maintenance allowance in addition to its building block allowance for depreciation reasonable?

This is a similar arrangement to how Council manages its depreciation and therefore Council supports this approach.

Issue 14 - Are there any reasons to depart from a straight-line depreciation method for calculating the allowance for regulatory depreciation?

Council uses a straight line depreciation approach for the majority of its assets and therefore sees no reason to depart from the present approach.

Issue 18 - Under current price structures, what measures should be used to manage risk (positive and negative) to Water NSW?

Council faces the same risks to revenue due to changes in consumption as those faced by Water NSW. Indeed the State Government in its "Best Practice Guidelines to the Management of Water and Sewer" recommends Councils adopt a 25:75 percent split between fixed and usage revenue and with no risk mitigation. Given this Council is reluctant to support any measures to manage risk for Water NSW.

However as Water NSW does not have the opportunity to raise and lower charges except in line with the 4 year determination, regardless of how actual revenue is tracking against forecast, the UOM is considered an appropriate mechanism and Council supports its retention.

Issue 19 - What rate should be applied to the Unders and Overs Mechanism (UOM) account?

Given the proposal is for no change to the rate applied to the unders and overs mechanism during the last determination, Council supports retaining the existing rate.

Issue 20 - Should an UOM be introduced for users in the Peel Valley?

Notwithstanding Council has to deal with revenue volatility from rising and falling water sales, Council does have the option of changing prices on an annual basis. Given Water NSW does not have the opportunity to raise and lower charges except in line with the 4 year determination, regardless of how actual revenue is tracking against forecast, the UOM is considered an appropriate mechanism and Council supports its introduction in the Peel.

Issue 21 - What implications, if any, should Water NSW's proposed risk transfer product (RTP) have for the Unders and Overs Mechanism and the annual adjustment to prices (and vice-versa)?

Council has to deal with revenue volatility without the use of an unders and overs mechanism nor an insurance scheme. Whilst Council accepts some of the arguments for an over and unders it does not in any way support an insurance scheme against revenue volatility and rejects any suggestion that the cost of such a product be borne by the users.

Council has to accept and work with increases and decrease in volatility in water revenue based on consumption, Water NSW should do the same.

Issue 22 - Should water users pay for Water NSW's purchase of a risk transfer product?

See comments above.

Issue 23 - Would water users be willing to move to an 80:20 fixed to variable price structure if they saved on the cost of a risk transfer product (or a similar means of managing risk to Water NSW of revenue volatility)?

Council supports the proposal to provide valleys with the choice of charging on the condition that Water NSW is bound to accept the decision and would like to see the details relating to whether all customers in the valley have to agree, or only some and if so what proportion, before agreeing to this proposal.

Issue 30 - What regulatory measures can enhance Water NSW's incentives to pursue efficiency gains?

Council believes regulation should not prevent efficiency gains and promote the pursuit of efficiency, although this may be easier in theory than in practise and Council would want to see the detail of any proposed changes before agreeing.

Issue 32 - Is Water NSW's proposed 40:60 fixed to usage charge split appropriate?

Based on the NSW Government's Best Practice Guidelines for Water and Sewer requiring Local Water Utilities to generate revenue from sale of water to be in a ratio of fixed to usage charges of 25:75, Council supports no change to the current fixed/usage split up.

Issue 33 - Are there reasons to depart from the current approach for setting high security and general security entitlement charges?

Council supports the approach of setting different charges for high security entitlements relative to general security as long as the premium paid by high security users is reflected in reliability and justifiable on a valley by valley basis.

Issue 40 - Are Water NSW's proposed bulk water prices reasonable?

Council supports the reduction in high security entitlement charges in the Peel. However, even with the proposed changes the cost paid by Council for high security water in the Peel, if Council uses its average annual amount sourced from the Peel, is still almost double the cost Council would pay if that water was sourced from the Namoi, the next highest valley and remains 10 times the cost the same amount of water would be if the water was sourced from the Murray or Murrumbidgee. See chart attached.

Council is also very concerned about the increase in entitlement for Peel Valley general security users and recommends IPART considers the capacity of the users to pay increased amounts for water in the Peel given the extraordinarily high amounts already paid. Council does however acknowledge the augmentation of Chaffey Dam has significantly improved reliability of supply for irrigators, which should be reflected through entitlement charges.

Issue 45 - Do customers support the introduction of credit card payment options?

Given Council levies a surcharge on credit card payments Council supports this measure.

Issue 46 - Is there any reason for IPART to regulate these fees?

Council does not see a need for IPART to regulate the surcharge fee unless it raises to the point where customer's request regulation.

Issue 47 - Are Water NSW's proposed meter service charges reasonable?

Council supports the water meter service charges so long as the charges levied accurately reflect the cost of the services being provided.

Issue 48 - Should Water NSW recover meter reading costs through a separate charge rather than including them in standard bulk water charges?

Council supports the separation of the cost of water meter services from entitlement and usage charges in the interest of providing more transparency to customers.

Issue 54 – Is Water NSW's analysis of the impacts of its proposed prices on customer bills reasonable?

Council strongly believes capacity to pay increased charges should be a critical component of IPART's considerations. Prices in the Peel continue to increase for general security irrigators and Council is concerned continued price increases are driving the industry to its knees. In Council's view a dam full of water with no general security customers to sell to, because they have all been driven out of business from high prices, is not a satisfactory outcome for anyone.

Issue 55 - Can we improve our proposed approach to assessing customer impacts?

See comments above.

Postage Stamp Pricing

Council and irrigators within the Peel Valley have long been campaigning against the extraordinarily high cost of raw water in the Peel compared to other valleys in the Murray Darling Basin. To this end Council has repeatedly called for postage stamp pricing for bulk water within NSW. Council makes the following points in support of postage stamp pricing

- In the case of supplementary or off allocation flows, where water flows from one valley into another, there is some debate about the charges levied for that water if it is intercepted by a user in a valley that is not the valley the water originated from. For example if flow in the Peel River results in supplementary or off allocation flows in the Namoi, the Namoi irrigators pay to intercept this water at the Namoi valley costs, even though if the water had been intercepted in the Peel the price to intercept would have been double. Postage stamp pricing does away with this issue.
- Water shepherding rules. In a similar manner to the point above in the event environmental flows are released from one valley for the purposes of addressing environmental concerns in a downstream valley how much does the environmental water holder pay for that water – is it the cost associated with the valley it was released from or the cost associated with the valley it ends up. Postage stamp pricing would address this issue.
- Legacy issues. The cost of supplying raw water in some valleys is higher because of decisions made by governments before the notion of users pays was conceived. For example in the Namoi Valley two dams were constructed, Keepit and Split Rock. With the benefit of hindsight, and the desire for users pays, it may have been better to construct one larger dam rather than two. In so doing the cost of raw water in the Namoi could have been reduced because no one argues that the operating cost of two separate smaller dams is higher than one larger dam. Present day users who are required to pay for raw water at costs which reflect the cost of operating two dams, or in the case of the Peel, one relatively small storage, were not consulted at the time the decision was made, or able to consider the decision to build the second dam/smaller storage in terms of increased ongoing costs.
- Council supports requiring monopoly suppliers to provide detailed cost break ups associated with the delivery of bulk water in a particular valley. This can help identify inefficiency's or unnecessary waste. But Council contends there is no reason why, having calculated the cost of the service in each valley, these costs could not be aggregated and divided by the total amount of water delivered across the state to determine the postage stamp price.
- To date regulatory bodies like IPART and the Australian Competition and Consumer Commission have repeatedly rejected postage stamp pricing for a variety of reasons. Yet in the recent determination handed down by IPART in relation to charges levied by DPI Water, IPART has accepted charges that will see all groundwater customers in the Murray Darling Basin (excluding the Murrumbidgee Valley) pay the same access and usage charges for groundwater, regardless of location. This seems to Council to be almost a postage stamp price for groundwater across NSW. If postage stamp pricing is able to be applied for groundwater, Council is asking why the same justification can't be applied to surface water, and questioning whether the reasons provided for rejecting postage stamp pricing for surface water previously are actually valid.

Water NSW's Proposal (includes arbitrary 2% annual CPI adjustment by Council)

