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23 June 1999

 The Presiding Commissioner
 Impact of Competition Policy Reforms Inquiry
PRODUCTIVITY COMMISSION
 PO Box 80
 Belconnen ACT 2616

Dear Sir

**Comment on Draft Report
Impact of Competition Policy Reforms on Rural and Regional Australia**

Thank you for providing us with the opportunity to comment on your draft report dated May 1999.

Our original submission to the Commission discussed issues associated with electricity and water. We noted that although the financial benefits from the reforms in the electricity industry had been substantial there had been no benefit to irrigators from water reforms. We contend that irrigation farmers are worse off in terms of the provision of services, lower water reliability, and higher prices. There have been no positive changes in the water sector in terms of services provided since our first submission.

In Chapter 5 of your draft report you seek comment on issues associated with water. We would like to provide input to your deliberations on a number of points raised.

The Commission invites further comment on whether the imposition of both an allowance for depreciation and the payment of an annuity into a sinking fund is an appropriate way to finance infrastructure refurbishments. (Chapter 5, page 133)

Part of our argument in our previous submission and in submissions to the NSW Government's Independent Pricing and Regulatory Tribunal (IPART) has been the fact that the Government is a monopoly supplier of irrigation water with the powers to increase irrigation water prices without improving water reliability or services. The entire proposition made by the NSW Department of Land and Water Conservation (DLWC) has been on cost recovery without the Department being accountable for their costs or, more importantly, the level of their service. As a consequence we have great difficulty accepting any blanket proposal relating to state owned assets which does not include carefully considered provisions for equity and efficiency.

With particular reference to the issue of depreciation and an annuity to finance infrastructure refurbishment, we note that the Dams on the northern river system were built to encourage development, not to improve reliability to irrigators. We are able to draw this conclusion because there was virtually no irrigation development along the river system prior to the construction of the Dams. As this service was provided to irrigators at the time, with an effectively agreed charging mechanism, it is

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difficult to accept how the government can change the charging rules once farmers have made their commitment and all the development has occurred. Additionally, the problem is exacerbated in the north of NSW because most rivers are over committed resulting in a less than satisfactory service in terms of water reliability.

Colly is concerned with the COAG contention that there should be a recovery for depreciation and finance costs before a return on equity on major irrigation works. Many of these structures were built without concern for commercial objectives, in the sense of cost recovery. Additionally, farmers who are now to be asked to contribute to the return of a monopoly state enterprise, had zero input into where Dams were to be constructed, the quality of the construction or the contractor who undertook the construction work. Given all these points we believe it is apparent that for a monopoly industry to change its charging rules now is iniquitous.

In its submissions to IPART, DLWC disclosed that inadequate attention has been paid to asset condition, particularly for weirs and control structures. DLWC also noted in its IPART submission that maintenance and refurbishment have been at greatly reduced levels. Colly is alarmed at this and wonders what impact this neglect will have on future charges and, more importantly, on water supply reliability. This concern is particularly relevant in view of the huge contribution to output and employment that the irrigation industry makes to the economy as a whole. Colly obviously supports the maintenance of infrastructure and agrees with the DLWC that the irrigation asset base is the cornerstone of the industry. What we do not believe is that DLWC should have *carte blanche* to spend as they see fit without being accountable.

Hence, we hold the view that the imposition of a depreciation charge and an allowance for an annuity on existing DLWC owned structures, often badly conceived and badly maintained, does not represent a fair charge at any stage. This is particularly relevant in view of the poor efficiency of current water supplies in NSW.

The Commission invites further comment on the feasibility, appropriateness and impacts of reflecting transmission losses in irrigation pricing structures. (Chapter 5, page 134)

In the current climate of concern for the environmental needs of rivers, it is not practical to consider accounting for transmission losses. Governments and environmentalists will always require that rivers provide some end-of-flow water supplies. Irrigators at the end of river systems and Government Departments responsible for the environment could not afford to pay for the large transmission losses.

The Commission is not sure how widespread or significant the sleeper/compensation issue is, and would welcome further information on this matter. (Chapter 5, page 136)

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Intertwined with the issue of sleeper licences is that of the "Cap" in the Murray Darling Basin which is defined as:

The volume of water that would have been diverted under 1993/94 levels of development. (MDBMC 1996).

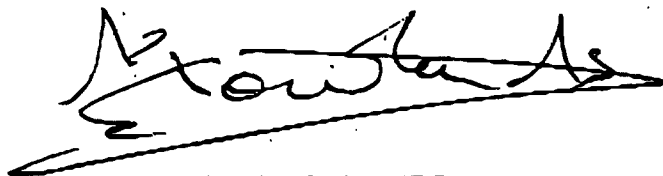
Each river system is required to maintain this Cap on its diversions. The proportion of undeveloped (sleeper) licences on the Barwon (unregulated river) is much higher than on the regulated streams. We estimate that it represents 50% of the total on the Barwon River, whereas on the Gwydir for instance, it is likely less than 1%. So any move to share a Cap (as defined above) between existing users and sleepers has a much larger effect on those in the Barwon system, like us, who have developed and used their licences over the years. Under the Cap proposal we are being asked to share our history of use with a much larger proportion on non-users compared with the case on regulated rivers.

We strongly believe that the policy relating to sleeper and dozer licences should be revisited urgently and we would advocate non-renewal of licences. Unless sleepers are cancelled the impact of the Cap will be reduced regional output and employment and existing capital infrastructure and equipment will be underutilised.

Apropos this issue, we note that on page 143 of the draft report paragraph 1, the Commission states that "the specification of water for environmental flows as part of the water trading regime ensures that economic outcomes do not take precedence over ecological sustainability". We think this is a naïve perception of the situation. Although we do not have data to support our contention, we believe that, in fact, the existence of a relatively large number of sleeper and dozer licences prior to the commencement of water trading ensured that there was sufficient water for the environment. Trading led to the rapid uptake of sleeper and dozer licences on regulated rivers, and a consequent reduction in environmental supplies. However, no water, as far as we are aware, has been bought for the environment under water trading rules. It has merely been deducted from existing licences, used and unused.

We trust these thoughts will be useful to you and your team.

Yours faithfully



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