

Competition Policy Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

17 November 2014

Dear Professor Harper,

The NSW Irrigators' Council (NSWIC) welcomes the opportunity to provide comments to the Draft Report on the Competition Policy Review.

NSWIC represents irrigators and the irrigation industry. The Council has 25 member organisations which include valley water user associations, food and fibre producers, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries. We support the development and growth of sustainable irrigated agriculture and as such, only focus on those aspects of the draft report that are of direct relevance to NSWIC's Members¹.

Australian Water Reform

NSWIC noted with surprise, that the review panel considered Australia's water reform process to be slow. The Council would contest such an assessment and point out that it undervalues the considerable transformation in water management over the past decade. Since the signing of the National Water Initiative in 2004, Australia has embarked on wide scale water reform across the Murray-Darling Basin.

The National Water Initiative was the precursor to the Water Act 2007 (Cth) and any subordinated legislation. This legislative framework and interrelated policy initiatives have fundamentally changed the way water is being managed, regulated and priced in NSW (and across the entire Murray-Darling Basin). In addition, it has created a realm of additional government entities, independent commissions and regulators in the water sphere which did not exist prior to the Water Act 2007 (Cth). The scale and scope of transformation in water management in Australia cannot be understated.

In addition, NSWIC stresses that the reform process is ongoing. The current transitional stage is a consequence of previous regulatory reform processes and to a certain degree desirable to enable those impacted by the reform to adapt to the change. In this context, NSWIC highlights that the previous reform process has not always led to beneficial

¹ However, each Member reserves the right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

outcomes for water users, including irrigators. The social and economic impacts of Australia's water reform have often not been adequately recognised by both the Federal and State governments.

Review Panel Recommendations - Urban and Rural Water

According to the draft report, recommendation 16 states that all Governments should recommit to reform in the water sector, with a view to creating a national framework that administers both urban and rural water.

While NSWIC does not reject the recommendation to recommit to water reform under the National Water Initiative, the Council rejects the recommendation to amalgamate rural and urban water management.

The management and administration of urban and rural water is fundamentally different in NSW. Urban water in the Sydney metropolitan region and the Lower Hunter has been the responsibility of the Metropolitan Water Directorate within the Department of Finance and Services in NSW. The Directorate has the responsibility to ensure the long term water supply in these regions and as such manages water for the public benefit of residents in Sydney and surrounding areas.

In contrast, the sharing of water in rural NSW is regulated through valley specific Water Sharing Plans (WSP). Under these WSPs, the priority of water distribution is clearly outlined and facilitates the provision of water to critical human needs and the environment prior to an allocation of water for commercial use. The commercial use of water in rural NSW creates the necessity for a different regulatory framework in rural and urban areas.

Irrigators who utilise water for food and fibre production hold a water access licence (WAL) that entitles them to a share of the pool of water that is available for commercial use. Since the separation of land and water, these WALs constitute valuable property rights and underwrite agricultural activities and businesses in the State. Licence holders pay charges for these licences and also an access and delivery fee for water allocated to them. As such, this system is fundamentally different to urban water supply where users do not hold a licence but are entitled to water for domestic consumption. The suggestion to combine the two 'types of water' would not lead to tangible benefits and rather increase the complexity and confusion of the system. In addition, NSWIC is deeply concerned that such a shift could fundamentally undermine the property rights of licence holders and their share to the available water resource for irrigators.

Review Panel Recommendations - National Regulator

The draft report suggests that the administration and management of both rural and urban water should be conducted under a new national regulator - the 'access and pricing regulator'.

NSWIC rejects this recommendation and points out that the current Federal Government has committed itself to deregulation and reduction in regulatory 'red tape'. The suggestion to introduce yet another regulator in water goes completely against Federal Policy objectives.

Not only did the Water Act 2007 (Cth) and its subordinated legislation significantly increase the complexity of water management in Australia, but it has also elevated the Australian Competition and Consumer Commission (ACCC) to be the national arbiter for water pricing and water markets. As the ACCC is a Federal regulatory body, the Council questions the need to establish yet another regulator.

Review Panel Recommendations - Harmonisation of State Regulation

The review panel's recommendation to harmonise State regulation in water management needs to be evaluated in light of significant differences between water resources in each state. These differences not only arise from previous State policies but also from hydrological differences in access and reliability of water.

These differences are the prime reason why water prices in different state jurisdictions have deviated. The reliability of water in NSW is vastly different to the reliability in other States and hence a pricing regime that takes account of such differences is important for the continuous financial viability of irrigators and the owner of NSW's major water infrastructure.

The Council would like to stress that NSW is the state with the most advanced pricing regime whereby all valleys in the state operate under a full cost recovery principle. This means that licence holders in individual valleys pay for the infrastructure that supplies water in their valley. Any cross subsidisation between valleys (as the draft report suggests in the form of postage stamp pricing) is rejected by the Council. It also does not provide an adequate price signal which ensures that water is used efficiently.

NSWIC would welcome if other Basin states following NSW's lead in water pricing and management and the introduction of cost reflective prices for commercial water use in their respective jurisdictions, but the introduction of postage stamp pricing for rural water supply is inequitable and does not reflect cost differences in water supply between valleys.

Review Panel Recommendations - Privatisation

NSWIC urges caution about privatisation of major water infrastructure. Privatisation of dams in NSW could lead to significant and unsustainable cost increases for irrigators.

Under the current arrangement, the State Government is committed to a cost sharing framework with water access licence holders to pay for the ongoing maintenance and repair of major water infrastructure in NSW. Without the State Government's commitment (for the benefit of the public) to contribute to the cost of the dams, the infrastructure could not be financed by irrigators. Irrigators would be forced to abandon their licences with detrimental economic and social consequences.

In addition, the privatisation of major water infrastructure assets in the State could also have serious consequences for the access to and reliability of water to irrigators. The commercial objectives of a private enterprise does not necessarily align with the needs and requirements of those who receive its service. Any change to access to or reliability of water would seriously undermine the value of an irrigator's property right.

Review Panel Recommendations - Electricity Model

NSWIC rejects the statement that the electricity market provides a suitable model for future water management in Australia. The regulation of the Australian Energy Market is highly complex and does not provide clarity or transparency for consumers. The result has been escalating electricity prices over the past five years and a system that is neither efficient or cost effective. A similar model, if applied to the water market, would see similar unsustainable increases in water costs to irrigators. The Council would strongly recommend not to follow the lead of the electricity market when considering the future management and regulation of water supply in Australia.

Review Panel Recommendations - Electricity Price Deregulation

Electricity has become a major input factor in irrigated agriculture as more irrigators have upgraded their on-farm equipment to conserve water and remain competitive. These structural adjustments have led to productivity gains and water savings however they have caused irrigators' electricity use to rise. Greater use of electricity and a rise in associated charges have significantly impacted irrigators' profitability and have led to financial hardship in some cases.

The trade-off between water efficiency and energy intensity is extremely difficult to reconcile in irrigation and as a consequence of the escalating electricity costs many irrigators have taken drastic measures (including locking off their pumps or converting back to diesel energy) and reverted back to low energy but more water intensive production methods. The impacts in terms of efficiency and productivity are immense and continuously increasing.

Some irrigators have experienced electricity cost increases of up to 300 per cent over the last five years and the main drivers have been the significant and continuing increase in network charges. These charges make up between 55 and 65 per cent of an irrigator's electricity bill and are unavoidable in the use of electricity irrigation equipment on-farm or via irrigation scheme pumping costs passed on through scheme water supply charges.

The Review Panel's recommendation to further deregulate electricity prices must be evaluated in light of the significant complexity that currently exists in the electricity market. The NSW Government has committed to deregulated retail electricity prices, however these only make up between 15 and 30 per cent of an irrigator's electricity bill. The remaining costs arise from network businesses who are a monopoly operator in their respective supply regions as well as 'green scheme costs', which are determined by State and Federal entities. Any further suggestion to deregulate electricity prices must be critically assessed on its feasibility and impact on electricity consumers.

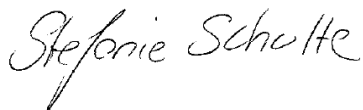
Review Panel Recommendations - Reliability Standards

The draft recommendation proposed the transfer of responsibility for reliability standards to a national framework. While NSWIC acknowledges that unnecessarily high reliability standards encourage inefficient investment in electricity networks and hence inflate prices, it must be recognised that some irrigators are highly dependent on electricity. As such, it is important that reliability standards reflect consumer expectations - balancing the trade-off between service levels and willingness to pay. Any move to a national framework must

facilitate effective consumer engagement and consultation to ensure that adequate reliability is established and there is no wastage or investment in overcapacity for which electricity consumer pay via their charging regimes.

The NSW Irrigators Council looks forward to the development of the final report on the Competition Policy Review. Please do not hesitate to contact Policy Manager Stefanie Schulte (stefanie@nswic.org.au) to discuss this submission in more detail.

Yours faithfully,

A handwritten signature in black ink that reads "Stefanie Schulte". The script is cursive and fluid, with the first letter 'S' being particularly large and stylized.

Stefanie Schulte

Policy Manager
NSW Irrigators' Council