



**ACCC Draft Decision on  
State Water Pricing Application: 2014/15-2016/17**

**April 2014**

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**NSW Farmers' Association Background**

The NSW Farmers' Association (the Association) is Australia's largest State farmer organisation representing the interests of its farmer members – ranging from broad acre, livestock, wool and grain producers, to more specialised producers in the horticulture, dairy, egg, poultry, pork, oyster and goat industries.

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## **General comments**

NSW Farmers is generally supportive of the ACCC determination and in particular the decision to maintain the current ratio of fixed to variable charges, and the ACCC's draft decision forecast costs are lower than those proposed by State Water.

NSW Farmers are members of the NSW Irrigators Council and as a part of their reference group have discussed the ACCC's draft decision at length. NSW Farmers therefore rely heavily on the NSWIC submission, and would like to particularly emphasize only a small number of points, below. In doing so we fully endorse the NSWIC submission and ask the reader to refer to that submission if a more detailed analysis, or elaboration on any point of our position is sought.

## **State Water's application**

NSW Farmers provided a submission to the ACCC based on State Water's pricing application for regulated charges to apply from July 1 2014. In that submission, NSW Farmers stated that the pricing scheme proposed by State Water would have a negative impact on water users particularly in cases of low water availability, which would be an unacceptable shift of business risk to customers. In summary, key points raised in that submission include:

- NSW Farmers recommends that the ACCC reject the gliding path to the 80:20 tariff structure on the basis that it is not only an improper shift of business risk to customers, but will have a significant, uncompensated financial impact on customers where water availability is low; and
- NSW Farmers recommends that the ACCC reject State Water's claims for increased operational expenditure on the basis of insufficient specification of each cost driver and insufficient justification for that cost driver to be borne by the user portion of the cost-sharing arrangement.

NSW Farmers is pleased to note in the ACCC's draft decision the consideration that the 80:20 split (80 per cent of cost recovery through entitlement charges and 20 per cent through usage charges as proposed by State Water) does not promote the basin water charging objectives and principles, and that it intends to maintain the current 40:60 fixed:variable tariff.

NSW Farmers is also encouraged to note that the ACCC has proposed a reduction in State Water's operational expenditure. However, NSW Farmers remains concerned that the unders/overs mechanism and the 20 year rolling average proposed to account for revenue volatility in the ACCC's draft decision is actually a shift of business risk to consumers. These mechanisms create unacceptable uncertainty for consumers, particularly given the millennium drought; the 20 year rolling average could significantly skew water forecasts.

## **Peel Valley**

NSW Farmers' members in the Peel Valley were certainly concerned to find a full cost recovery for that valley as proposed by State Water would result in an almost 80% increase for general security licence holders, when the prices are already the highest in NSW, with current charges up to double that of any other valley. NSW Farmers welcome a proposed cap of the price increase annually. However, we would strongly urge the consideration other measures additional to a cap to assist members in the Peel Valley who are facing considerably higher water charges than other valleys.

The ACCC have proposed that the NSW Government give consideration to the continuation of a subsidy for the Peel Valley in the 2014-2017 regulatory period. NSW Farmers would support such a subsidy, and note that in the case the subsidy is not accepted, a cap must continue to avoid significant price increases felt in this valley.

## **Amalgamation of State Water and the Sydney Catchment Authority**

NSW Farmers note the announcement in early 2014<sup>1</sup> of the NSW Government's intention to consolidate the Sydney Catchment Authority (SCA) with the State Water Corporation (State Water), to be named *Bulk Water NSW*. NSW Farmers submits that if the purpose of the amalgamation is to create more efficient water delivery, then cost savings as a result must be reflected in the form of a reduction in charges to the end user.

NSW Farmers also rejects any proposal for cross-subsidisation between these two traditionally separate entities, and would propose a transparent amalgamation process in this regard. It will need to be addressed in the ACCC's final report any known factors related to the consolidation of the two entities in order to provide transparency and accountability to stakeholders.

## **Murray Darling Basin Authority and Border Rivers Commission costs**

NSW Farmers notes that the NSW Government informed the ACCC in February 2014 that its contribution to MDBA and BRC costs would be recovered from users through State Water charges in the 2014-2017 period. Given that at the time of the ACCC's draft decision the ACCC had not received MDBA or BRC cost information, no prices have been calculated for these charges. NSW Farmers puts forward that any contribution in excess of the MDBA's current \$8.9 billion should be the subject of cost sharing arrangements in the same manner proposed for current known charges. This will reduce the likelihood of consumers facing a price shock heading into the next water period.

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<sup>1</sup>[http://www.dpi.nsw.gov.au/\\_data/assets/pdf\\_file/0006/507840/media\\_release\\_140304\\_new\\_world\\_class\\_water\\_delivery\\_provider\\_new\\_south\\_wales.pdf](http://www.dpi.nsw.gov.au/_data/assets/pdf_file/0006/507840/media_release_140304_new_world_class_water_delivery_provider_new_south_wales.pdf)

## Summary

- **NSW Farmers welcomes the ACCC draft decision to maintain current pricing structure of a 40:60 fixed:variable charge as it will reduce the risk burden placed on State Water's customers;**
- **NSW Farmers welcomes a proposed reduction in State Water's operational expenditure and revenue requirements;**
- **NSW Farmers recommends a review of the unders/overs mechanism based on the 20 year rolling average , given the severe millennium drought that occurred during this time, and the uncertainty and business risk it would shift to consumers;**
- **NSW Farmers welcomes a price capping for users in the Peel Valley, and a proposed government subsidy for this unique area which is unable to account for full cost recovery;**
- **NSW Farmers recommends transparent accounting practices for the amalgamation of State Water and Sydney Catchment Authority so that bulk water users do not bear unnecessary costs, and that any efficiency gains arising out of this merge are reflected in a reduction of charges;**
- **NSW Farmers recommends that the ACCC commit to similar pricing mechanisms for any additional MDBA or BRC costs, that were not known at the time of the draft decision.**