

Dear Mr Baxter

## WATER AND WASTEWATER PRICE REVIEW: WORKING CONCLUSIONS

I regret to say I am rather disappointed by the discussion paper on water pricing.

First, the structure of the paper does not specifically address many of the issues raised by my and other submissions. It is very important that issues raised be dealt with directly, not discursively or *sub silentio*, so that people can see why their arguments were accepted or rejected. Not only is that important for clarifying the issues at stake but it is an essential prerequisite to any form of inquiry and determination that an arbitrator (such as ICRC) address and be seen to address all the issues put before it. If it is felt by ICRC that obligation cannot be discharged suitably in the main body of the report, ICRC should at least deal with other issues raised in an appendix detailing where ICRC agrees or disagrees with submissions and comments and why. A failure to address issues raised or to give reasons for rejecting arguments put may invite proceedings to quash any determination finally made by ICRC.

Second, I note that the Commission seems to see value in daily pricing. I am a little confused. I would have thought any idea of scarcity pricing should depend on the levels of water in storages, not on season or day as such. Daily or seasonal pricing with low rates in winter would simple invite infrastructure duplication as householders draw more water than they really need in winter to put into their own tanks for use in summer. Is there something wrong with people just leaving their water in the dams? Furthermore ICRC should explain why any scarcity pricing premium should not be hypothecated to building new storages such as Tennent Dam.

Third, I note the Commission has not addressed the actual cost of ACTEW's water assets. My understanding is that these assets were "transferred" to ACTEW in 1988 for some \$90 million (itself an arbitrary figure) and that after depreciation the assets now stand at some \$15 million in terms of cost to ACTEW. The capital base of ACTEW should therefore be \$15 million plus the sum of capital expenditure since 1988 less depreciation charged. Those figures should be available. Why have they not been produced? (It would be consistent then to base a rate of return on this capital in nominal not real terms to enable comparability with other industries).

Fourth, I note the Commission seems to have misunderstood Dr Sibly. My understanding is that Dr Sibly and I are of a similar view and I suggest you ask him whether you have correctly represented his views on short run marginal cost pricing and increasing block or step prices for water.

Fifth, I note the Commission seems to think environmental considerations justify step pricing. They do not. ACTEW's *Future Water Options* project observed that the ACT has *on average* enough water for a million people after satisfying the existing high environmental flow requirements. The problem is inadequate water storage. Hence, the bush or river environment is not a relevant consideration for ICRC, other than to note that environment has been catered for by environmental flow requirements. ICRC should address itself instead to the urban environment and amenity which has been degraded by step pricing and to the excess burdens of water restrictions which have prevented many lower income gardeners and families from

maintain pleasant streetscapes. It is intellectually false to base a report on the premise that there is only one environment and other environments do not count. This is not proper logic or economics.

Sixth, I notice not all the material I forwarded has been placed on the website. I see no reason why it should not be (as this should be) and it was forwarded for that purpose. If you have any concerns about copyright I would be happy to discuss this with the Commission.

Yours faithfully

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