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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

**Impact of Competition Policy Reforms on Rural and Regional Australia**

Thank you for the opportunity to make a submission to your inquiry.

Goulburn-Murray Water (G-MW) is the largest rural water authority in Victoria. G-MW provides bulk water to other rural water authorities and non metropolitan urbans as well as bulk water for its retail water services to gravity irrigation areas, pumped irrigation districts, stock and domestic districts, groundwater and regulated and unregulated surface water diversions. Some relevant statistics are included in Attachment One.

Irrigation water is the key economic driver for the Goulburn-Murray region.

Significant reforms have occurred during the previous five years, many of them assisted by National Competition Policy related infrastructure reforms. Many of these reforms are ahead of the COAG water reform timetable. Significant reforms implemented by Goulburn-Murray Water include:

- Establishment of elected water services committees that have had a major influence on service standards and the review and establishment of maintenance and capital programs.
- Establishment of area customer services agreements that define responsibilities of G-MW and customers.
- Clear definition of services, including the establishment of a headworks (wholesale) division and a retail services (retail) division and the production of individual profit and loss statements and balance sheets for all services within those divisions.
- Development of a pricing policy that will achieve self financing of the real operating and capital cost of all thirty-four rural water services by 2000/01.
- Creation and implementation of a productivity plan that delivers 3.4% productivity improvement per annum.

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- Establishment of bulk water entitlements for the Goulburn basin.
- Development of a dam improvement program which will result in a five year infrastructure program that will improve the performance and safety of major headworks assets.
- Establishment of a water exchange that will facilitate and encourage the temporary trading of water by providing transparent information on volumes and prices.

Other reforms relevant to your inquiry that are in progress include:

- Establishment of bulk entitlements for the River Murray and the Campaspe, Loddon, Broken and Ovens Rivers. This reform will specify bulk entitlements for rural and urban authorities and the environment.
- Retail entitlement reform which will clearly define the products available. These products will be assigned to irrigators. The security and tradability of each product will also be clearly defined.

The purpose and benefits of competition policy are not clearly understood in rural and regional Australia, and while most irrigators support the reforms outlined above, a strong suspicion of competition policy exists among our customers. This suspicion is fuelled to a large extent by the perception that the benefits of competition policy will flow to urban Australia while extra costs will be borne by rural and regional Australia.

The removal of cross subsidies and the implementation of transparent pricing for each service provided has received support from most irrigators but has also seriously disadvantaged a significant number of irrigators. The three services causing most concerns are as follows:

Central Goulburn Gravity Irrigation

1992/93 price: \$16.18 ML  
 1998/99 price: \$22.10 ML  
 Percentage increase 36.6%

Shepparton Gravity Irrigation

1992/93 price: \$16.18 ML  
 1998/99 price: \$21.58 ML  
 Percentage increase 33.4%

Woorinen Irrigation

1992/93 price: \$16.18 ML  
 1998/99 price: \$28.10 ML  
 Percentage increase 73.7%

Price rises for all of the above services have been driven by the condition of

the infrastructure. No external funds have been provided for refurbishment of assets, and the removal of cross subsidies and the introduction of transparent pricing has meant that the long term viability of each of these services is under threat. Woorinen Irrigation is in by far the worse position, with prices expected to rise to at least \$54.00 ML, with 50% Government assistance for replacement of infrastructure. If Government assistance is not provided the price is expected to rise to at least \$80 ML.

Irrigator concern in Victoria is further influenced by the approach taken in other states, where considerable contributions have been made towards the cost of refurbishing retail irrigation infrastructure.

In addition to the problems caused by the condition of the infrastructure, irrigators and the rest of the community in Northern Victoria have strong concerns about the impact of the remaining reforms.

### *Introduction of taxation equivalents*

The introduction of taxation equivalents has the potential to increase the cost of irrigation water by 33% if a literal taxation equivalents regime is introduced.

A fundamentalist interpretation of the taxation equivalents regime would require that all rural water authorities valued their assets at their historical value for income tax purposes. Given that many of the assets are up to 100 years old, with most channels at least 30 years of age, the low historical cost depreciation that would be charged for taxation purposes will result in windfall gains to the Government. Rural Water Authorities (RWAs) set prices using a renewals charge, which is designed to generate sufficient funds to renew required infrastructure. This approach has been endorsed by the SCARM task force on water reform. If the taxation equivalents regime requires that income tax is levied using historical cost values then revenue raised for the future replacement of assets will be paid to the Government as an income tax equivalent. RWAs will be required, on average, to increase prices by another 33% in order to recover sufficient funds needed for infrastructure renewal.

There is no support among rural communities for the introduction of a taxation equivalents regime for rural water authorities or regional urban water authorities. In the case of RWAs, irrigators will be required to pay taxes that are not levied on their international competitors. Different regimes within different states could mean that inefficient investment occurs in certain areas because states establish different taxation equivalent regimes and have different policies in regard to contributions made for infrastructure refurbishment. The introduction of taxation equivalents for rural water authorities will make produce from Australian irrigated agriculture less competitive in international markets. The introduction of taxation equivalents for the rural water industry does not appear to be appropriate, particularly if the public interest test is applied.

### *Dividends*

The payment of dividends to governments is a very contentious issue in rural Victoria. At present, the Victorian Government does not levy a dividend on irrigators. The belief among irrigators is that future governments may decide to levy a dividend under the guise of competition policy. Farmer organisations strongly argue that their competitors are interstate or international and that dividends paid to governments increase input costs and therefore impact on their competitiveness.

### *Interstate water trading*

Different pricing and financial requirements by different states appears to be undermining the intent of competition policy in regard to interstate trading of water.

In Victoria, for example, all irrigators are required to pay the full business cost of bulk water. In New South Wales, a slightly lesser amount is paid, however this price has been reviewed by IPART and appears to be reasonable. South Australian irrigators are not required to pay for bulk water, with the cost of the bulk water met by urban consumers. This is a clear cross subsidy between urban and rural consumers.

This ongoing subsidy provides a clear benefit to South Australian irrigators over their Victorian and New South Wales counterparts and will distort interstate trade. Clearly, an irrigator who receives the resource free of its wholesale cost, has an advantage over those irrigators who are required to pay the full cost. The perception among irrigators in Northern Victoria is very much that irrigators taking water from the same source, i.e. the River Murray should be required to pay the same wholesale price for that water.

Interstate trading could offer considerable benefits in regard to economic development provided pricing arrangements between the parties competing for the water are consistent.

### *Conclusion*

In summary, Goulburn-Murray Water would contend that the impact of competition policy has been positive. Difficulties that have been experienced relate very much to perceptions and how outstanding reforms are to be implemented.

Issues associated with taxation equivalents, dividends and water trading appear resolvable, particularly if governments and rural and regional communities can agree on how best to implement these reforms.

Potentially the biggest issue facing Goulburn-Murray Water in regard to competition policy is the condition of its inherited infrastructure for three of

its retail irrigation services. The solution to this problem may be to link part of the payments made by the Federal Government to the States directly to infrastructure refurbishment for those services most adversely affected by competition policy. This approach would have two major benefits:

1. Regional and rural communities would see a direct benefit of competition reform in that direct financial gains made by the State would be seen to have been passed on to those communities that have borne the most pain.
2. Badly needed infrastructure refurbishment will be financed with ongoing services from this infrastructure secured.

Please contact me if you require any further information.

Yours sincerely



**Denis Flett**  
**CHIEF EXECUTIVE**

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**GOULBURN-MURRAY WATER**

**Summary of relevant statistics**

***Area***

6,800,000 ha region  
24,000 serviced properties

***Customers***

12,130 gravity irrigation customers  
415 pumped irrigation customers  
745 domestic and stock customers  
7,670 surface water diversions  
2,010 ground water customers  
5 urban water authorities (bulk water supplies)  
4 rural water authorities (bulk water supplies)  
3 hydro electric power companies

***Headworks Assets***

\$1.4 billion replacement cost  
17 large storages

***Distribution assets***

\$1.5 billion replacement cost  
7,150 km of open channels  
249 km of pipelines  
2,931 km of drains  
25,244 structures  
24,492 meters

***Estimated average annual volumes delivered to bulk supply offtakes***

1,919 ML for the Goulburn system  
1,575 ML for the Murray system

***Employees***

610 employees