

**23 December 2009**

Ms Vicki Thompson  
Administration  
Recovering Water in the MDB  
Productivity Commission  
LB2 Collins Street East  
MELBOURNE VIC 8003

Dear Ms Thompson

**Response to Draft Research Report – Market Mechanisms for Recovering Water in the Murray Darling Basin**

I refer to the Commission's public request for comments on the above report. Iplex Water is part of the Crane Group and is a leader in the provision of products and services to the Australian water industry. Over the past four years, Iplex Water has helped State and Federal Governments achieve over 140,000 ML per annum of water savings through the piping of open channels in Victoria and New South Wales.

In regards to the draft report, we wish to disagree in particular on the paragraph at the top of Page xxxi of the Overview Section and the incompleteness of the report in that it does not comment on the regional economic development that occurs with infrastructure projects. The paragraph we disagree with states:

*The Commission has examined the experience of Australian programs for recovering water through subsidising infrastructure and concluded that they tend to be slow, cumbersome and generally much less cost effective and efficient than buybacks. For example, the buybacks has obtained high reliability entitlements in Victoria for approximately \$2,400 per megalitre (ML). In comparison, an investment of \$1 billion planned for Stage 2 Food Bowl project in Victoria is expected to yield water for the environment at a cost of up to \$10,000 per ML.*

## Iplex Water Responses

- The process for recovering water through infrastructure is necessarily slower than a simple purchase transaction due to the multitude of planning and other factors that need to be considered. In addition, there are also more Federal Government due diligence requirements for releasing funding that also slow the process. Having said that, it is difficult to ascertain why, by way of example, 'shovel ready' Trusts in the Murray Darling Basin who have already undergone member rationalisation to minimise the risk of stranding assets, will need to wait until after June 2010 to receive funding, when they have waited some two years already
- Why compare a buyback program at \$2,400 / ML to Stage 2 of the Food Bowl project at \$10,000 / ML, when the scope of that project is still unknown and funding is subject to achieving the stated outcomes of Stage 1, currently in the development phase? Why not simply compare to Stage 1, which results in a unit rate of \$4,440 / ML? Or better still, why not use the actual figures in Table B.3 of the draft report, which state that, for projects delivered under the Living Murray Initiative, the average unit rate for buybacks was \$1,600 / ML and that of infrastructure was \$2,200 / ML? Using Stage 2 of the Food Bowl as a comparison, when there are actual completed and live projects available with factual data, gives the report a clearly biased view towards buybacks when it should be impartial
- The sheer size of the buyback program (\$3.1B) in relation to the existing size of the water trading market is likely to put upward pressure on prices of future purchases. This may be further compounded if the existing sales were largely due to financially distressed buyers wishing to exit. This point should be addressed in the final report
- As the price of water increases due to the buyback program, it actually becomes more attractive for the private sector to invest in infrastructure, which typically needs to see the price north of \$2,000 / ML to achieve required returns. I have enclosed ACIL Tasman's report, *Australia's Working Rivers, 2008* that shows investment in water infrastructure is economically viable and depending on cost sharing arrangements, has the potential to leverage some billions of dollars of regional benefits through the construction phases while underpinning the longer term benefits across the affected regional economies

- the draft report provides details on the, generally, negative regional impacts of the buybacks program (Appendix D), however it fails to mention or even acknowledge the positive regional impacts of infrastructure. For example, economic modelling undertaken by the Wimmera Development Association on the regional effects of the Wimmera Mallee Pipeline Project in Victoria (which saved 103,000 ML per annum through piping open channels), found that during the construction phase, the project contributed an additional 220 jobs and \$114M in additional wages (Beauchamp, 2009). I have enclosed ACIL Tasman's report, *Regional Economic Effects of Irrigation Efficiency Projects, 2009* that highlights the regional benefits of water infrastructure. The findings of the ACIL Tasman report are very relevant to this draft research report and should be included in the final version. We would be happy to answer any further questions you may have in relation to this subject

We thank you for the opportunity to comment on the draft report and trust that the above comments are useful in relation to formulating the final version.

Yours sincerely  
**Iplex Water**

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Kevin Kellow  
General Manager - Water and Infrastructure

**T** 02 9024 4706  
**F** 02 9024 4707  
**M** 0417 776 155  
**E** [kevin.kellow@iplexpipelines.com.au](mailto:kevin.kellow@iplexpipelines.com.au)

Enc.