

# WATER OUR GARDEN CITY INC.

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PEARCE ACT 2607

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16 March 2006

The Commissioners  
ACT Independent Competition and Regulatory Commission  
Level 7 Eclipse House  
197 London Circuit  
CANBERRA ACT 2600

Dear Sirs and Madam

## ANNUAL PRICE RESET 2006-07

This Association opposes completely any charging to consumers of any of -

1. the Future Water Options (FWO) Project;
2. the Cotter Googong Bulk Transfer scheme; and
3. the Cotter catchment remediation.

Further, we ask that *before the Commission approves any further increases in water charges* we, as parties adversely affected (and any other parties adversely affected), be given an effective opportunity to examine the proponent's case.

That is to say, we seek -

1. discovery or production by the proponent and others involved of all documents, e-mails, reports, notes of conversations passing between any two or more of ACTEW, ICRC, ACT Treasury, Environment ACT and Chief Minister's Department as well as between any of these or other Departments and Ministers or their offices which relate to the subject matter of this inquiry; and
2. to be able to cross examine under oath and pain of perjury and under privilege any person who can provide information about these matters.

It is our firm view that for ICRC to approve these requested price increases without allowing us or other adversely affected parties to test properly the facts or evidence adduced in support of these claimed price increases would be to deny natural justice to us and every other ratepayer subject to water charge increases.

We remind you that in 1991, water charges were a rate of \$200 per annum *with a pre-paid allowance of 455 kilolitres (kl) per annum while excess water was charged at 47 cents per kls.*

Today, water prices start *from the first litre* at 83 cents per kl and rise to \$1.78 per kl, a more than three fold increase.

We are astonished that ICRC can stand by and tolerate such an obvious abuse of monopoly pricing by ACTEW and its Governmental masters.

If ICRC feels uneasy in exercising a thorough-going independent inquisitorial inquiry into the Government which funds it and a statutory authority of that Government, the least it can do is allow those adversely affected the right to examine for themselves the basis on which we are being expected to tolerate these latest increases upon increases.

We attach a more detailed critique of the information paper setting out our reasoning in more detail.

Yours sincerely

John McCarthy

President

## CRITIQUE OF PRICE RESET PROPOSALS

The following comments are made in relation to the proposals outlined in *Information paper: Water and Wastewater Annual price Rest 2006-07*, Report No 6 of 2006.

### *p 3 - 2 Overview of pricing arrangements*

We note at the outset that it is quite illogical (indeed, outrageous) to force water users to pay for profits lost to ACTEW as a result of government directions as to water restrictions.

We note that the Institution of Engineers Canberra Division has pointed out in a Press Release issued around 8 September 2004, *Engineers debunk the water myths*, that water restrictions were *due to the actions of the ACT Government in emptying the dams* and that this "environmental flow" decision was largely responsible for the water restrictions.

Those who make their bed should be forced to lie in it and ACT Treasury should wear the cost of any revenue losses to ACTEW resulting from ACT Government policy. (As in normal economics, this might have the natural economic feedback effect of encouraging the government to think.)

We also note that forcing users to wear such a "cost" means that water tariffs become quasi-taxes rather than a genuine fee for delivery of a good or service.

### *pages 4-5 3.1 Future Water Options*

We note that the ACT Government forced this further inquiry as a result of its *Think water, act water strategy* which appears to have largely ignored community feedback at the 2 "consultation" meetings held in Woden and Ainslie.

We also note that the public consultation focussed on 3 options and that the emphasis was on increasing water storage, with the large Tennent Dam appearing the most sensible, prudent and cost-efficient in the long run.

*The final choice of the Cotter Googong Bulk transfer scheme was never the subject of public consultation. There has never been published to our knowledge any credible explanation on cost-benefit grounds of why the options canvassed in the Future Water Options project were all abandoned in favour of this scheme.*

We do not know whether or not there was political interference with the outcome of the public consultation process.

We therefore reject the idea that we should be forced to pay for a process which appears to have been frustrated. All the information made available at the Regatta Point exhibition and in the consultations was pointing towards the Tennent Dam (with an enlarged Cotter coming second due to pumping costs and lack of catchment diversification).

Users should not be required to pay for a consultation process which has not proceeded to its logical conclusion.

It is imperative that users be able to examine every detail of how the Cotter Googong bulk transfer scheme was made to supplant the consultation options.

That is why we believe any serious inquiry needs to have all documents produced and all relevant parties examined on oath.

*pages 5-6 3.2 Cotter Googong Bulk transfer scheme*

We note this scheme involves pumping water uphill and double handling of water. Its ongoing pumping and treatment costs are therefore high and it does not simply draw water from the cleanest possible catchment. Instead it literally muddies Corin and Bendora water by passing it through a dirty Cotter reservoir and storing it in the dirty Googong reservoir. We, as users, lose the past benefit of clean Alpine water from Bendora and Corin which needed very little treatment. The quality of water from Tennent would be similar to Corin/Bendora, being from a protected catchment, and would also be delivered at lower cost, having the reduced cost of gravity feed operation instead of uphill pumping.

The Cotter Googong bulk transfer scheme seems to be an expensive short-term "quick and dirty fix" rather than a prudent and desirable capital expenditure. We note that ICRC admits it cannot be sure of its prudence and efficiency.

We have seen no cost-benefit ranking per kl of delivered water of this scheme compared to the Tennent Dam or other schemes for harvesting the Naas-Gudgenby system.

We therefore demand its costs not be allowed at all.

The scheme appears to us to have been forced upon ACTEW by government decision, pressure or influence and not an outcome of any thorough study or consultation process. It therefore is akin to taxation without representation.

*Pages 7-8 Cotter catchment remediation*

These costs should be absolutely disallowed.

The water abstraction charge (WAC) more than covers the costs of any catchment remediation work and includes doubled up notional "scarcity prices" to boot.

If ACTEW feels that ACT Government's Cotter remediation is inadequate it should be suing the ACT Government to perform those works for which the water abstraction charge pays more than thrice over.

It is intolerable that we as users be asked to pay yet more.

***Further comments***

*4.1 ACTEW's indicative price impacts*

Increases of 18 cents per kl are as stunning as they are outrageous, coming on top of increased prices standing now at \$1.78 per kl.

We also note that it is absurd to quote dollar cost figures for 280 kl consumption per year when the former allowance was 455 kl per year and many families use well over that.

#### *4.2 Impact of Stage 3 water restrictions*

To reward an economic enterprise *for failing to deliver* water seems to be a leaf taken out the economics textbooks of the former Soviet Union.

This extra burden on Canberrans who are already dealing with the consequences of water supply failure in ruined lawns, and damaged trees and gardens is a studied insult. We take it as such.

#### *Page 15-16 Water tariffs*

The actual charged cost of water should include the extra 25 cents imposed by the water abstraction charge.

Figure 4 is also wrong. A correct graph would ignore the fixed charge which is not a cost of water but an access charge levied as a contribution towards fixed costs. The graph would also include the water abstraction charge as part of the per kl (post-tax) cost to users. The graph is quite wrong in implying that large users are subsidized: the reverse is the truth.

We further note there is no economic reasoning behind ICRC's U-shaped curve.

There is no economic reason why an extra litre consumed by a large family using 1,200 kl per year should be charged at more than the first litre used by a flat dweller.

Do different users of petrol get charged different prices when they turn up at the pump, depending on their year's mileage to date?

The ideal method of pricing water is a 2 part tariff where the fixed part (best done as a levy on the value of the land benefited) covers fixed costs of the infrastructure and the *per kl charge is uniform for all users* and only reflects short run marginal cost.

What ICRC is really doing is imposing, under the guise of prices, a tax/subsidy scheme from larger households to smaller households. This is inequitable and inefficient and (possibly) illegal as the higher charge ceases to be a *bona fide* fee for service.

#### *Page 17 Water and wastewater bills*

The table should be based on the pre-paid 455 kl allowance formerly available and show the impact on larger families with higher usage.

It should also include the increases due the water abstraction charge.

The reality is that water prices have skyrocketed since 1991.

*Concluding comment - what about ACTEW's real profitability?*

We find it strange that nowhere has ICRC gone back and done a study of the internal rate of return (IRR) on ACTEW's cashflows. We would not be surprised if the IRR on ACTEW's cashflows far exceeded normal rates of interest.

Given the ACT Government not long ago pulled out a stunning special dividend of \$100 million from ACTEW (probably over half the cost of the Tennent Dam) we do not consider it impertinent to ask if that could be disgorged by the self-styled ACT Treasury "shareholder".

As users who have paid for all of ACTEW's assets we regard Canberra ratepayers as the true owners of ACTEW and we demand that profits be disgorged back to users as price rebates, as in a co-operative. If we as water users are expected to pay for all capital and operating costs on a cost plus basis then any surplus is a mutual surplus which should belong in equity to the contributors, not to some treasury which never put in a penny.