

**BEGA CHEESE**

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www.bega.net.auMr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Cox,

RE: Submission to IPART on NSW Office of Water (NOW) from 1 July 2010

Bega Cheese is not only an iconic Australian brand but is very much part of the fabric of the community and life blood of the local economy on the far south coast of NSW. The company employs over 600 local people directly with the local supplying dairy farms employing over 300 people. Numerous local support services and contractors are engaged by either Bega Cheese or our supplying farmers. Over \$100 million is injected each year into the local economy directly due to the activities of Bega Cheese.

A fundamental activity of the business is converting raw milk into cheese. Over 70% of our suppliers use irrigation to support pasture growth and therefore milk production. Bega is an isolated dairy region and the company relies on local milk production to sustain the manufacturing facilities and Bega branded products. Our most efficient and cost effective milk is from the local suppliers, it is sub economic to transport large volumes of milk into Bega due to the distances involved. It is vitally important to Bega Cheese that a strong, efficient and profitable milk supply base exists in the Bega valley. The proposed significant price increases on the South Coast by the NOW, coupled with the price increases from SWC would threaten the viability of those suppliers and therefore the ongoing milk supply into Bega Cheese.

Bega Cheese represents all the dairy farm irrigators on the Far South Coast which is impacted by the NOW submission on water pricing. Bega Cheese is also a member of the NSW Irrigators Council and we strongly support the submission from them. We have found it difficult to provide a meaningful response to the NOW submission due to the limited detail affecting the Far South Coast Rivers, especially well presented detail on operating expenditure, limited valley by valley data for analysis, no means to measure efficiency and a lack of justification for the significant price increase. We found no clear evidence of a specific business case for the 5 areas of business expenditure, absence of the base inputs for developing those business cases and a focus on activity rather than an outcome focus. We will however provide the following feed back:

- We are concerned that NOW is seeking to make a commercial rate of return. Pg 33 4.2.3 As a Government Department and not a corporation like SWC we would not have considered this to be an objective of the IPART process. Public Transport, Police, Prisons, Education, Health departments do not seek this and we reject the notion that this should be an objective of NOW. In theory this becomes a new tax, rather than just trying to recover costs.
- The South Coast as describe in the Submission includes the Hawkesbury/Nepean. We would request that we have per valley information, as the lack of detail makes analysis of costs for rivers such as Bega and Brogo impossible.
- The \$60 minimum water charge is insufficient. We recommend at least \$200 with a 12 month moratorium for irrigators to consolidate licences. Pg 65.

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- Scenario 2 proposed pricing includes costs for the Commonwealth reforms. From the submission it appears at least \$22.5 mill per annum if specifically for the MDBA. However it appears that these costs have been spread across non MDB rivers such as the coast. The coast should not subsidise the inland valleys in the MDB. Pg 50 - 52
- We do not support the request for all the NOW charges to be fixed and recommend a 70% fixed and 30% variable to help drive efficiency within the department. Pg 65. We also do not support the 15 year consumptive forecasting a recommend that the full data set of historic records be used. Pg 59.
- Due to lack of detail it is not evident if the South Coast valleys (excluding the Hawkesbury Nepean) will have the new metering charges applied. The South Coast excluding the Hawkesbury Nepean was not included in the Commonwealth funded metering scheme and therefore should be excluded from these costs.
- It appears 60% of NOW costs are staff costs. What are the efficiency measures for this? How many staff are required to operate the South Coast rivers and how can we drive efficiency? The submission does not make this clear. Also it is not evident what the other 40% of costs are or what are the capital assets that NOW are operating and funding.
- The requested extra 57.4 staff members for the Commonwealth reforms cost on average \$182,927 each, pg 52. This appears excessive. Also staff that have been implementing water sharing plans which is now coming to a completion can be diverted to reviewing them instead of employing new staff for this. Pg 52.
- The Office is seeking to increase revenue for water management activities from \$57m to \$77.1m but with no justification or explanation. What will these extra funds be used for?
- The office is seeking an extra 47.5 FTE direct staff for core new activities. Are all these required and what efficiency measures could be put in place to reduce this number. It could also be argued that some of these new tasks are already core NOW activities and should already be in place such as Water Management Planning, Water Licensing Administration and Water Management Implementation.
- NOW is planning overhead and indirect cost savings of 4% for only 2 of their proposed 3 year determination. What is occurring in year 2012? Pg 39. Also there is no evidence of FTE efficiency savings
- We do not understand why regulated river costs are so much higher than non regulated. The submission does not make this clear and the new spreadsheets provided by NOW on this issue were blank. We request detail on actual operating costs history so as to understand the significant cost differences.
- The review of NOW expenditure by PricewaterhouseCoopers (PCW) was scathing in respect to the lack of detail and evidence for NOW price increase claims. PCW made recommendations on adjustments to the forecast operating expenditure and capital expenditure but on questioning the authors of the review these recommendations were made on relatively limited knowledge and limited benchmarking data. On that basis IPART should reject both NOW price increase demands and the PCW alternate model. Price increases for NOW should be capped at CPI or no more than 5% per annum for the determination period.

This pricing determination is of critical importance to Bega Cheese and the financial survival of our farmers and we would request a special meeting with IPART to discuss in person our concerns and possible paths forward. We will be happy to travel to Sydney at our own expense and at a time convenient to you to meet you at your offices. We look forward to your positive response to this request.

If you have any questions please do not hesitate to contact me on 0419 248 740.

Yours Sincerely



Richard Parbery
Deputy Chairman – Bega Cheese