



Primary Producers SA

Unit 4

780 South Road

GLANDORE SA 5037

Phone: 08 8297 0899

Email: awilliams@ppsa.org.au

Essential Services Commission of South Australia

GPO Box 2605

ADELAIDE SA 5001

Monday 8 September 2014

Inquiry into Reform Options for SA Water's Drinking Water and Sewerage Prices – Draft Report

Thank you for the opportunity to comment on the draft report for this inquiry.

PPSA commends ESCOSA for the work it has undertaken, particularly regarding the costs and benefits of the supply of water by SA Water.

PPSA notes in particular the following findings and recommendations:

- That the average cost of supplying water for the Greater Adelaide area was estimated to be approximately 62 cents per kilolitre. The cost of supplying water was estimated to vary between approximately 37 cents and \$2 per kilolitre across the state. This can be contrasted with the 2013/14 usage price for industrial users of \$3.23 per kilolitre.
- That there should be a single usage charge based on the long-run marginal cost of water supply. The economic benefits of reducing usage charges to more cost-reflective prices were conservatively estimated at around \$25 million per year. This would be particularly beneficial for users of large volumes of SA Water.
- That drinking water supply charges should continue to be set on a statewide basis. However new investments in a particular region that are not reflected in the long-run marginal cost or other fixed charges would be reflected in the supply charge for that region. This would make the size and boundaries of the pricing regions particularly important.

PPSA also notes the constraints imposed on this inquiry by the Treasurer, which included the maintenance of SA Water revenue and the exclusion of social and environmental considerations¹.

However PPSA understands that ESCOSA plays an ongoing role in determining the SA Water revenue requirements, in the context of ESCOSA's legislated objective to protect the long term interests of South Australian consumers with respect to price, quality and reliability of essential services (including water).

The increase in SA Water prices over the last five years has been described by primary producers reliant on that water source as dramatic. This has resulted in very large annual SA Water bills for users of large volumes of water from SA Water (with many examples in the order of tens and even hundreds of

¹ It will be important for there to be further opportunities for input if social and environmental considerations are subsequently analysed.

thousands of dollars). Some estimates of costs per head of livestock have been up to \$350+ per head of cattle for a dairy operation or \$100 per vealer, \$12.50 per pig per year and \$3 per sheep per year.

This is inconsistent with the Premium Food and Wine from Our Clean Environment action to ensure a competitive business environment and increase the value of South Australia's food and wine industries. It has been pointed out that high water costs affect not only primary producers but also other parts of food and wine value chains, with processing facilities likely to move away from South Australia.

Large annual SA Water bills have resulted in some very large investments to try to mitigate these high costs. Measures taken have included the development of a number of private pipelines and desalination plants and sensor-telemetry systems to assist in the quick identification of leaks.

Another key strategy for livestock producers particularly affected by high SA Water prices is to switch from cattle (which require significant amounts of drinking water) to sheep or cropping enterprises. The likely impacts of these strategies need to be carefully considered. It is important that all the likely costs of *not* changing to cost-reflective usage pricing are captured in any cost benefit analysis.

Primary producers have often raised concerns about rural and regional water users subsidising the costs of the metropolitan desalination plant, while receiving limited benefits. There are concerns that rural people will continue to bear this burden and may also bear the additional burden of future regional investments.

Clare Valley

Clare Valley grape growers committed to the Clare Valley Water Supply Scheme in 2004, which provided irrigation water to the Clare region and reticulated water to the towns surrounding Clare but was also designed to augment the Swan Reach to Paskeville pipeline system. Now irrigators are locked into an irrigation scheme which uses statewide-priced drinking water, which has risen in price so much in recent years that it has become unviable for grape growing. The Clare Region Winegrape Growers Association continues to negotiate with SA Water to find a commercially viable solution for both parties.

Eyre Peninsula – New Users in Situations of Water Scarcity

Specific queries have been raised by primary producers regarding new users in situations of scarce supply. On Eyre Peninsula, where water from SA Water is used for livestock drinking water, queries have been raised about new use of water from SA Water for mining. It is conceivable that SA Water may need to invest capital to supply such new users (e.g. in desalination facilities), thus raising the price for existing users. This could have significant negative impacts for existing users, particularly if their prices reflect new regional investments (as per the report's recommendations).

Another concern for Eyre Peninsula primary producers is that there is likely to be a significant backlog of infrastructure investment required in their region (i.e. the infrastructure is relatively old). Supply charges reflecting new capital investments could disadvantage areas where there is a backlog of infrastructure investment required, particularly where there is a small population base to bear the costs.

Low-Income Concessions

It is recommended that flexibility regarding the scheduling of payments by primary producers needs to be further explored and addressed by SA Water. This is raised in the context of the great volatility in returns and cash flows experienced by primary producers, while many are large customers for SA Water and heavily invest in water infrastructure and technology.

Low-income residential customers receive concessions. In the interest of equity, it is suggested that concessions should also be provided for low-income rural industrial users (for example, for low-income years or poor seasons).

In summary:

- PPSA supports the recommendation for more cost-reflective variable usage charges, on the basis that this would reduce the usage charges from \$3.23 per kilolitre to between 37 cents and \$2 per kilolitre and that this level of pricing could be sustained.
- If ESCOSA's recommendations for more cost-reflective usage charges are not followed by the South Australian Government, PPSA believes that there is a strong case for an adjustment package for primary producers reliant on SA Water.
- However, there are concerns about rural and regional water users subsidising metropolitan infrastructure, then bearing an additional burden of future regional investments (e.g. through supply charges), particularly if rural and regional infrastructure has been run down and there is a backlog of investment required.
- Flexibility regarding the scheduling of payments and concessions for primary producers need to be further explored and addressed by SA Water, in the context of the great volatility in returns and cash flows experienced by primary producers.

PIRSA has reported that the agriculture, food and wine industries in South Australia generated approximately \$18.8 billion in annual revenue and accounted for 44% (or \$4.8 billion) of SA's total merchandise exports in 2012-13. Primary producers are large customers for SA Water and make large private investments in water infrastructure. The agriculture, horticulture and viticulture sectors warrant the long-term support of the South Australian Government, including SA Water, to ensure a sustainable and competitive business environment (consistent with the Premium Food and Wine from Our Clean Environment initiative).

- There also needs to be assistance so that private investments in infrastructure can be made in a planned and efficient manner – for example, avoiding inefficiencies in the establishment of private infrastructure (such as pipelines) through provision of good information and co-ordination as required.

For further information on any of these matters please contact Amy Williams on 08 8297 0899 or at awilliams@ppsa.org.au.

Yours sincerely



Rob Kerin

Chairperson

Primary Producers SA