



The Chairman  
 Independent Pricing and Regulatory Tribunal (IPART)  
 Bulk Water Review  
 PO Box Q 290  
 QUEEN VICTORIA POST OFFICE NSW 1230

17 November 2005

Dear Sir

**Re: Bulk Water Users Price Increase**

We would like to bring to your attention the serious concerns Bega Cheese has with regard to the proposed increases in water prices for users of the Brogo River from both the State Water Corporation (SWC) Bulk Water Pricing Submission and the Department of Natural Resources (DNR) Submission to Set Bulk Water Resource Management Charges. We also have deep concerns regarding DNR cost on unregulated rivers on the South Coast.

These increases, which effectively mean a 700 – 800% increase in the cost of water for users of the river, will significantly add to the costs borne not only by dairy farmers, but many other agricultural businesses in the Bega Valley area. In the dairying sector alone, this affects a milk pool of 38 million litres – approximately one third of Bega Cheese's total milk intake – and directly impacts 20% of the dairy farmers that currently irrigate from the Brogo River.

It is not inconceivable that an increase in rates of this proportion may cause a decrease in farmer numbers, resulting ultimately in a lower milk pool, significantly impacting the efficiency and viability of our Lagoon Street operations. The needless loss of efficient and productive dairies because of unforeseen lifts in State Government charges has the potential to affect all dairy farmers in the region, and our community as a whole, with the potential of realising significant loss in rural employment in the Bega area.

Bega Cheese employs 500 people and injects directly into the local economy \$68 million dollars. Our supplying farms employ around 300 people and with a \$1 to \$9 multiplier, the South Coast dairy industry stimulates around \$700 million worth of economic activity. These proposed price increases threaten the economic viability of dairying in our region.

Also these proposed increases have been put to IPART without effective community consultation, and failed to take into account the significant financial consequences for small businesses and dairy farms in the Bega Valley. It is an unbudgeted lift in expenses, impossible to plan for, and unacceptable to our farmers. It comes at a particularly bad time, as farmers are attempting to recover from 3 years of drought conditions, the worst in over 100 years.



The Bega Co-operative Society Limited  
 trading as Bega Cheese ABN 81 008 358 503  
 Head Office, Cheese Packaging & Processing  
 23 - 45 Ridge Street, North Bega NSW 2550 Australia  
 Butter, Cheese & Powder Manufacture  
 13 Lagoon Street, North Bega NSW 2550 Australia

Postal Address  
 PO Box 123  
 Bega NSW 2550 Australia  
 Ph: 61 (02) 6491 7777  
 Fax 61 (02) 6491 7700

General E-mail Enquiries:  
[Bega.Admin@begacheese.com.au](mailto:Bega.Admin@begacheese.com.au)  
 Export Enquiries:  
[Maurice.VanRyn@begacheese.com.au](mailto:Maurice.VanRyn@begacheese.com.au)  
 Internet:  
[www.begacheese.com.au](http://www.begacheese.com.au)

SWC under CoAG guidelines are seeking to achieve full cost recovery over a 5 year period. However, it is apparent that SWC aim to have full recovery in one year. Farmers have to take all the risk and financial burden. Increasing costs needs to occur at a much slower rate, lower overall impact and with consultation. On this premise we have no alternative but to totally reject both the SWC and DNR submissions.

The combined fixed and usage charges from SWC to our "Brogo" dairy farmers on a 70% allocation for the current year 2005/06 are \$130,576.00. By 2008/09 under the SWC proposals this total would increase to \$1,010,174.00 per annum (a staggering \$880,000.00 or 670% per annum increase). On top of this, DNR proposed increases are determined to be between \$10 to \$21 per ML which will add to this increase by another potential \$230,000.00 per annum. This is an average per farm of \$62,000.00 or 8.03% of their milk income. This charge is directly off the bottom line of farmers making them unviable and putting at risk the whole south coast dairy industry. Farmers cannot pass on costs like Councils or other agencies can.

It appears both the SWC and DNR have moved from providing a service at commercially realistic charges to complete focus on revenue generation. We do not believe that this is consistent with the stated objectives of SWC to be both financially responsible to the users and responsible towards regional development. The submissions do not outline how services will be improved and efficiencies gained, which in our opinion should be the primary objectives of these statutory bodies.

Since the announcement of these submissions a number of farmers have put on hold investment on their farms. These investments were in areas such as new and more efficient irrigation systems and new dairy sheds. This reduced investment will impact both the environment and the local economy.

Over recent years irrigators on the Brogo River have had to fully absorb the changes implemented to ensure high security supplies have water for up to 2 years. Prior to this, irrigators each season could expect 85% to 100% allocation. This will no longer be the case. This change occurred with no consultation and no financial consideration. Thankfully, our farmers were able to adapt to the new circumstances through more efficient water usage and improvements in farming practices. No amount of efficiency gain is capable of offsetting the burden of radical increases in charges being proposed.

Even though the Brogo Dam was built for irrigation, the irrigators acknowledge there are other users such as environmental flows and recreational users. However, irrigators should not have to continually absorb both the running costs and risks of accommodating other users. SWC needs to share risk and cost, not pass it all on to the irrigators.

It would appear to Bega Cheese that SWC and DNR, have run their "economic" financial models without regard to the obligations of government to meet the costs of environmental flows. In

relation to the "Brogo" system we believe that the vast majority of water released from the dam is for environmental benefit, yet all of the costs have been directed to commercial and community water users, a unfair and inappropriate allocation.

Bega Cheese would also like to raise the following comments on the State Water Corporation and the Department of Natural Resources submissions:

State Water Corporation Submission;

- Irrigators should not have to pay for recreational use, environmental flows, domestic water and flood mitigation. In the proposal 50% of costs associated with environmental capital costs are paid by irrigators. Environmental monitoring is also paid for by irrigators. These are a community benefit and should not be passed on to irrigators.
- The \$774,000 operating cost per annum for Brogo Dam seems highly inflated, and well beyond cash based operating cost of maintaining the Dam service. Before SWC seeks full cost recovery; it needs to clearly demonstrate to irrigators that it can operate in an efficient business manner.
- The four interfaces for SWC systems create inefficiency and cost to be borne by the irrigator. Dual operating systems for WMA 2000 and WA 1912 are a legacy that should not be borne by the irrigator.
- It has been reported to us that SWC is allowing for one in 1 million year flood level upgrades which exceed any commercially responsible strategic planning business cycle. If this is correct, the significant cost of upgrading infrastructure to this standard should not be borne by the irrigator alone and should be shared across all who benefit in the community. Increased flood safety standards due to climate change also should not be a user cost.
- Why have operating expenditure (OPEX) costs for Brogo risen significantly in 3 years? In 2003 the IPART costs were almost meeting the OPEX. What has occurred in the last three years to see a doubling in the costs of operating the dam when service and availability to the farmers have not increased at all?
- Dam staffing levels are high as part of the role is national security of critical infrastructure. This is a whole of community benefit and the passing on of costs should reflect this.
- Corporate services support staff numbers are to grow significantly under the new structure. Is this warranted? Why does SWC have to now duplicate staff whose roles are now being performed adequately through the current Government structure?
- Operating costs for Brogo Dam are forecast at \$774,000.00 per annum. Revenue is forecast at \$946,000.00 which would include, as we can determine, cost of capital, depreciation, tax, and dividend. In 2007/08 on 70% allocation a total of \$1,078,505.00 will

be paid by dairy farmers. This does not include other irrigators and high security users. The charges do not seem to reflect the costs. It is questionable that these sort of community assets should be geared towards returning dividends to the Government at the user's expense.

- The SWC submission and the process of corporatisation have many gaps and leave many questions unable to be answered. A more transparent process is required so that the full impact on irrigators can be assessed. Specifically detail on the interaction between SWC and DNR needs to be clarified. A breakdown of the cost per valley and the expectation of dividend returns needs to have greater detail. Detail on capital expenditure and staffing costs requires more detail.

#### Department of Natural Resources Submission:

- The interface between SWC and DNR is very difficult to ascertain from the submissions. Both claim to monitor water and both are charging for it. Costs from duplication and inefficiency are not acceptable. The lack of information on the interface makes assessment impossible.
- The DNR submission did not give detail on costs and income streams per valley. It was impossible to determine value for money of the service or even cost per irrigator.
- Cost sharing ratios in a number of categories are unacceptable. For example, irrigators cover the full cost of administration, but a significant number of the services DNR provide have none or limited benefit for irrigators.
- The information regarding unregulated rivers on the south coast indicates a significant rise in unregulated river running costs, appears to be around 65%. What makes up those costs and what efficiencies are being sort to minimize those costs.
- The DNR submission lacks significant detail. Specific information on services and costs is required before the full impact on irrigators can be assessed. Specifically the areas of crossover with SWC, requirements for monitoring and who benefits from the monitoring, distribution of administration cost, detail on unregulated river costs and detail of potential future cost increases.

Bega Cheese strongly opposes the strength of the increase as outlined in these submissions, and we reject totally the emphasis on full cost recover. We would wish to proactively engage in alternate options to ease the financial burdens to our farmers and therefore would be pleased to

meet with you to discuss this issue further, if you require any additional information please contact myself or Ken Garner on (02) 6491 7777.

Regards

**BARRY IRVIN**  
Chairman