



ACN: 067 197 853

PUBLIC SUBMISSION TO
MARKET MECHANISMS FOR RECOVERING
WATER IN THE MURRAY DARLING BASIN
AUSTRALIAN PRODUCTIVITY COMMISSION DRAFT RESEARCH
REPORT

BY

WESTERN MURRAY IRRIGATION LIMITED (WMI)

PO Box 346, Dareton NSW 2717

FEBRUARY 2010

Contact: Cheryl Rix – General Manager

rix@westernmurray.com.au

Western Murray Irrigation Limited – Submission to Productivity Commission February 2010**Productivity Commission Study into Market Mechanisms for Recovering Water in the Murray Darling Basin****Introduction**

Western Murray Irrigation Limited (WMI) is an infrastructure operator that services the irrigation districts of Buronga, Coomealla and Curlwaa in Southern New South Wales. WMI is a privatised corporation where its irrigator members are its shareholders. WMI irrigators have been active in the permanent water entitlement market for many years. As part of the NSW water-sharing plan, WMI irrigators provide 3% of their allocation to the environment each year and as a result water allocation to their entitlement can never exceed 97%. A number of WMI irrigators have submitted tenders to the latest Commonwealth buyback round.

Comments

WMI completed a submission in September 2009 to the Productivity Commission Issues paper and the company position on the issues raised has not changed. Reading through the submissions shows the stakeholders have committed considerable time and thought to the issues and the Productivity Commission have genuinely listened. However the report will be rated on the actions to be undertaken on the agreed recommendations.

WMI supports the review undertaken by the Productivity Commission and notes some positive changes have already been made to the buyback process. Three short tenders with a clear budget to spend of \$90 million are being run in the six month period ended 30 June 2010 rather than a rolling tender process.

The most telling comment in the report for WMI is “there is a risk that the Basin Plan will result in an over correction, from too little water being allocated to the environment, to a situation where serious social and economic costs are imposed for small additional environmental gains.”

The balance is crucial to allow for sustainable regional communities.

WMI generally concurs with the Commission’s “draft findings in a nutshell” and makes the following comments:

- A portfolio approach is required. For example seasonal water allocations would be of use to the Commonwealth and more importantly the environment **now** to supplement the flows through to the South Australian lower lakes from the recent Darling River rain events. The current temporary trading price of \$150 ML is an attractive price point to purchase water allocation. Use of seasonal allocation would prevent the risk of “overshooting” the mark in buying permanent water entitlement given the targets for environmental water are not yet clear.
- WMI supports a tender mechanism rather than buying entitlements directly on the market as this promotes transparency and equal information for all market participants. It also allows individuals to deal directly with Government rather than through a water broker. The buyback has respected property rights and is taking steps to provide a better future for the environmental health of the Basin. WMI does not agree with binding bids. Expressions of interests are preferred as the lead-time in dealing with Government may

Western Murray Irrigation Limited – Submission to Productivity Commission February 2010

be too long and other business deals can be completed without fear of legal retribution in the meantime.

- The buyback should only be accelerated once the sustainable diversion limits are agreed and targets for environmental water to be owned by Government have been set by valley. Over one billion dollars has already been spent and actions should be implemented from the recommendations from the Productivity Commission final report before further expenditure (2010/11 on) for the buyback is committed.
- Targeted buybacks should only be undertaken where there is the consent of both the buyers and the sellers.
- WMI is also concerned with how the sustainable diversion limits are being developed and the fact community preferences and the opportunity cost of water and land use is not being considered.
- The uncertainty around the risk assignment principles and the unfavourable (to irrigators) High Court findings recently released in relation to the removal of groundwater is of detriment to the irrigation industry and investment in regional areas. Irrigators remain uncertain about entering a tender to the buyback when the loss of an unspecified amount of water allocation on a permanent basis will occur when the Basin Plan is finalised.
- WMI is an operator who has already made infrastructure investment without Government support. WMI supports investing in infrastructure as an effective way to recover water provided the investment is based on a sound business case (giving money to state governments where they have let systems run down could be a poor use of taxpayer funds). WMI concurs the payment of a premium per ML of water recovered is a form of subsidisation but also an incentive for irrigators to participate. The market price is a fair indicator, however, to encourage water use efficiency and water recovery a small premium to reflect net benefits to the community should be considered.
- The 4% should be removed as an individuals right to realise an asset is impeded. The 4% has been removed from NSW effective 1 January 2010 while Victoria retains this limit. WMI understands the concerns of permanent loss of water for agricultural production but believes the current market inequity is detrimental to the Basin. The transfers from the WMI licence in the 2009/10 year will exceed 4%.

Of concern to WMI is there remains no public record of any cost benefit analysis being undertaken before the buyback program commenced. There is no publicly available assessment of the incremental benefits and costs of environmental watering. There is no publicly available record of the administrative costs to run the “recovering water” programs.

It is difficult to consider a governance framework without the options and costs and benefits being presented for stakeholders to review. However, the Commonwealth Water Holder would be best placed in the future to manage environmental water and purchases with an independent review from an entity such as the National Water Commission.

WMI believes the Productivity Commission should not comment on pricing as the ACCC has the key regulatory role over water charges across the Basin. Rules are still being developed and termination fees are clearly in place and are well understood by the market. Infrastructure operators such as WMI are not for profit privately owned companies where the

Western Murray Irrigation Limited -- Submission to Productivity Commission February 2010

Board set prices for members in accordance with cost recovery principles and communal benefits from joint supply systems. Termination fees are not excessive and are not a barrier to trade as they simply reflect the need to meet obligations. The permanent trading figures that will be presented for the larger infrastructure operators for the 2009/10 year (ACCC compliance reporting) will show a number of irrigators are choosing to pay the termination fee and the volume of trades is considerable.

WMI believes carryover rules should remain in State control to reflect the differences in water product and the delivery and storage capacity of each valley. There has been flexibility during the drought in the management of carryover and Victoria has announced (in the week beginning 8 February) new carryover rules including the introduction of a spillable account.

WMI supports the comments made by the NSW Irrigators Council in its submission about the flawed economic analysis. A conclusion that the buyback will not have a significant effect on regional productivity is flawed.

Given the buyback will be partnered with the sustainable diversion limit regional productivity will be adversely impacted. Evidence already exists that removal of water on a permanent basis reduces agricultural production.

WMI's experience is once water is sold permanently the irrigator does not wish to continue producing over the longer term.

WMI unfortunately could not attend the public meetings held by the Productivity Commission but was pleased to see they were held to allow further consultation.

Submission Ends