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Mr James Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

1st April 2010

Dear Mr Cox,

RE: Submission to IPART on State Water Price Draft Determination 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 SWC water prices as detailed in the IPART Draft Determination on the South Coast will 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 South Coast (Brogo River) which is impacted by the Draft IPART Determination on SWC water pricing. Bega Cheese is also a member of the NSW Irrigators Council and we strongly support the submission from them. Therefore this submission will focus specifically on the issues relating to South Coast water users.

1. **10% Cap – 10.6.1 Pg 134 and Table 5.8 Pg 68**
   Bega Cheese is fully supportive of a pricing Cap and IPART not seeking full cost recovery. We appreciate that IPART looked at various price alternatives as outlined on page 135 but decided to dismiss the 5% increase as recommended by Bega Cheese as being too low an increase. We struggle

with the methodology and reasoning behind the Cap of 10% being chosen and the 5% increase being dismissed due to it being considered too low. The South Coast, North Coast and Peels water pricing is approximately double the next most expensive water from the Lachlan. No evidence is available to suggest that farming in these three river valleys is more profitable and therefore able to accommodate water at the proposed pricing.
The RMCG consultant report on Ability to Pay did make it clear that full cost recovery would have significant negative impacts on farm profitability in these three river valleys, but the report did not determine what was an acceptable level of impact. On what basis was it determined that 10% was a reasonable increase on an already very high base? The analysis on water bills as a percentage of total farm cash costs as indicated in section 12.1.4 commencing on page 155 appears flawed. All other valleys were compared using ABARE data on 1000 ML while South Coast and Peel used the RMCG data which has even less credibility than the ABARE data. The North Coast is not even analysed. Without a comprehensive and credible investigation on the impact on users in these three river valleys to a 10% increase (46% over the determination period) we again restate our request for the Cap to be 5%.

Table 5.8 page 68 shows expenditure and Government share. Total Government share in 2013/14 is $3,218,000 with the South Coast only making up $109,000 or 3.4% of the total Government contribution. Government could easily double its contribution to the South Coast and it would still only account for 6.5% of the Government share. The costs for the South Coast across all of SWC business are minimal and the subsidy from Government also minimal, even if doubled. However the impacts on users are significant and this seems to have been dismissed from the process. The Government share should be reviewed and increased to Cap increases at 5%.

This determination also does not diminish our long term fears that successive pricing reviews will continue to push for full cost recovery. The users concerns on the South Coast have not changed. Farmers are reluctant to borrow and invest in improved irrigation infrastructure at significant cost and long pay back periods when no security on water pricing exists due to the threat of full cost recovery in subsequent determinations.

2. **Impact on service - Table 5.8 Pg 68 and Table 6.11 Pg 85 and Service Standards 12.5 Pg 165**
We have noted a significant drop in service to users and a reduction in investment in infrastructure on the South Coast over the last determination period. We fully appreciate that SWC have been attempting to minimise costs in this river system so as to reduce cost to users. The position we find ourselves in now is that we have a gold platted price with a budget service. The following transcript from SWC at the IPART Public Hearing - Sydney On Thursday, 3 December 2009 confirms this approach.

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Transcript produced by Merrill Legal Solutions

MS WELSH: This graph actually shows some of the total operating expenditure in each of the three coastal valleys over the four-year period for the current determination and then also forecasting forward. I notice that in some of the stakeholder submissions there was some concern shown about the level of expenditure that State Water was forecasting. I want to take a moment to clarify what was in our submission. As you can see the two green lines relate to the axis on the left. You can see in the first year there is a clear trend for all valleys trending down to 2009/20010 and it virtually flat lines for the North Coast and the South Coast valleys because there is very little additional expenditure proposed in those valleys. I think we all understand that the cost pressures in those valleys really need to be challenged given the ability to recover costs in those valleys.

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Transcript produced by Merrill Legal Solutions
MR WARNE: Some of the sites have gone from five down to two and down south they have gone from two down to one, so we are talking about very small numbers of people.

MR WARNER: Given that a number of these valleys aren't achieving full cost recovery and haven't achieved in the past and that substantial price increases would be required to get there, how does State Water make its expenditure decisions and, more specifically, do you undertake costs benefit analysis of incremental additional expenditures?

MR WARNE: I think we have a couple of drivers and, as you know, occupational health and safety, safety of our infrastructure and that commitment to providing farmers with the service that they need as opposed to, I guess, what they want. But you're right, we probably would be less likely to be gold plating a service where we are losing a lot of money.

MS WELSH: I would also like to note that when you saw the table there of the discretionary services there are none proposed for the North Coast and South Coast, for obvious reasons.

We do not have any solution to this dilemma but it would appear that we now have to face a double impact, reduced services and investment and very high water costs. We do not agree with IPARTS conclusions on page 165 that *"We have sought to ensure that our draft decision on prices would not adversely affect standards of service that State Water delivers to its customers. We have set prices in the expectation that service levels commensurate with the proposed expenditures will be delivered. This will result in improved service delivery in some areas. Cost reductions and efficiency savings will not be obtained at the expense of service standards."* This is clearly not correct. This may have been an unforseen outcome of the IPART process but it further amplifies the negative impacts and flow on effects of this determination. Irrigation farming in the Brogo river valley will become untenable on a number of levels if this trend continues.

3. **High security water pricing – 10.4 Pg 127**
   We support the approach that high security entitlement holders pay an appropriate premium to reflect the cost of securing and delivering high security water. Recently we have had reason to be very concerned regarding the various security levels of water in this category. We had assumed that all high security water licences had equal value and right of access on the South Coast. Due to severe and prolonged drought Brogo dam ceased supplying general security water in March 2009. In early February this year water levels became so critical and SWC was only providing releases every 2 weeks to maintain stock and domestic access and high security access to users down stream.
   The Bega Valley Shire Council wrote to the NSW Office of Water (NOW) and the Minister requesting that releases to high security users and stock and

domestic access right holders down stream of the dam be cancelled and water remaining in the dam be conserved for their use. This request was approved and all other high security water users and stock and domestic users were to be informed that their access was to be cut two weeks later. Fortunately a large rain event meant the decision was never enacted but it demonstrates that we have two levels of high security but only one pricing model. All down stream high security users pay the same premium as the Bega Valley Shire Council but it has been demonstrated that the Council has a much higher level of security. This needs to be reflected in water prices to Council which it currently does not.

4. **Common cost allocations – Section 8.6 Pg 101**
   In previous submissions we have avoided this issue due to the controversial nature of completely redefining how common costs are allocated across river valleys. However we are now forced to comment due to the proposed 10% annual cost increase.
   We support the change of allocated cost shares from FTE to ML as discussed but dismissed on page 102 section 8.6. We acknowledge that IPART investigated salaries and wages as a percentage of total direct costs to determine that FTE was the most appropriate method of allocated common costs. This analysis however does not question the actual direct costs and salaries and wages beyond those directly employed in each river valley to ensure the allocation reflects actual services provided. It relied on SWC allocations based on FTE. We still believe this is a flawed allocation approach, SWC are in the business of selling a commodity, water, and costs should be distributed across this commodity as to fairly reflect the business they operate. Further investigation to see what impact this new allocation system would have on all river valley pricing should be published and debated prior to moving forward with this draft determination. We suspect price increases across all other systems would be minimal but it would give some equity for the small river valleys that are being priced out of existence.

This pricing determination is of critical importance to Bega Cheese and the financial survival of our farmers and we request that IPART seriously considers our responses and feedback on the Draft Determination.

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

Yours Sincerely,

Richard Parbery
Deputy Chairman – Bega Cheese