

# ASSOCIATION OF RURAL WATER AUTHORITIES

Our Ref: CP06/0002  
Your Ref:

6 November 1998

Goulburn-  
Murray  
Water

Southern  
Rural  
Water

Sunraysia  
Rural  
Water

Wimmera  
Mallee  
Water

First  
Mildura  
Irrigation  
Trust

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Mr John Cosgrove  
Presiding Commissioner  
Impact of Competition Policy Reforms Inquiry  
Productivity Commission  
PO Box 80  
BELCONNEN ACT 2616

Dear Mr Cosgrove,

## COMPETITION POLICY & RURAL/REGIONAL AUSTRALIA SUBMISSION BY ASSOCIATION OF RURAL WATER AUTHORITIES (VIC)

### 1. Introduction

Thank you for the opportunity to comment on the impacts of Competition Policy and Rural/Regional areas of Australia.

This submission is provided on behalf of the Association of Rural Water Authorities (ARWA), which is the group representing the five rural water authorities in Victoria, who are responsible for:-

- ◆ Management of most of the State's Headworks.
- ◆ All irrigation and Domestic and Stock services.
- ◆ Bulk supplies to many towns via urban water authorities.
- ◆ Management of all groundwater and stream diversions.

The map attached as *Appendix 1* shows the approximate locations of these five Rural Water Authorities (RWAs).

All the RWAs are also a member of the Victorian Water Industry Association (VWIA) which I understand is also making a submission to your inquiry.

### 2. Comments and Principles

This submission is designed to be brief and oriented at key principles and issues relevant to rural water businesses. These can be summarized as:-

- ◆ Victorian RWAs are well down the path of meeting the 1994 COAG framework for efficiency and sustainable reform of the water industry including full cost recovery and institutional reforms by the required timetable; (*refer Appendix 2*). Many of these reforms were in fact begun via an industry initiated review in 1992 commonly known as the "McDonald Review"

- ◆ Based on comments from a recent large delegation from the Water Division of the World Bank, the Victorian rural water sector is a clear international leader in structural and management reform.
- ◆ Customers play a vital part in the delivery of water supplies (unlike any other utility service), have key roles in organizational decisions on service delivery initiatives and are fundamental to achieving an attitudinal change to environmental management issues. In short - rural water reform is unlike electricity and gas reform.
- ◆ Rural water systems are integral to the community and social fabric of regional communities. Apart from the commercial benefits of supplies, there are many communities which just would not exist, or exist in their present form, without their water system.
- ◆ The man made components of rural water supply systems are integrated with natural features such as lakes and rivers which form part of the delivery network.
- ◆ Cross-subsidies are an inevitable part of any regional services such as water, telephone, postage and electricity. In the Victorian rural water industry, these remaining cross-subsidies are within discreet water systems (as opposed to say from metropolitan to rural), and are clearly understood and supported by customer structures.
- ◆ The Victorian rural water industry has concerns that its outstanding achievements are not widely recognized. It also seems that implementation of the Competition Policy is too focused on compliance issues and inflexible to recognizing the variations and finetuning that are appropriate and practical for different states.

As an over-riding principle, ARWA believes that placing rural water enterprises on a sound business footing and addressing long overdue environmental management problems, relies very much on community participation, commitment and action. In short the most important driver is cooperation not competition per se.

### 3. Concerns

Given the noteworthy achievements to date which have in effect complied with competition principles, there are however some remaining issues which are of fundamental concern to rural communities and RWAs. In no particular priority order these are:-

#### 3.1 **Introduction of Taxation Equivalent Regimes (TERs)**

Studies commissioned by the SCARM Taskforce on water reform have shown TERs could increase water prices by 33% if a traditional asset valuation and depreciation system is imposed on the now widely accepted renewals annuity approach to rural water pricing. Apart from the all too obvious political implications of such a decision, it also appears to be at odds with State Government objectives (certainly Victorian), to keep water prices as low as possible to ensure rural communities are viable and their industries competitive on an international scale. Taxing high value output would seem more prudent than taxing low value inputs. After consideration of the public interest test, the introduction of taxation equivalents would appear to be inappropriate.

### 3.2 Dividend Payments to Government

Being State Government Business Enterprises, the matter of dividend payments is obviously a sensitive issue for RWAs. Discussions are continuing to occur with Victorian Government representatives on the future payment of RWA dividends, and while it is believed to be essentially a matter for the State Government to decide, RWAs believe the following considerations are important.

- ◆ RWAs price water to meet core business, corporate citizenship and certain CSOs - *ie* a break-even approach.
- ◆ The considerable past drain on the “public purse” for rural water needs has been virtually eliminated - and therefore taxpayer funds have already been created in perpetuity for other purposes.
- ◆ Farmer and rural communities see a significant inequity if dividends are paid, but are not paid by their national and international competitors.

### 3.3 Interstate Water Trading

ARWA supports interstate water trading and water going to higher economic return enterprises. However there are some significant impediments which do need to be first resolved:-

- ◆ Common basis for charging of irrigation and other water, - (*eg* Government subsidies still seem to apply in SA and NSW).
- ◆ Clear definition of security of supply for transferred entitlement, - (*eg* most NSW entitlements are of an inferior security compared to Victorian entitlements).
- ◆ Adopted and scientifically based land management studies which accurately predict the environmental impacts on the subject areas from transferred water.

### 3.4 Third Party Access

ARWA believes the lack of third party access regimes in overseas rural water systems must raise questions in the minds of most people as to applicability and necessity in Australia.

Water users are required to have delivery arrangements defined at the time of obtaining water entitlements; and most rural water systems are fully (or over) committed. Therefore a third party access initiative could mean the total revenue base would decrease without a commensurate reduction in costs, with implications to the costs for all users in that system.

This matter seems to be one where the different characteristics of water systems within different States means that individual state requirements and approaches should be the determining factor.

### 3.5 Environmental Costs

ARWA has concerns that some environmental interests see the opportunity of a quick-fix to achieve additional environmental program funding by imposing a new levy on RWAs. Relevant issues would appear to be:-

- ◆ In many cases the over-riding water/catchment problems have been created by the decisions of successive Governments for 100 years or more - not the current water users.
- ◆ RWAs have skilled-based boards of management who have agreed to carry out their business in an environmentally sensitive manner. This means there are significant RWA funds being directed to business related environmental issues.
- ◆ The Victorian Government has decided that many environmental management issues are best managed and coordinated by regionally based Catchment Management Authorities, who will have a funding system comprising community and Government sources. This management approach also relies on cooperation between these Catchment Authorities and RWAs to achieve mutual objectives.

## 4. Inquiry Issues Paper

In regard to the questions raised on page twelve of the "Inquiry Issues Paper" the following brief comments are made in regard to rural Victoria:-

***How is ongoing water reform affecting consumers and industries in country Australia? Are there likely to be adjustment costs?***

The potential requirement to pay a greater proportion of assessed economic water supply costs has a potential impact on the viability of rural consumers and industries especially when compared to those overseas trade competitors who do not have to pay water charges based on business full cost recovery. The imposition of any additional costs (*eg* TERS) is likely to further substantially erode the international competitiveness of Australian rural exporters. The major part of Australian rural product is exported.

Rural adjustment is an ongoing process with the increased water charges being one of the cost components.

***What are the environmental impacts in country Australia of the reforms?***

It may be too early to assess the direct environmental impact of competition reforms. However, increasing cost recovery pressures are a potential competitor with the environment in regard to the allocation of scarce resources; *eg* rural communities in poor economic health will have great difficulty in finding funds for improving environmental health.

The clear identification of part of the competition tranche payments for environmental enhancements and preventive measures would assist in reducing environmental concerns.

***How is the removal of cross-subsidies in water charges affecting water rates in country towns and in metropolitan areas?***

Full cost recovery has generally led to higher water charges for consumers in country towns and the identification of areas such as recreation users which were previously not directly charged (eg sports grounds). This has caused concern in rural communities, led to rationalization of some facilities and potentially impacted on "quality of life" issues.

***Which activities are likely to contract or expand as a result of the reforms?***

Traditional low value uses of water (eg grazing of animals) are likely to contract as a result of full cost recovery, while higher value enterprises are increasing in size and production (eg grape growing).

Victorian rural community interest and participation in water issues has increased. An impressive track record has developed which demonstrates the improved quality of local decision making compared to previous centralised approaches.

***Has the capacity to trade water entitlements helped to ease the financial problems of farmers/graziers?***

Tradability of water entitlements has assisted the market in directing water to higher valued enterprises and provided flexibility and benefits for people wishing to adjust their enterprise or leave the irrigation industry.. However there may be some long-term issues about the resultant viability of the areas from which water is taken.

**5. Conclusion**

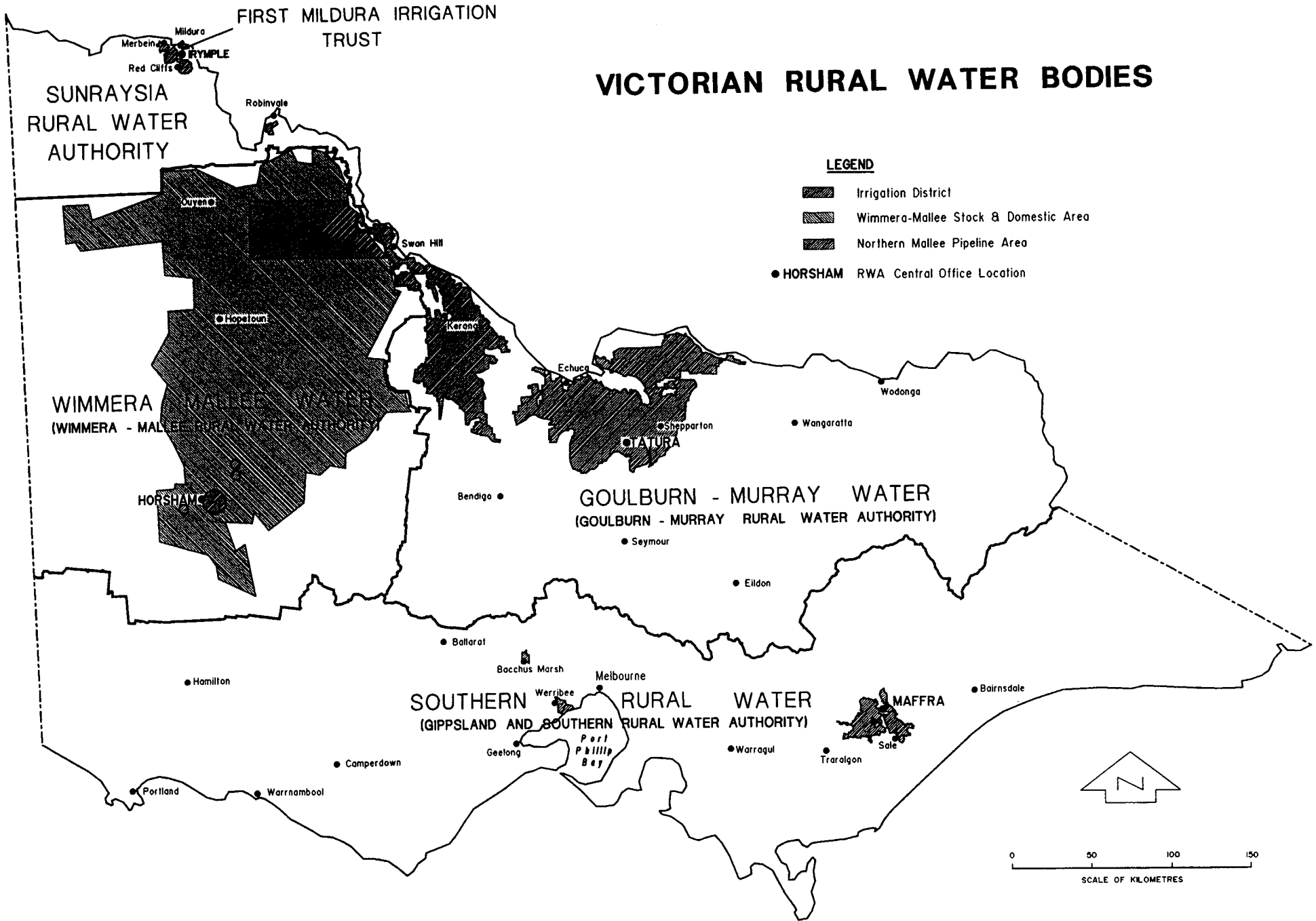
Representatives of Victorian Rural Water Authorities would be pleased to further participate in this inquiry if required. Please contact me if you have any queries or need additional information.

Yours sincerely,



**LUKE REDDAN**  
**Secretary**  
**Association of Rural Water Authorities**

# VICTORIAN RURAL WATER BODIES



- ◆ Water prices based on Operations, Maintenance and Administration costs plus Renewals Annuity and a 0% Rate-of-Return on WDV of assets.
- ◆ Consumption based tariffs structures which accurately reflect the fixed and variable cost of systems.
- ◆ Removal of inefficient cross-subsidies and transparency of remaining subsidies.
- ◆ Irrigation water entitlements separated from land titles.
- ◆ Identification of environmental and consumptive entitlements as part of a Bulk Entitlement process.
- ◆ Trading in water entitlements.
- ◆ Financial and ecologically viable new systems.
- ◆ Continuing investment by Governments in water systems where public rather than private benefit is the key outcome.