



Submission to the Essential Services Commission
on Review of Water Pricing Approach:
Consultation Paper

By

Victorian Farmers Federation

June 2015

Foreword

The Victorian Farmers Federation (VFF) is Australia's largest state farmer organisation, and the only recognised, consistent voice on issues affecting rural Victoria.

The VFF consists of an elected Board of Directors, a member representative Policy Council to set policy and eight commodity groups representing dairy, grains, livestock, horticulture, chicken meat, pigs, flowers and egg industries.

Farmers are elected by their peers to direct each of the commodity groups and are supported by Melbourne-based staff.

Each VFF member is represented locally by one of the 230 VFF branches across the state and through their commodity representatives at local, district, state and national levels. The VFF also represents farmers' views at many industry and government forums.

A handwritten signature in black ink, appearing to read 'PJT S', written in a cursive style.

Peter Tuohey
President

Executive Summary

The VFF welcomes the opportunity to comment on the Review of Water Pricing Approach: Consultation Paper.

The VFF is a key voice for Victorian irrigators and rural communities. We have a keen interest in the regulation of Victoria's rural water corporations and water corporations with a rural water component.

We have made the following responses to the Consultation Paper:

Recommendation 1

The VFF seeks consistency in the principles underpinning the ESC and ACCC regulatory regimes for rural water corporations.

Recommendation 2

The VFF supports 'consultation and engagement' being added to the criteria for assessing different pricing approaches.

Recommendation 3

The VFF supports 'future operating environment' being added to the criteria for assessing different pricing approaches.

The VFF looks forward to continuing to be involved in the next steps of the review.

For enquiries about this submission please contact Rachel Astle, Senior Policy Adviser – Water on 03 9207 5522.

Section 4.1.1 Pricing Approach

Application of the Changes to the Water Industry Regulatory Order

The Victorian Farmers Federation (VFF) notes that with respect to rural and irrigation water the Essential Services Commission (ESC) is responsible for directly regulating Southern Rural Water (SRW) and Grampians Wimmera Mallee Water (GWMW).

The VFF notes that SRW's business and the rural component of GWMW's business is distinctly different to that of urban water businesses. SRW business includes operating irrigation districts in Macalister, Werribee and Bacchus Marsh, managing seven major dams and licensing groundwater users and direct diverters in southern Victoria. GWMW supplies water to 11,000 rural customers, manages eight bulk water supply reservoirs, operates the Wimmera Mallee Pipeline and licences groundwater and river diversions.

The Consultation Paper notes that "...we could use a different pricing approach for different sectors, different businesses or even different parts of one business." p.10

We also note the Australian Competition and Consumer Commission's (ACCC) approval of the ESC's application for accreditation means that the ESC also regulates Goulburn-Murray Water and the rural component of Lower Murray Water's business in accordance with directions from the ACCC.

The ACCC prescribes the use of the building block approach for establishing prices, so any change in pricing approach arising from this review will not apply to those services and water businesses covered by the Water Charge Infrastructure Rules (WCIR). Thus, the changes to the Water Industry Regulatory Order 2014 (WIRO) enabling the ESC to decide on the pricing approach has a limited application with regard to GMW and the rural component of LMW.

However, the VFF notes that the ACCC is conducting a review of Water Charge Rules in 2015. Submissions are due in late June. Draft advice is expected in October 2015, with a further public consultation and final advice to be delivered in December 2015.

Whilst Victoria has one regulator, there are two regulatory regimes. Currently these are both based on the building block approach. With two review processes underway at the same time there is potential for change in both regimes. The VFF encourages the ESC to engage with the ACCC process.

The VFF is concerned that a divergence in approach could generate different outcomes. However, we recognise that there may be value in simplifying the regulatory regime where this does not create new or increased risks for customers.

The VFF believes that the pricing of Victorian rural water authorities need to be benchmarked against each other. Farmers across the state are interested in and concerned about the price of water and how water authorities expend their revenue. Whilst we appreciate that there are some local differences that need to be taken into account, there are also fundamental principles which should apply across the board.

The VFF is keen to ensure that the principles underpinning both regulatory regimes will create value for customers and will be comparably transparent to enable effective benchmarking. In the context

of large monopolies the ability to benchmark is one way of measuring prices and services and driving more efficient performance.

Recommendation 1

The VFF seeks consistency in the principles underpinning the ESC and ACCC regulatory regimes for rural water corporations.

Section 4.1.2 Evaluation Process

Ease of understanding for customers

The VFF strongly supports the criteria of ‘ease of understanding for customers’. We see that this is closely related to ‘complexity and transparency’.

Customers are concerned about cross subsidisation between types of services. There needs to be a clear line of sight between the responsibilities of the rural water authority and what the customer is paying for e.g. delivery of water, compliance and maintenance of infrastructure. Where there are other customers or broader public good benefits then charges and funding of these services and facilities need to be accounted for separately. For example houseboats and recreation facilities need to be separately funded or cut from the responsibilities of the authority.

Customers are also concerned about cross subsidisation between irrigation districts. The VFF does not believe that a common price across all irrigation districts should be the default position for setting tariffs. Where there are acceptable consistencies across districts it may be appropriate for individual services such as service points or meter costs to be common. Capital expenditure within a district is dependent on the standard of the condition of the infrastructure. Should there be costly works required in one district, another district should not be liable for contribution to the costs of these upgrade, especially if they have conducted and funded their own district upgrades. Only when a region has been fully modernised to a consistent standard it is common pricing likely to be an appropriate move forward in regards to operations.

Customers need to feel confident that the charges they are being levied are being spent effectively and efficiently. To this end there needs to be a clear link between the revenue collected for a particular purpose and how that revenue is spent. This level of transparency will support a higher level of accountability.

Consultation and engagement

The VFF supports a strong stakeholder and customer engagement model on water pricing. The price of water is critical to farmers and irrigators. Water is a large component of total farm costs in irrigation districts and large increases can directly affect the viability of farm businesses.

The VFF believes that customers need to be part of the process in creating an understanding of pricing. It is not sufficient for the pricing approach to be understandable to customers, they need to be in the conversation about how prices are set.

The VFF believes that the Water Service Committees (WSC) play a very important role in facilitating customer engagement. WSCs are the key connection between the water authority and the customer base on systemic issues. Customers can approach their local WSC with concerns. WSCs can collect concerns from a range of local customers and raise these with the authority.

Key stakeholders like the VFF also have a role to play. Our role is to represent the concerns and interests of our members. We are able to canvas input from across the whole state. We are in the unique position of dealing regularly with all the rural water authorities.

Recommendation 2

The VFF supports 'consultation and engagement' being added to the criteria for assessing different pricing approaches.

Future operating environment

The implementation of the Murray Darling Basin Plan is now part of our operating environment. It is no longer something that will happen in the future, it is here and now. Water has been, and will continue to be recovered for the environment. We now need to turn to understanding the impacts of these water recovery efforts.

The environmental water holders have expanded their volume of permanent entitlements and irrigators have reduced theirs. The change in ownership of permanent water entitlements from irrigators to the environment has tightened the revenue base for the infrastructure in the irrigation districts. There is an increasing cost burden across fewer entitlements in the irrigation districts.

This change has been partly recognised by water authorities as they move to more fixed cost pricing to protect their revenue in years where there are low water allocations. As discussed above, fixed cost pricing demands a greater level of transparency to ensure that revenue is spent efficiently and effectively on what it has been collected for.

At the same time irrigation districts are being modernised. This funding has been provided by government to support the water recovery objective, but the maintenance costs will need to be generated from charges on irrigators. It is not clear what the maintenance and renewal burden will be in the future.

The VFF believes that a solid understanding of the future operating environment is necessary in order to develop a fair and equitable pricing model. The assumptions which underpin the level, type and volume of demand for water in the future have an impact on how the costs are shared between different types of users and across different types of services.

Recommendation 3

The VFF supports 'future operating environment' being added to the criteria for assessing different pricing approaches.