

**WATER OUR GARDEN CITY INC  
PO Box 904  
MAWSON ACT 2607**

6 September 2007

Independent Competition and Regulatory Commission  
Level 2, 12 Moore Street  
PO Box 296  
CANBERRA ACT 2600

Dear Sirs

**WATER PRICING INQUIRY: DISCUSSION PAPERS**

We refer to the Commission's invitation for public comment on its discussion papers, especially Report 8 of 2007, Water and Wastewater Discussion Paper 3, "Prices".

We wish to make the following observations:

***Rate of return on capital***

As regards a rate of return on capital to ACTEW, we submit that there should be no such return at all. ACTEW is a monopolist which never paid for its infrastructure and is seeking a return on assets which were financed by ratepayers and water users. Further, it is preposterous to grant ACTEW a so-called "risk premium" when, as we have recently seen, it never runs any risk – in fact, it has been rewarded by ICRC for failing to supply water by being granted an increased per kl charge on reduced volume to make up its revenue targets for cost recovery.

It is high time it was recognized that what has happened is that ACTEW is being used as a tax collector by the ACT Government which has seized ratepayer funded assets, written them up and then demanded a rate of return on what it never paid for.

All ratepayer-funded assets should be separated out from ACTEW's accounts, placed in a trust fund and used solely to provide water supply services with any surplus being reinvested in new dams or to pay across the board rebates to consumers who are really the true owners of the assets they have financed. What cash has ACT Treasury ever put in?

***Pricing principles: Cost recovery***

We oppose any idea of setting prices to recover notional or hypothetical costs as being unethical.

We reject the legitimacy of the water abstraction charge. It is absurd for the ACT Government to say that this is a genuine "scarcity price" for water when it and ACTEW *have manufactured that scarcity by emptying the dams* (that we have paid for) throughout a drought. Even in 2006 ACTEW was emptying dams as late as last

November. It is doubly absurd when not a cent of the charge is going towards building and paying off a new dam.

As for ACTEW's costs we reject replacement cost accounting. This is simply an excuse to ramp up the value of assets and claim inflated depreciation. Cost recovery should only be based on costs actually incurred net of all user contributions and recoupments. As we have said above, in truth most of ACTEW's costs have already been met by users and ratepayers.

If ACTEW wishes to play a game of creative accounting to pretend its costs are higher by claiming depreciation on revalued assets ICRC, to be consistent, should order that revaluation gains be treated as part of ACTEW's revenue stream and credited against any target revenue for cost recovery, thereby reducing the cash charges it is permitted to levy.

***Pricing principles: availability charge***

Dams and network pipes for water and sewage should be funded by an earmarked rate and treated as ratepayer funded assets on which ACTEW and the ACT Government get no profits or dividends. This is fair since block values depend on service availability. Ratepayer funding would cover, as it always has, most of the costs of the system and could service amortization of loans to spread the costs over successive generations of landholders benefited by existence of the system.

***Pricing principles: per kl price - step or increasing block pricing***

Price per kl should be uniform and non-discriminatory for all users and do no more than cover actual delivery costs over the ratepayer-funded infrastructure (basically treatment and pumping costs only).

*Stepped pricing oppresses ordinary families and garden lovers* and benefits the wealthy. Nowhere else are we expected to pay more per loaf or per kl. if we buy more than one item. We pay the same price. There is no equitable reason for increasing-block-prices – it is unethical to discriminate against families and gardeners. Even more, it is illogical in terms of punishing demand, since larger families use less water per head than separate households of singles or couples.

***Pricing principles: penalties for failure***

In normal commercial transactions there are often penalty clauses for failure to deliver and suppliers are exposed to tort liability for damage. Water pricing principles should involve penalties for failure and these should be recoverable against those responsible. ACTEW claim a return on capital that its shareholders never supplied for delivering a product it fails to deliver! Why shouldn't there be penalties for failure?

Since ACTEW demands that ICRC treat it as a commercial entity then it should be subject to the same sorts of sanctions that apply to most businesses.

***Terms of reference***

The terms of reference for Report 8 of 2007 defy all economic or social reason in purporting to dictate a forced per capita reduction in consumption – without any reference whatsoever to the social and economic costs! And without any reference to potential ACT water supplies which could cater for a million people and still satisfy current high environmental flow requirements.

*The Commission should cease to conduct this inquiry under such biased terms of reference and ask the Government for fresh terms of reference which are consistent with sensible social and economic principles and with meeting the community's needs rather than seeking to suppress or crush legitimate demands for water.*

If rice growers and others downstream are paying far less than we do for water and using far more of it, there is no reason for Canberrans to tolerate suppression of their entirely legitimate water use and the resulting destruction of their parks, gardens and ovals. Most Canberrans want a clean, green, garden city that provides a healthy and equitable environment to sustain their physical and psychological well-being – these terms of reference fail to support this.

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