

IMPACT OF COMPETITION POLICY REFORMS ON RURAL AND REGIONAL AUSTRALIA

Presentation to public hearing at Bendigo, Wednesday, 7 July 1999

Response to requests for information

The assessment of jurisdictional progress in water reform

- Full cost recovery as shown in table 5.3 should include cost of bulk water (headworks charges)
- Interstate water trading should not be permitted where buyers are not required to meet cost of bulk water.

Whether the imposition of both an allowance for depreciation and the payment of an annuity into a sinking fund is a fair impost on irrigators

- Depreciation is a retrospective charge based on previous capital expenditure.
 - ◊ Past decisions should not drive future decisions.
 - ◊ Asset valuations can be very subjective.
- Renewals annuity is a forward looking charge based on required future capital investment.
 - ◊ More likely to produce better investment decisions.
 - ◊ Requires irrigators to pay for benefits that they will receive.
 - ◊ Renewals annuities are more likely to achieve long term financial viability for irrigation businesses than depreciation.
- Pricing should not include current cost depreciation and a renewals annuity. Irrigators will rightly argue that they will be overcharged.
- Many irrigation businesses have had their previous debts written off. Focus should move to financing future capital expenditure via a renewals annuity.

The feasibility, appropriateness and impacts of reflecting transmission losses in irrigation pricing structures

- What some people call transmission losses might be called environmental flows by others.
- Will need to be carefully assessed, most likely on a system by system basis.
- Could produce dysfunctional outcomes if trading close to dam is encouraged at expense of irrigation away from the dam.
 - ◊ Environmental flows may be reduced.
 - ◊ Could produce abandoned infrastructure.
- People requiring special releases or water outside the season or normal operational standards should be accommodated via tariff changes, which could take into account transmission losses if appropriate.

Reforms implemented to date:

- Financial separation of services.
- Removal of cross subsidies.
- Transparent financial reporting and pricing.
- Establishment of Water Services Committees that review and influence performance, including preparation of business plans that deal with local issues for each irrigation area.
- Introduction of customer service agreements.
- Customer support for achievement of financial break even by COAG target of 2001.
- Development of water exchange.

Reforms in progress:

- Bulk water entitlements.
- Further development of water trading market.
- Further development of water exchange.
- Retail entitlement reform, including definition of property rights and introduction of new tariffs.

Positive impact of reforms

- Greater transparency and accountability.
- Greater customer understanding of reasons for decisions.
- Long run financial and environmental sustainability for the majority of services.

Negative impact of reforms

- Financial separation of services and removal of cross subsidies has exposed some services.
- Condition of inherited infrastructure at Woorinen, Central Goulburn and Shepparton is a significant problem.
- Concrete lined channels at Woorinen have failed. Best option is to replace with pipeline.
 - ◊ Actual price increase from 1992/93 to 1998/99 is 74%. (\$16.18 ML to \$28.10 ML)
 - ◊ Possible price increase from 1992/93 to 2000/01 is 339%. (\$16.18 ML to \$71.04 ML)
 - ◊ Customers affected have no alternative supply.
 - ◊ This sort of problem will not occur in future as current pricing policy includes a renewals annuity that will ensure that systems can be replaced when required.
 - ◊ Woorinen did not have a renewals reserve established to help finance the asset renewal required. A minimum of \$6.7 million is needed to achieve a price of \$54 ML in the long term.
- Competition payments to States will be based on level of achievement of reforms. Why not apply some of competition payments to those areas which have implemented or are implementing the reforms and are adversely affected by the reforms? Support provided should be for one-off adjustments, not ongoing subsidies.

Transparency of process

- Draft report indicates that competition policy is not well understood and that consequently competition policy has an unfavourable image in rural and regional Australia.
- Process should face same transparency and accountability required by those sectors being reformed:
 - ◊ Publicly specify achievements required by sector and payments associated with those achievements within each sector.
 - ◊ Report performance and payments made, detailing achievements and payments within sectors and States and publish and distribute information to industry sectors and groups.
 - ◊ Report reasons for non achievement, and consequent non payment, and identify when or if the agreed reforms will be implemented. If reforms are not to be implemented, the expected consequences of the non achievement of the agreed reforms should be identified.
- Public perception of competition policy will remain without this disclosure, i.e. belief that pain of reform is in the bush, but payments have been made to the cities.

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