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Submission to IPART on the Review of milk water charges by State Water Corporation

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Affiliates: Boomi-Gnoura Gnoura Water Users Association; Dumaresq Valley Irrigators Association; Eastern Recharge Groundwater Users Association; Lower Weir River Water Users Association; Macintyre Brook Irrigators Association; Macintyre River Basin Water Users Association; Macintyre Valley Cotton Growers Association; Mole & Sovereign Water Users Association; Mungindi Water Users & Cotton Growers Association; Pindari Water Users Association; Upper Weir River & Tributaries Water Users Association

INTRODUCTION

Border Rivers Food & Fibre is the peak body for eleven affiliated water users associations whose members operate some 600 irrigation enterprises on the New South Wales and Queensland sides of the Border Rivers catchment.

In a good year the gross value of irrigated production is \$350–400 million. There is direct and indirect employment for over 3,000 people, a significant percentage of the workforce in a catchment with a population of about 60,000. The towns of Inverell, Glen Innes, Ashford, Tenterfield, Stanthorpe, Inglewood, Texas, Yelarbon, Boggabilla, Goondiwindi, Toobeah, Talwood, Boomi and Mungindi are strongly dependent on the economic activity generated by irrigated production.

As a long term member of *NSW Irrigators' Council*, *Border Rivers Food & Fibre* has input into Council's submissions and strongly supports the current submission to *IPART*. We also share the views of similar organisations such as *Gwydir Valley Irrigators' Association*.

In this short submission, we wish to highlight our major concerns about the water charges proposed by the *State Water Corporation*. Price increases of any measure and subsequent increases in an average annual water bill will be particularly difficult for water-users to absorb after such a prolonged period of drought.

Even if the charges are only implemented in part, the future viability of the irrigation industry and its associated communities in the Border Rivers will be severely compromised. We urge IPART to reject proposed new water pricing elements and to keep to an absolute minimum increases in existing elements of the price structure.

1. CAPACITY TO PAY IS ALREADY SEVERELY REDUCED

A combination of factors associated with the history of development, water reform process, market conditions, operating costs, the economic climate and seasonal conditions is currently decimating the profitability of irrigated production in the Border Rivers.

The extended drought conditions have massively reduced the amount of water used, as State Water has also felt the impact from.

Water availability per enterprise has decreased in inverse proportion to the level of development.

Water sharing plans associated with the State water reform process have reduced access further.

Imminent Commonwealth water reforms (Basin Plan) are likely to further reduce access to water, compounding reductions already made under the State Plans.

Low commodity prices have persisted.

The high dollar has impacted on export earnings.

We are experiencing the worst drought in living memory, with cumulative flows in the Darling River during the last 10 years well below any other sequence in the past.

The combination of severely constrained production and unfavorable terms of trade is pushing irrigated producers closer to the edge. Equity is being eroded as levels of borrowing to stay in business increases. The proposed increases in water charges will only compound the poor financial position that most water-users are currently enduring by increasing the cost of production *and* convey a strong message that the government is much more interested in its own short term revenue position than it is in the long term viability of irrigated producers and their dependent communities.

2. THE PRICING PRINCIPLES ARE FLAWED

Under the impactor pays principle, the government has turned its back on community service obligations (CSOs). This is despite the fact that irrigators and associated businesses have been arguing consistently for many years that water use for productive purposes has very significant whole-of-community benefits.

A return on capital (rate of return) is based on the same dishonest motives. It is offensive in the extreme that public infrastructure built for public benefit as part of regional economic development initiatives is now considered to be 100% 'owned' by government and treated as a private asset that, if sold, could produce cash for investment at market rates of return. If this is the case, why is the same argument not applied to roads, bridges, schools, hospitals etc? A cynic might conclude that voter demographics plays a large part in this. While governments generally are increasingly commercializing 'their' assets, they are doing so on a

highly selective basis. The result is that some groups are contributing more to government revenue so that other groups can be subsidized, a very dangerous precedent in a so-called liberal democracy. Irrigators have strong grounds for feeling disenfranchised.

Similarly, a return of capital (depreciation) is a private sector construct that has been conveniently adopted by government. Irrigators are prepared to pay a fair share of the efficient cost of storage and delivery of the consumptive component. This includes the cost of maintenance and refurbishment of infrastructure, the quantum of which depends on many variables such as age, quality of construction and materials, stresses endured, and the effectiveness of the maintenance schedule. An objective total asset management approach is a much sounder methodology than the adoption of an arbitrary percentage rate of depreciation.

New elements of water charges are State Water dividends to Treasury and tax on 'profits'. The reality for a water service provider is that, because of the variable nature of the commodity being 'sold to customers', in good water years there will be an excess of income over expenditure, while in bad years the reverse will be true. The ability to retain earnings and offset them against future shortfalls is an essential element of this type of operation. Dividends and tax severely compromise this ability. The ultimate irony is that, when shortfalls occur, debt financing will be required to cover them. Treasury Corporation as the lender, having benefited from 'profitable' years, also collects the interest on loans made during 'unprofitable' ones. The ingenuity of government in extracting dollars from a long-suffering population has surely scaled new heights.

3. THE REAL COST OF USING WATER IS BEING IGNORED

Irrigators are genuinely concerned that the government does not fully appreciate the implications of the water pricing proposals for the future viability of irrigated production.

In isolation, an increase in water charges may not be the straw that breaks the camel's back. It is just one component of the overall cost of making productive use of water. However, this cost has been escalating over time without any ability to recoup it through higher prices for products. In fact, our terms of trade are in decline, and this is coinciding with the worst drought in living memory. The cumulative impact is an insidious decline in the viability of our enterprises that may at some point reach the stage where a water allocation becomes a liability. The losses will be universal for producers, our communities, governments and the economy in general.

Governments, under the auspices of the COAG water reforms and the National Water Initiative, are quick to remind water users on every occasion that "*if water is priced properly people learn the value of water and conserve it as the valuable resource it is*". The implication that irrigators don't value it and don't conserve it is simply not true. They would be out of business if it were. They are totally committed to water use efficiency in all its dimensions, and invest a lot of time, effort and money on continuous improvement. The gains over time have been impressive and will continue into the future provided that the resources to pursue them are available. An increase in price will not lead directly to one drop of additional water savings. It will simply make it harder to finance savings in the future.

Irrigators are routinely accused of playing politics with water prices. However, it is not about politics, it is about survival. Politicians are fond of pointing out that irrigators receive preferential treatment with low rural water prices. On this count there is a vast difference between high security water stored in dams for urban and industrial use, treated and available at the turn of a tap, and water that flows in rivers after rainfall that is only useful if significant private money is spent to capture, store and distribute it. The scale of water use is also very different. The impact of price rises on urban water users is measured in dollars, but for rural water users it is thousands or tens of thousands of dollars. Urban water mainly benefits the direct user, whereas rural water use provides wide-ranging benefits.

We have consistently argued that public infrastructure is for public benefit, and its provision and maintenance is a legitimate community service obligation of government. The same logic applies to water resource management charges: the whole community benefits. Irrigated production in the Border Rivers is potentially a \$500M gross per annum business with over 5,000 direct and indirect employees in a population of some 60,000. Even urban dwellers recognise the stupidity of this.

Increases in prices charged must be accompanied by commensurate increases in services or performance of services.

We are ordinary people who just want our enterprises and our communities to survive and prosper. Our interpretation is that the fine rhetoric about valuing and conserving water is a convenient smokescreen for an unconscionable grab for cash. We are paying taxes *and* we are paying for the services they are supposed to provide.

In the Border Rivers and surrounding catchments we have some of the most productive farming country in the world. We should be working together on ways to ensure long term sustainability while maximizing the benefits of this country to the region, the state and the nation. If current trends continue for long enough, we are at risk of ending up with an eroding wasteland inhabited by weeds and feral animals. Country, once disturbed, must be managed. Management requires people. People require sustenance, and actually aspire to a decent quality of life.

The NWI water pricing provisions are being cynically manipulated to increase revenue. By claiming a commitment to the full recovery of upper bound costs, NSW is rapidly moving away from any community service obligations. The NWI is doing rural and regional communities no favours in this regard.

4. STATE WATERS REVENUE REQUIREMENTS

Fundamentally, charging the end user of water alone for the supply & management of water ignores completely the additional benefits derived from, and services provided by the water before it gets to the end user. The treatment of recreational & environmental benefits derived from the water must also be considered in calculating user charges. If they are to be included in the government share as community benefit, then consumptive users should also be included in that category as they provide the greatest benefit to the communities through economic activity, employment & the downstream industry.

Border Rivers Commission costs should not be apportioned to State Water if they are merely passing them through. These costs should be allocated directly to NOW.

Revenue volatility is a fact of life in agriculture and management of natural resources. This shifting of risk to the irrigator for the benefit of the monopolistic corporation is unacceptable. Irrigators would dearly love to enjoy the same luxury that State Water is claiming to need. While recognizing that stability in income would be a wonderful thing for State Water, to achieve it by imposing further on its customers with higher overall charges is misguided. While going against government direction of 'user pays', stability would be far better achieved through a higher reliance on government funds, not customers who ultimately bear the greatest risk of anyone.

5. OPEX

Thematic expenditure should be closely scrutinized and there should be no siphoning-off of revenue from water storage and delivery functions to subsidise any additional external projects such as the environmental work recommended by DECCW.

6. CAPEX

We submit that government should bear the total cost of capital investment as the ultimate beneficiary of the works done. The importance of having top class infrastructure is recognized as fundamental to State Water's business model and for their customers in being able to perform its functions efficiently.

7. REGULATORY ASSET BASE

We submit that governments should first and foremost be in the business of providing infrastructure & services, not trying to extract dividends from state-owned assets.

8. COST SHARES

Flood Operations should be borne 100% by government, on the basis that it is government's responsibility to carry out flood mitigation operations for the protection of the entire community, with users benefits being only marginal.

There is no good reason why users should bear any further proportion of costs for State Water's operations. If consistency were to be achieved, then all beneficiaries of the water storage and delivery operations should bear their share of the costs as well, including recreational and environmental beneficiaries.

9. FORECASTING

We maintain that the models for planning and flow forecasting be kept as consistent as possible and support the retention of IQQM in its updated form.

10. PRICE SETTING

We do not support any upward change in the proportion of Entitlement Charges over Usage Charges. While it may suit State Water in smoothing out its revenue stream, it runs counter to their customer's ability to pay.

The massive proportion of price rises being contemplated by State Water is nothing short of predatory and indicates that it is trying to make the most of its monopoly. There is no way in a commercial situation with competition evident that it would ever propose such increases in prices.

11. CONCLUSION

In their submission State Water have demonstrated their self-serving lack of regard for the wellbeing of NSW irrigators and their communities. Deluding themselves into believing that governments own resource-based assets and have a right to apply them for their own commercial benefit illustrates just how incompetent they have become in the management of public affairs. The concept of natural resources belonging to everyone, with governments having a stewardship role in looking after them for the common good, has been totally abandoned.

Border Rivers irrigators reject the water pricing proposals of State Water. We submit that IPART should base its ruling on the one defensible principle, full recovery of the efficient cost of storing and distributing the consumptive component of the water resources of NSW, not the artificial premise of having to pay a dividend to government.