

16th April 2010

Country Energy Price Review
Independent Pricing and Regulatory Tribunal
P.O. Box Q290
QVB Post Office NSW 1230

Dear Sir,

**Re: Review of Prices for Country Energy's Water and Sewerage Services
Water – Draft Determination and Draft Report. March 2010**

Thank you for the copy of the Draft Determination and Report, and for the opportunity to comment.

In my original submission dated 11th November 2009 and my presentation at the public hearing, as well as providing what I thought may be useful background information, I raised two areas of concern:

- a) treatment of assets and capital expenditure
- b) pricing, in particular for residential customers.

I will comment on these below. Firstly, I would like to comment on an item in the draft report where I consider what I said to be misrepresented.

My concern is with the third paragraph on page 87. While I did suggest that the average consumption figure of 300kL / year may be distorted by inclusion in the calculation of vacant land, empty houses, and many low standard residences, I did not suggest the 550kL / year figure I calculated was for the average house in Broken Hill.

In section 5.0 of my original submission I referred to a typical 3 bedroom house on a 1100 square metre block with evaporative air conditioning and a garden. My intention was that this could, hypothetically, be a typical house anywhere. In the public hearing when I spoke on this matter, (refer transcript) I referred to “a reasonable consumption that I believe would be appropriate for a house that you would be able to live in and raise a family in”.

Assets and Capital Works

I am pleased the Tribunal has subjected this area to some detailed scrutiny.

While I am still unconvinced that a new water treatment plant is required at this time, I do not have access to information which would allow me to comment further, and I am reasonably satisfied with the outcome overall.

I feel that ongoing vigilance may be required. I think that the current corporatised model for Utilities may encourage cashed-up organisations to embark on capital works to generate a return on capital.

An example that comes to mind is the Booster Pumping Stations on the Menindee to Stephens Creek Pipeline. These were constructed at a time when our peak day consumption exceeded 45ML / day. Since that time, following a lengthy period of water restrictions and high 2nd tier pricing, when many people simply gave up on gardens, I recall a daily consumption of something like 28 ML being referred to as a “record” by one of the administrations which followed the Broken Hill Water Board. The capacity of the Menindee pipeline without boosters is about 28ML / day. It is likely that these stations may never need to be replaced.

Pricing

I acknowledge the need for Country Water to be able to generate sufficient income to support and sustain services efficiently provided. I note your strategy to encourage efficiency gains by Country Water.

One of my concerns was that the consumption threshold for the tier 1 price was too low, and that together with the magnitude of the tier 2 price, this was resulting in severe degradation of the amenity of the town.

From my own bill it appears that the threshold is 460kL / year. I suggested a figure of 550kL as being more appropriate.

I note that when Sydney had an inclining block tariff until recently, their threshold was 400kL. I also note that IPART’s paper entitled “Water Scarcity: Does it exist and can price help solve the problem” states that an average 6-occupant household would be expected to consume more than 400kL / year to meet its basic needs.

It would therefore seem to me that it would not be unreasonable for a similar sized household with the addition of evaporative cooling and some garden for dust suppression at the very least, to consume 550kL / year.

While I still hold the view that there is a strong argument for the threshold to be increased, I am satisfied that the Tribunal has not decreased the existing threshold, and has set a pricing strategy which will reduce the gap between the tier 1 and 2 prices.

This makes some concession to the need for evaporative cooling and landscaping.

Despite all that said and done to promote the use of rainwater tanks and greywater, to reduce consumption of mains water, my own investigations have indicated that these are not economically viable options if done in accordance with regulations and NSW Health guidelines.

Impact on Customers

I have calculated the affect on my own bill for the same level of consumption as the past 12 months. I expect an increase in my combined bill (water and sewerage) for 2010/11 of 10%, with 26% increase over the 3 years, or 8.6% per year average.

This is a real increase of \$398.00 over the 3 years. I understand this is necessary.

I cannot speak for others in a less favourable situation than I am, but I believe the increases are manageable when considered on their own. However, the real situation is that quite a number of organisations are demanding a larger slice of the pie, which is not increasing at the same rate. For example:-

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| - water | 26% real increase over 3 years |
| - Electricity | forecast 64% over 3 years |
| - Private health Insurance | 5.78% this year, with average of 6.6%/year over past 5 years |
| - Council Rates | 2.6%, pegged. However, Councils are demanding the end of rate pegging |

Regarding income, my Superannuation Fund advised that the increase in the pension for 2010 was 1.3%, based on the CPI increase.

Many will not be able to manage real increases year after year.

There is therefore a need for an ongoing close scrutiny of the factors driving price increases.

Conclusion

I congratulate the Tribunal and its staff on the work undertaken in this difficult matter.

Roger Edwards.