# Murrumbidgee Valley Food and Fibre Association

**Submission to the ACCC on SWC pricing application of regulated bulk water charges to apply from 1 July 2014**

**September 2013**

**MVFFA represents business owners in the Murrumbidgee Valley. Many of our members are directly engaged in irrigated agriculture, producing a wide range of agricultural commodities. Our membership also includes those engaged in related businesses including processing, marketing and provision of professional services, from towns and cities within the Murrumbidgee Valley. Our focus is on water policy at all levels of government because the ecological, economic and social sustainability of communities like ours is dependent on how water is managed.**

As an organization from the Murrumbidgee Valley, an area that relies heavily on the responsible and efficient delivery of productive water, MVFFA welcomes the opportunity to comment on State Water's (SWC) application to the Australian Competition and Consumer Commission (ACCC) on the determination of bulk water charges 2014 to 2017.

As well as submitting ourselves, MVFFA fully endorses the submissions from NSW Irrigators Council (NSWIC) and NSW Farmers and their accompanying recommendations. This submission should be viewed as an addition to the thorough analysis done by those major NSW stakeholder organisations.

MVFFA questions the truncated timeframe for stakeholder submissions as SWC's application to ACCC was originally due in May 2013. As NSWIC has indicated in its submission, the offered reasons for the late application from SWC are not evident in their application as SWC have definitely not included the preferred options submitted to them by their stakeholders and paying customers.

MVFFA questions many of SWC's claims regarding the necessity of changing the setting of bulk water charges. Along with all their paying customers, shareholders and stakeholders, SWC struggled during the recent millennium drought. However, the current tariff structure has proved to be effective as SWC has returned substantial net operating yearly profits since the end of the drought. Along with NSWIC and NSW Farmers, MVFFA can see no real reason to shift the vast bulk of SWC's business risk onto their paying customers who are demonstrably far more vulnerable to the volatility of water supply. NSWIC's comparison tables clearly show where these vulnerabilities lie. MVFFA would further submit that if there was a competitor in the water delivery supply chain, it is highly doubtful that SWC would be contemplating such a proposal.

By looking at SWC's figures it does appear that SWC has overly emphasised the circumstances surrounding the millennium drought to bolster their case for an 80:20 split. As previously mentioned, SWC was not the only business involved in water usage that struggled during the millennium drought. MVFFA strongly advocates that ACCC should acknowledge SWC nevertheless survived the drought under its current pricing regime and has in fact returned a profit since the drought has broken. This is not the case for a majority of SWC's paying customers. There is a valid argument to shift the 40:60 split in the opposite direction (20% fixed asset and 80% delivery) so that all involved can work together to survive any future drought scenarios. The proposed 80:20 split could clearly jeopardise the financial viability of SWC's customers in a future drought and therefore jeopardise the financial viability of SWC itself as customers would be unable to pay their accounts when there is not enough water.

One major objection that has been highlighted by MVFFA members is that an 80:20 tariff structure is very likely to encourage vulnerable broad acre General Security (GS) irrigators to over produce and over use land and water in order to offset the impost of the high fixed asset portion of their water charges. This would be a perverse outcome in relation to the efficiency goals, the sustainability goals and the environmental goals set out by the NSW State Government, NSW Office of Water (NOW), SWC, Office of Environment and Heritage (OEH) Department of Primary Industries (DPI), Catchment Management Authorities (CMA) Livestock Health & Pest Authority (LHPA) as well as the overlying Water Management Act 2004, the Federal Water Act 2007 and the Murray Darling Basin Plan 2012 (MDBP).

MVFFA's major objection to SWC's proposed tariff restructure is that State Water is a monopoly operator and is therefore not really under any market pressure to be efficient. While MVFFA recognises that there are legislative obligations surrounding SWC's operating licence, SWC is not required to be an active competitor in a water supply market. The SWC proposal to adjust the majority of the tariff structure (80%) so that it is not related to the delivery of the required product (water) substantially reduces financial and market incentives for SWC to ensure that good quality water is delivered to their paying customers in a timely and efficient manner. This is indeed monopolistic and protectionist behaviour on behalf of SWC as customers have no other means of accessing water and customers would generally prefer to have their charges related to the actual delivery of whatever product they are purchasing. All other inputs such as fertiliser, seed, chemical and even household items attract a transport charge on delivery. This is a fair, widely accepted and successful business practice in Australia. The current 40:60 tariff structure more than adequately compensates for the fact that SWC faces some unique infrastructure maintenance challenges. MVFFA can see no valid reason why this needs to be adjusted to 80:20 and would further argue that more of the tariff structure should be attached to delivery.

**MVFFA recommends:**

1) ***That the ACCC rejects the SWC application to adjust the tariff to 80:20 as this is SWC, a monopoly, seeking to shift business risk to vulnerable customers***.

2) ***That the ACCC rejects the SWC application to adjust the tariff to 80:20 as this will likely encourage irrigators to over produce and over use in order to offset the higher fixed asset levy.***

3) ***That the ACCC rejects SWC application to increase costs that are based on a heavy and unrealistic reliance on the highly unusual circumstances of the recent millennium drought.***

4) ***That the current 40:60 structure more than adequately compensates SWC for unique infrastructure maintenance challenges.***

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