

MURRUMBIDGEE IRRIGATION Limited



Submission to the Productivity Commission

Response to the

Draft Report:

*“Impact of Competition Policy
Reforms on Rural and
Regional Australia”*

June 1999

MURRUMBIDGE IRRIGATION Limited

A.C.N. 084 943 037

Mr. John Cosgrove
Presiding Commissioner
Competition Policy Inquiry
Productivity Commission
PO Box 80
Belconnen ACT. 2616

15th July 1999

Dear Commissioner,

Please find our comments in response to your Draft Report on the Impact of Competition Policy Reforms on Rural and Regional Australia.

We look forward to discussing the matters with you in Canberra on July 20 and 21, 1999.

Yours faithfully

John B Chant
Acting Chief Executive Officer

TABLE OF CONTENTS

INTRODUCTION	1
REFORMS.....	2
WATER PRICING.....	3
COMMUNITY VIEW	3
ASSET REFURBISHMENT FINANCING.....	3
RETURN ON CAPITAL	4
DEPRECIATION.....	5
<i>Transparency Issues</i>	5
ACCOUNTING FOR TRANSMISSION LOSSES	6
INVESTMENT APPRAISAL – NEW INFRASTRUCTURE.....	6
GOVERNMENTS & IRRIGATORS ROLES IN PROVIDING THE INFRASTRUCTURE.....	6
NEW INFRASTRUCTURE AND NEW TECHNOLOGY PROVIDES RETURNS TO GOVERNMENT	7
WATER TRADING	7
TIMETABLE.....	8
ECONOMIC AND SOCIAL IMPACTS	8
IRRIGATION WATER.....	8
WATER REFORMS – IMPACTS AND EQUITY: AREAS OF CONCERN	9
<i>Context</i>	9
<i>Data quality to support decision making</i>	9
<i>Additional High Security impact</i>	10
<i>Unplanned reliability impact</i>	11
<i>The 40% protective threshold</i>	12
<i>Value of the water</i>	12
<i>Managing the environmental releases for maximum benefit</i>	13
SERVICE COST AND QUALITY	13
ENVIRONMENTAL OUTCOMES	13
TABLE 1. IMPACT OF THE MDBC CAP	14
TABLE 2. MURRUMBIDGEE VALLEY MDBC CAP IMPACT POTENTIAL.....	15
ACKNOWLEDGEMENTS	16

Response to the Productivity Commission's Draft Report: "Impact of Competition Policy Reforms on Rural and Regional Australia"

INTRODUCTION

The Commission has:

- *made recommendations*
- *sought further comment and information, and*
- *expressed views*

and those relating to water call for our response.

The report points out that the inquiry is all about national competition policy and not the other government policies and reforms underway, but which are having impact on rural and regional Australia. It is interesting to note that most of the NCP relates to reform of government agencies or government trading enterprises. And yet the focus on agencies has been minimal.

On Page 2 of the introduction, comment is made that while some rural communities have been hit particularly hard (by a number of factors) others have experienced significant growth. Our areas is one where NCP is having a significant detrimental impact, specifically COAG reforms, but those impacts have been offset by the natural resources and diversity of the area, successful marketing and innovative management. The fact that we have absorbed most of the down side of the NCP to date is no reason to ignore or down play those impacts. Were it not for NCP maybe we would see even more growth and prosperity for our area. In fact many other irrigation areas will not be as fortunate as the Riverina. They would be a telling comparison.

Page xxxix discusses and rejects the need for adjustment assistance for communities badly affected by the NCP reforms. No one denies we are undergoing "continual change", but few people expect our own governments to be using our taxes to cause us financial and social injury. Given that \$5.307 Billion will be allocated in competition payments to the State Governments we are entitled to ask why that should benefit the whole community and not used to assist those impacted by the NCP reforms. The last thing regional Australia wants is a State politician grandstanding with a cheque called "subsidy" which is in fact compensation for damage caused.

We note the Commission's request (page 342) for further information and comment on:

- * *the adequacy of generally available assistance measures*
- * *the circumstances in which specific assistance is appropriate, and*
- * *the most effective and efficient forms of specific assistance.*

You also welcome examples of effective and ineffective assistance.

The NSW Government Independent Pricing and Regulatory Tribunal recommended that the Department of Land and Water Conservation undertake a socio economic impact study and similar studies were part of the State Government's undertaking to COAG. None of the efforts to date have been thorough and we resent having to use our own time and people to undertake tasks that are the responsibility of others. Some legislation (EPA) specifies that the social and economic impacts must be an integral part of a policy decision.

The Commission should strongly recommend that relevant agencies provide the affected communities with the resources to give the Commission the answers to those questions.

REFORMS

Table 5.3 (page 131)

The table purports to represent progress in implementing COAG reforms. The Progress Report needs to be approached with some care. In particular, there is an inextricable risk between the definition of property rights and the systems in place to trade these rights.

The Progress Report suggests that NSW has implemented trade without a definition of rights. *No other state has been so careless and it is suggested that both the Commission and COAG need to remind NSW that their reform implementation is not adequately co-ordinated to protect the rights of participants.*

Permanent trade is prevented. In fact Murrumbidgee Irrigation has an embargo in place until property rights are granted. Temporary transfers and the inequities they cause are supported by the lack of property rights.

The Progress Report also suggests that there has been community consultation. Some would argue that to undertake consultation after implementing policy is not what COAG was all about.

We note that NSW will try and justify its tranche payment in terms of its progress. Irrigators in the Murrumbidgee scheme area would argue that to make the payment simply ratifies NSW's inconsistent approach and risk taking with other people's rights. We question whether the payment should be withheld until NSW commit to fair treatment of the irrigation community.

Table 5.3 demonstrates that almost all the water reforms involve extra cost and reduced access to water for irrigators. Yet there is no mention of compensation. Irrigators are expected to bear all the pain while the benefits of the reform based payments go to the whole community. The State Governments will share \$16 Billion in payment from the Federal Government and yet none of it has been earmarked for compensation. Why not? Why should one section of the community carry this financial responsibility alone? In many other reforms there have been adequate compensation. Motor vehicle manufacturing, wharf and stevedoring, forestry and fisheries are some examples.

The table suggests that NSW has implemented almost all the institutional reforms. We beg to differ. It is claimed that resource management, standard setting and regulatory enforcement are separate, that there is a holistic and integrated catchment management approach to resource management and that the community has been consulted.

Consultation seems to consist of telling the community what is intended and then ignoring any constructive criticism or feedback. Even when it is pointed out that the decisions are based on flawed information or that the impacts will be different than assumed, little is done to acknowledge the mistakes and correct them.

The separation of resource management, standard setting and regulatory enforcement is paper thin and would not satisfy the definition of a divorce. All three arms remain within the one department with limited independent peer review, refusing to admit that competition applies to them. The EPA and political minority groups also continue to exert more than a healthy influence over all three areas, setting standards, enforcing them and interfering in management as well and seem unconcerned with the impact of their over zealous reform on local communities.

The claim that the NSW Government has implemented holistic and integrated catchment management is stretching the truth. Each resource management agency has its own agenda.

Catchment management committees are under resourced and have minimal ability to influence agency programs within their catchments. There remains duplication between NSW agencies, between NSW and the MDBC, and the EPA continues to have a heavy hand in all activities. The role of TCM and river management committees is not clear, nor clearly defined.

Water Pricing

COMMUNITY VIEW

We have previously commented to the Commission on this issue and remind you that the National Competition Council has adopted the draft pricing guidelines of ARMCANZ/COAG. Unfortunately, this process is disappointingly kept away from the users and must be opened up to scrutiny.

The type of advice put forward in the guidelines must be subjected to community review before it finds its way to COAG

- *We need to find a forum where the proposal can attract community views, acceptance and ownership. Those most affected must be heard before pronouncement issues forth.*
- *Rural communities, irrigators, industry and those who represent broad community environmental interest must come together in this review.*

ASSET REFURBISHMENT FINANCING

- It is dangerous to get too hung up on the valuation of assets which were the result of policies and investments of the past. In any case we have had ongoing problems with the authenticity of valuations from an accounting perspective.
- The only valid use for asset valuation in the area of pricing is in the value that needs to be recovered over the life of the asset to maintain and replace its operational capacity for as long as it is needed, or the value of new investments that require funding.
- The value of existing assets is irrelevant to today and tomorrow's pricing as there is no alternative use of the capital or asset. The investment is sunk and the inherent value of that investment is itself a function of the revenue derived from water prices. The concept of sunk assets is recognised by NSW Treasury and the NSW Independent Pricing and Regulatory Tribunal (IPART).
- We have no issue with the use of annuities provided flexibility is available to use the most appropriate mix of forward provision and debt financing, given the liquidity demands on the business, its customers relative wealth, and the magnitude of the individual asset.
- There should be a concerted campaign by ARMCANZ and other involved experts to have Australian Accounting Standards reviewed to make them relevant to long life assets in the irrigation industry.
- With major river infrastructure like dams and weirs, there are more beneficiaries than consumptive extractors and Government has a responsibility to fund a proportional share of future annuities in cash rather than on a need basis. We have all experienced the results of past unwillingness to put cash away.

- Accumulating sinking funds for asset renewal can lead to misuse of those funds or to over-engineering of replacement works. A proper balance between the benefiting generations must be maintained and accumulated funds must be protected from abuse.

*In summary, and in response to the Commission's invitation, our view is that it is entirely inappropriate to impose an allowance for depreciation **and** an annuity to finance refurbishment. Only the cost of consumption of the asset as represented by the future need for cash should be incorporated into pricing, if the owning entity has a generationally fair carve up between cash and debt financing.*

RETURN ON CAPITAL

- Pricing to cover the cost of capital should only apply to capital invested in new assets and not sunk investments, nor their renewal or replacement. Some contribution by Government to reflect the direct and indirect benefits to the community should also be factored in.

This latter renewal or replacement is already funded by customers through annuity contributions. Where the capital for new investment is funded in customer pricing there is no justification for recovering any cost of capital over its interest and debt servicing cost.

- To recover in excess of the actual cost to the business is a tax.

In the competitive environment amounts that were paid to purchase existing assets (i.e. historic costs) are largely irrelevant, apart from the calculation of allowable depreciation for tax purposes. Only current and future costs and revenues are relevant to the key question facing firms in competitive industries, which is whether to stay in business or not. ⁱ

The owner's opportunity cost of capital warrants further elaboration as this is a concept that many find difficult to either understand or accept when it is applied to government owned businesses. Essentially as an owner will retain equity in a business where that equity could not generate more cash in present value terms if employed elsewhere. It is important to remember that the amount of the owner's previous investment in the firm is irrelevant to the decision of whether to retain or withdraw equity. This is because the initial investment is sunk with the actual value of the firm being determined by its future cash flows. ⁱⁱ

Schemes such as ours were not established to earn a commercial rate of return, and so the perceived subsidy in the State not demanding a direct return on its investment is not a supportable argument. So called past subsidies to operations have gone to inefficient Government Departments who used to own and run the scheme. This has been clearly demonstrated since decision making in Murrumbidgee Irrigation was localised.

Had the system been run as efficiently in the past as it is now, there would have been sufficient funds to refurbish the system.

Irrigators have accepted the challenge to fund all future infrastructure refurbishment costs after an initial repair period, including in the high cost areas.

*Return on investment is the owners prerogative. The previous owner recognised sunk costs as not requiring any extra direct return because of historical settlement reasons but also in recognition of the direct and indirect returns that flowed to the broader community as a result of the production and wealth created. **The present owners will make their own judgements on returns.***

DEPRECIATION

The belief that water is grossly underpriced is now accorded the status of received truth. ⁱⁱⁱ

Failure to recognise that there is more to the idea of cost recovery than meets the eye is extremely common in the contemporary debate over microeconomic reform and public utility pricing. ^{iv}

In effect, the 'environment' has become a stalking horse to rationalise recovering more of the costs involved with the irrigation system by increased water prices. ^v

There are many positive social and environmental benefits from irrigation which in most cases would more than outweigh any environmental costs.

The value of capital used in irrigation cannot be determined independently of the price of water. There is a serious problem of circular reasoning if water is to be priced on the basis of the value of capital tied up in irrigation facilities. ^{vi}

Prospects for greater competition in the water industry have not been changed by technological change in the same way as telecommunications, where new products and processes have greatly changed the possibilities of competition between firms. ^{vii}

This is why the all-purpose approach of the Hilmer report fails to provide specific guidance on how economic policy should be developed for water pricing. As referred to earlier, Kolsen (1995) has referred to this feature of the Hilmer report graphically as 'one shoe fits all'. ^{viii}

The Hilmer reforms will bring about substantial changes in the way many services are organised and delivered to the public. It is reasonable that the underlying reasons for its recommendations are subjected to scrutiny. ^{ix}

The Hilmer report is extremely concerned with the question of competitive neutrality, which narrowly interpreted means that government businesses should pay tax to create equivalence with the situation faced by private firms. It could be argued that the emphasis on the concept of competitive neutrality is misplaced. With respect to those functions of public utilities which need to be performed within the public sector, because the private sector would not supply these services if left to its own devices, the choice for the public is between not paying tax or paying more for the service, with the additional payment to government in the price of the service offsetting other taxes. ^x

The advocates of cost recovery often seem to forget that water authorities should also have an interest in maintaining irrigation farms. How else, could they 'recover costs'? ^{xi}

Transparency Issues

- The issue of contributed assets has not received the level of informed thought that it should. It covers:-
 - new service assets provided by customers or developers individually;
 - replacement assets funded from government dowries in recognition of past neglect;
 - replacement of new assets funded from customer contributed annuities.
- In each case the rational economic process has been supplanted by a decision by someone other than the entity providing the funds.

- *Accounting standards offer little help in consideration of this issue. Wise people who know the business need to meet to draw it out. We refer also to page 9 of the August 1997 report for Draft Guidelines on Determining Full Cost Recovery dealing with contributed assets. We agree with the three dot points made.*

Accounting for Transmission Losses

We are perplexed as to how this was included in the report as it seems outside the Commission's terms of reference. It would be difficult to find significant numbers of irrigators in any of the major systems who would advocate either pricing or water quantification discounts based on the demographic location of particular licences.

There are clearly existing social structures built around various attributes of water and a generally socialistic appreciation of maintaining everyone's rights as relatively equal.

The Commission draws the issue of inefficient impacts on trading systems into this debate. Our submission deals with that under water trading. Suffice to say, we do not agree with attempts to reflect relative transaction losses in pricing with the possible exception that if water trading causes a water resource loss then it impacts on others' rights. In this case it may be appropriate for the trader to pay.

Investment Appraisal – new infrastructure

The comments of the Nature Conservation Council are noted. While they believe they are the social conscience of the community, environmental groups should be careful to use this responsibility wisely by ensuring their submissions and public comments are based on correct information. They should also divulge the level of government subsidy they receive as a foreword in their submissions. The level of misinformation coming from some groups detracts from constructive debate and, given their political significance, can lead to poor decision making.

In appraising new water infrastructure investments, the government's ability to generate substantial taxes, levies and duties should not be overlooked. The argument that government contributing to building a thong factory would give the same return overlooks the continuing level of returns from productive use of the resource collection and distribution system.

GOVERNMENTS & IRRIGATORS ROLES IN PROVIDING THE INFRASTRUCTURE

Irrigation will become increasingly more important in the future as the only solution to growing the food needs of the world, and will positively contribute to export earnings for Australia.

If we are to genuinely foster development of regional and rural Australia, future government investment in irrigated agriculture, production support and transport infrastructure must be undertaken.

Governments must factor in to its return on investment, all of the indirect returns they benefit from. These returns are not recognised by COAG and this clearly serves to shift Government focus away from regional Australia.

In many cases Government can economically justify infrastructure investment on that basis where private investors cannot. Governments must rethink their attitude and continue to invest in infrastructure for irrigation, and regional development.

NEW INFRASTRUCTURE AND NEW TECHNOLOGY PROVIDES RETURNS TO GOVERNMENT

Future Government investment, both State and Commonwealth, must acknowledge direct and indirect returns to Government as part of the return on investment. Some of the areas of increased returns are;

- Increases in Payroll Tax as a result of the additional employment in the scheme area and increases in Stamp Duties from the increased land values resulting from the investment in security for the area,
- Increased production created from water savings used to extend into further production. Some areas where water savings are most likely to be made with proper investment are from evaporation savings in channels and storages and in minimising unused flood or overflow discharge.
- Increased quality of agricultural product which will flow from farmer profitability,
- Employment increases as a result of the building and later operation of the new infrastructure,

If the taxation system is biased to and drives us to avoid technology updates, as presently suggested, the community, the irrigator and the Government will all lose opportunity to grow the nation and its prosperity.

Water Trading

This issue needs to be put in its proper context. We believe COAG, in addressing water transfers, was predominantly addressing the need for permanent transfer markets. In earlier comment, we have suggested that without a clear definition of rights, transfer schemes lack integrity. By way of example, a water user who “bought” 100 megalitres 5 years ago now has a markedly different asset. They have had no control over the change in currency and description of that asset. It has all been as a result of administrative policy change at a National and State level.

In respect of temporary transfers, it is even more galling to our irrigators to see that people are permitted to transfer water on an equal basis for which they have no right to take and for which they have no responsibility to account or make up for, when extraction limits are breached. We will be presenting to the Canberra hearing an outline of a deliberately unfair regime for transfers in place in Murrumbidgee as a result of inept implementation of misunderstood COAG policy and we will address the Commission’s question of the compensation issue in that presentation.

Let it be clearly understood that despite the protestations of the regulators, influencers and the myriad of consultants who are making a living out of misrepresentation of the benefits of temporary transfers, we can demonstrate, and we suspect ABARE has finally been convinced, that temporary transfers have taken from some to give to others contrary to the structural reform process and without compensation. They have made one group pay for a resource they previously has access to and provided a windfall profit to another group who are not using water to produce crops.

Whilst that may be a useful tool in a market where rights are understood and fairness and equity are holistically applied, in Murrumbidgee and NSW, it has created unfairness, inequity and unnecessary community anguish.

Timetable

We believe that before decisions are made it would be prudent for the decision makers to have a better understanding of the impacts and if the Commission can have any influence on that, it would be a big step forward.

While we commend Recommendation 3, it does not go far enough. Politicians and bureaucrats have to date ignored even their own policies in this area. The "*Review should be based on genuine public input*" but like the promise of "public consultation", the public input is rarely given any credence. This business spends an inordinate amount of time preparing submissions and appearing before politicians and bureaucrats on behalf of our 3000 customers. For the most part our representations have been ignored.

The most recent example has been the NSW Government's water reform program which at the same time as it called for submissions to a discussion paper, introduced changes to several of the very matters the public was asked to comment on.

Your recommendation needs strengthening.

Economic and Social Impacts

IRRIGATION WATER

With reference to Recommendation 5.2 why should "*CoAG give consideration to the formal extension of the rural water reform timetable for implementation of water property rights and water allocation requirements*" when it and its jurisdictions are hell bent on introducing every other CoAG recommendation that has an adverse impact on rural water users, while deferring the only one which is advantageous.

It is also particularly disappointing given the comments of the previous paragraph on page 137. "*It is apparent that CoAG did not allow adequate time to collect/collate/model.....and undertake the consultation necessary....*"

What is more they show no indication that they have any commitment to in future.

What successful commercial organisation sets a major policy and the makes no attempt to check or review its impacts with those affected? In a competitive world, and this is what this inquiry is all about, such an organisation would no longer be in business. What we require is a level playing field, not one set of standards for bureaucrats and another for business. You acknowledge as much on page 70 "*Australian organisations irrespective of their size, location or ownership, must become more efficient, more innovative and more flexible.*" And, we would add, "starting with government".

Giving COAG the ability to extend the implementation timetable is pointless unless the time is spent checking and correcting the assumptions and decisions originally made.

WATER REFORMS – IMPACTS AND EQUITY: AREAS OF CONCERN

Context

It is noteworthy that the Commission made no comment in relation to the negative impacts of water transfers for some communities. Nor did it comment on the aspect of compensation for the reduction in farm viability and value that will result from activation of sleeper licences when determining property rights and environmental allocations.

M.I.A. large area irrigators, our members, face a continuing battle to compete in irrigated agricultural production. The background to their position is that they;

- have smaller farms than those they compete with,
- have paid a relatively high price for their land, which included the value of a then secure water allocation,
- have a higher delivery price than their competitors because of the inherent inefficiencies of the system, and
- face unfair and uncompetitive tax treatment of our company, and the resulting price they must pay for water. This is in areas of Commonwealth income tax, State land tax and Local Council rates.

By comparison, large river property owners and landholders in the Lower Murrumbidgee and Murray Districts;

- have plentiful, relatively cheap land,
- have not had to pay the capital value of water in their land price, and
- are in the position that, even if they produce less per megalitre they can outbid our customers for water on the temporary transfer market, because of their scale of operation.

This is not consistent with increasing the return to the community from water. It is putting in place artificial systems that deliberately or unwittingly favour one group of irrigators at the expense and to the detriment of another group.

Data quality to support decision making

The NSW Government claims to be leading the nation in water reform, and has some level of respect for the COAG and Murray-Darling agreements.

There is clear evidence that in many respects COAG has got it wrong.

In a letter in April this year to members of NSW Irrigators' Council, the new Minister says that socio economic assessments and studies were undertaken, prior to entering into this process.

In fact the economic study carried out by the DLWC Economics Unit in 1996 for the EPA in the rush to justify EPA moving into river operation and introducing environmental flows, claimed outrageous demographic and economic facts about our community. Those "facts" have since been taken up by others to support their social and economic assessments.

The DLWC report was recently referred to by a Department spokesperson to be "out of date and in any case only an internal document prepared in a great hurry in 1996 to satisfy an EPA deadline."

If that was the case then how is it that it is still quoted as foundation for Government socio economic assessments, and how is it that private consultants who operate in this area, use it as reference for their work?

Additional High Security impact

We have only in the last few weeks been able to obtain DLWC evidence that there is significant additional impact on general security allocations because of an inconsistency between what NSW included in the Murrumbidgee cap for high security allocations, and what they continue to announce as available for use and transfer.

This impact has not been considered by the River Management Committee, because it has not had access to the information. (see Tables 1 & 2).

We understand that the Melbourne University study on Hydrology in the Lachlan Valley reinforces our views on the less than acceptable quality of data available for decision making.

High security inclusions in the Murrumbidgee cap were based on historic average access to 1993/94, and were set at 160,000 megalitres. The total issued allocation is something in excess of 310,000 megalitres. Conversions of allocations since 1993/94, have increased the 160,000 to approximately 190,000 megalitres.

There is a critical difference between the two security classes of allocation in the Murrumbidgee valley, in respect of their potential under the 1983 allocation scheme.

Under the scheme, ***high security sleeper and dozer allocations*** would never have been all activated on farm even in a 1 in 100 year drought. The unused portion was historically left in the dam and became river environmental flows or was reallocated to general security allocation as additional available resource.

Because it was not all used in any year, there was no impact from guaranteeing 100% high security availability, nor was the guarantee a large drain on resources. The introduction of temporary transfers and the extension of the 100% prior right to use on farm, to include the right to temporarily transfer resulted;

In a year when resource is not a limiting factor, the transfer activation may well break the cap. In fact if general security actually uses its cap allowed allocation then the cap will be broken by the amount of high security temporary transfers. As a result any cap payback will be taken, not from those that caused the breach but from general security allocations.

In a year of resource constraint, the transfer activation by high security will result in a corresponding decrease in resource availability for general security.

If these impacts cannot be totally eliminated, then a rolling cap must be implemented, as it will still meet cap and environmental flow requirements.

Under the scheme, we accept that ***general security sleeper and dozer allocations*** would eventually have been developed to use on farm and as a result all general security allocation holders would have had a general reduction in availability.

DLWC to date continued to announce 100% access rights for high security on-farm use and for temporary transfer. Because high security allocation holders have unrestrained access and now activate by temporary transfer, up to an extra 100,000 megalitres over an above what NSW included in the cap, general security allocations are reduced further.

The impact of these transfers is not a strict lineal one and has some perverse elements that need to be understood. Two of those impacts are;

- some reduction in frequency or size of dam spills, which could impact on available off allocation supplies and environmental flows,
- some reduction in end of system flows due to general security having more years of allocation under 80%,

The position with the cap now seems to be;

- the DLWC is reluctant to admit that its current access announcements are glaringly at odds with what it included in the cap.
- even if they do, it seems the NSW Government is reluctant to go back to the Council and seek to have the cap figure increased,
- even if they do, it is most unlikely that the Council would agree, based on their past behaviour and actions,
- releases for environmental flows are much larger than they would have been if the cap had included all of the high security allocation.

It is interesting to note that in South Australia, high security allocation is permitted to activate up to approximately 90% of allocation under the inclusions in their cap. It is equally interesting that the ACT has only recently agreed to enter into the cap. One would hope that their inclusion does not precipitate a further bout of taking from NSW general security allocations.

The Murrumbidgee River Management Committee was placed in an untenable position last year. The members of the committee agreed that a 40% threshold should be included until impacts were better understood and it was reasonably expected that information would have improved on the impacts. If they had not also agreed to remove the threshold in year two, the whole package would have lacked consensus.

In that situation the only alternative was the blanket imposition of the indicative rules, which would have had devastating impacts on the community.

There was little choice but to proceed on the expectation that reason would be applied as the true extent of impact emerged. Much of that better understanding in the way of social and economic impact is in it's infant stages of study let alone understanding.

It is therefore incumbent on the State and the Minister to ensure that access arrangements for high security are reflective of what DLWC included in the cap, including protecting the right to use allocation on farm.

Unplanned reliability impact

The translucent dams policy that seems so attractive to others is having an unplanned additional impact on general security allocation holders, over and above that publicly spoken of.

The policy, rather than assisting with moving water away from use on low value crops or practices, attacks the underlying reliable component of the general security allocation and also primarily impacts on the early availability announcement (see Tables 1 & 2).

Our claim that there is a loss of secure water in the valley is supported by the recent DLWC decision to dramatically reduce the factor for conversion of general security allocation to high security, from 80% to 50%, and to suggest that there probably should not be any more high security allocated in the valley.

What this means is that contrary to the plan, it is the high value or secure market crops that are being put at risk not the low value crops.

The 40% protective threshold

The 40% protective threshold that was applied last year has provided indisputable evidence of the potential impact of the translucent dams policy, and has proven the potential for impacts to be greatly in excess of publicly announced impacts.

Difference in total allocation available.

Last year the threshold made a 7% difference to the general security allocations. It was a relatively dry year and could have been much more significant. As the season turned out we finished up with an 85% allocation and it seems that the extra 7% has not been needed generally. This statement is dealing with the average, and there are no doubt many who were left short for the cropping and watering programs, even at 85%.

Difference in timing of availability announcements

Critically it was there at the early stages of the season, and was able to be announced as available prior to the last date for decisions on planting high return crops, early October.

Unfortunately there was not enough there at the time decisions had to be made on whether or not to water out winter cereals, because at that time irrigators were not sure if there would be enough to water out their cereals and for their rice crop.

Year to year impacts

In hindsight of last year, as outlined earlier, there was eventually 85% allocation availability, so probably the extra 7% has not been used, but if it had been let go under the translucent dam policy at the early stages of last year, it would not be there in the dam now.

The flow on effect is that it is still in the dam and could be of very high productive and environmental value for next year.

Value of the water

There are a number of values that can be assigned to water lost or saved from production. The comments above, provide evidence that the water reserved for irrigation reliability as a result of the 40% threshold to the translucent dams policy, places the valuation at the higher end of the valuation range in terms of providing appropriate timing opportunities for high value watering decisions. It also demonstrates that it is the high value crops or critical markets that are most impacted by the lowering of the reliable component of available allocations.

The 7% positive impact in a not uncommon year last year resulted in potential irrigation access to an additional 140,000 megalitres.

We leave to be judged independently the direct economic impact on our communities, but suggest that a figure of \$100 per megalitre is not unreasonable.

Managing the environmental releases for maximum benefit

There is little evidence that the released flows contribute to any significant extent to environmental health, and even less evidence that they are being 'best practice' managed to achieve outcomes. It seems to us and it is the perception of the general community that it is just letting water go for water's sake and to leave less for irrigators.

Can we say that the Commission's quote from Samaram Ayaka on page 139 of the draft Report is careless chatter within the arena in which we are dealing. Why is it thought useful to compare the profitability of allocation with its associated level of capital investment to dryland cropping enterprises ? Does the Commission as well as the author of that study have a commitment to converting irrigation farmers to dryland peasants ?

SERVICE COST AND QUALITY

A recent determination advised that Bulk Water charges were now at full cost recovery despite its damning criticism of the river operators and their lack of reform and efficiencies.

ENVIRONMENTAL OUTCOMES

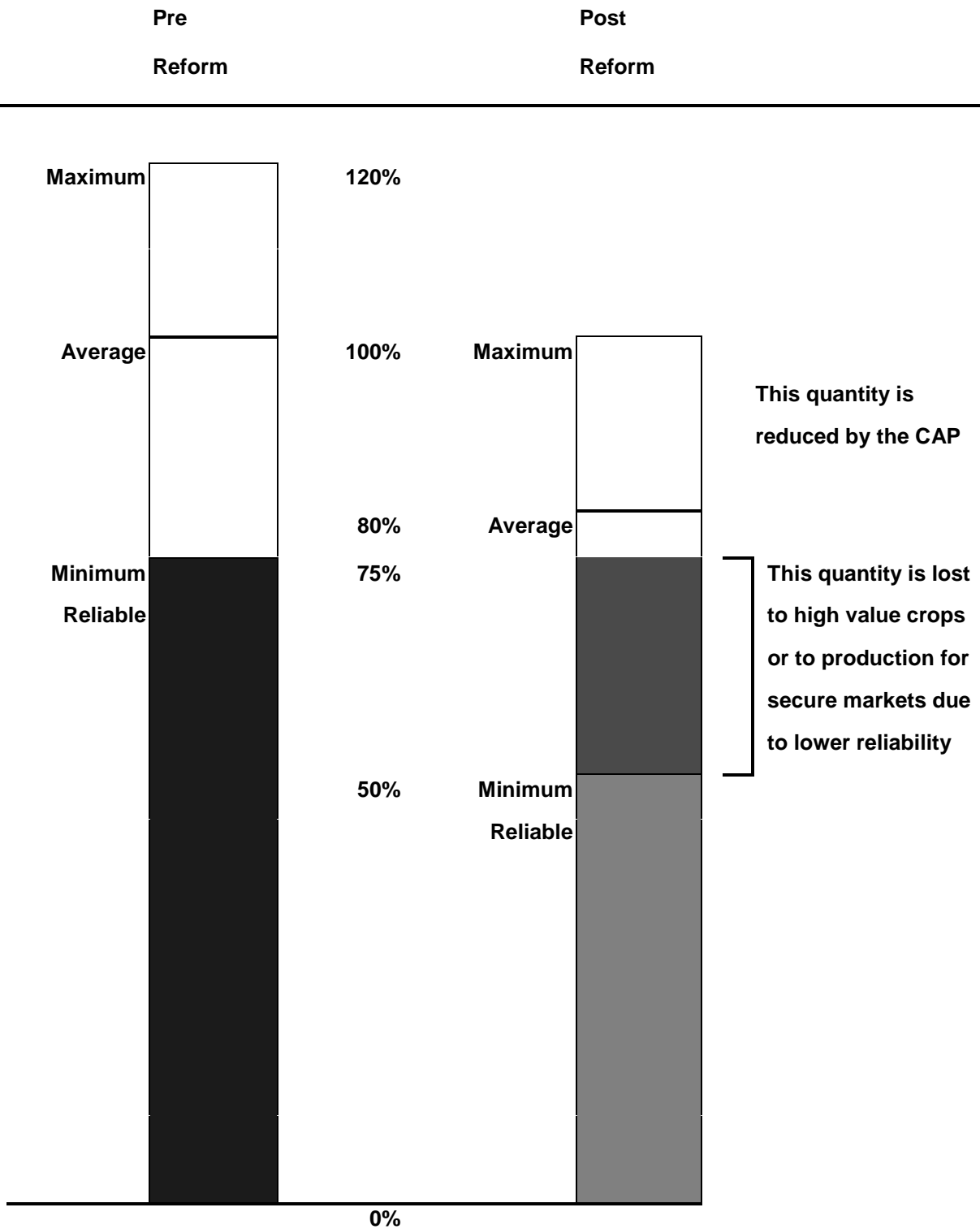
You might note our earlier comment on the process used for the introduction of and modelling the impact of environmental flows. We will also be discussing this issue in our presentation. We recognise the need for environmental flows. We will not tolerate misleading or incompetent presentation of background data or misleading portrayal of economic and social impact of irrational decision making.

The reference on page 65 to environmental protection is a case in point. Quoting Scoccimarro *et.al.* 1997, the report says that a 25% environmental flow for the Snowy would reduce water available for irrigators by almost 12% and this would cost around \$6.6 Million a year. 12% in an average year can be 25% in a low resource year, sufficient to turn a profit into a loss for many irrigators, cause cancellation of long term contracts for our exporters and cause significant job losses in our processing industries. Even the cost of \$6.6 Million was simplistic, based on a lineal gross margin analysis with many incorrect assumptions and no consideration for the flow on effects to our local secondary industry. That paragraph also ignores the NSW Government's theft of a so-called but grossly understated average 4.3% of irrigator's allocation from the other Murrumbidgee Dam – Burrinjuck – which is dealt with more fully in Water Reforms above. The cumulative impact of the two should be referred to in your report as it is closer to reality.

It seems clear to us that the COAG water reform principles need urgent review. This must include users and scheme operators at the highest level. It must reflect the competitive influence of schemes now being in private hands. It must aim to promote the efficient use of existing irrigation investment and at the same time, enhance the prospects of irrigated agriculture development through research, development, and a market focus.

There needs to be a revisitation of the COAG vision for rural irrigation communities. Surely COAG, as a collective of responsible elected Ministers were able to paint their future picture for irrigation. Where has it gone? The technocrats have lost sight of the vision and are obsessed with demonstrating their ability to interfere in people's rights regardless of the outcomes. They even go to lengths to deceive the politicians in the name of COAG. Surely COAG was not really a Conspiracy Of Anti-irrigation Governments?

Table 1. Impact of the MDBC Cap



Almost same quantity of lower Reliability water will Be used on lower value crops

Environmental flows and transfer impacts take the resource from the dams and reduce the level of reliable allocation available

Table 2. Murrumbidgee Valley MDBC Cap Impact potential

Impact Area	General Security		High Security		Scheme Losses
1983 Allocation	2,100		300		MIA & CIA
1993 DLWC Cap	1,673	80%	160	53%	353
Less: 4.3% average impact Environmental Flows	73				
Less: Potential for Impact of High Security transfers	100-		100+		
Less: Snowy Impact ??	1500 80-	71%			
Less: Growth in town and other high Security use	20-		20+		
	1,400	67%	280	93%	

Note that all impacts can be more in percentage terms in lower availability years.

Note: All figures are approximate.

ACKNOWLEDGEMENTS

-
- ⁱ Maltabarow, George, Executive Director Commercial Strategy, NSW Treasury
“Asset Valuation for Pricing Purposes within the Context of Monopoly Price Regulation”, 24 June 1998
- ⁱⁱ Maltabarow, George, Executive Director Commercial Strategy, NSW Treasury
“Asset Valuation for Pricing Purposes within the Context of Monopoly Price Regulation”, 24 June 1998
- ⁱⁱⁱ Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{iv} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^v Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{vi} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{vii} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{viii} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{ix} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^x Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995
- ^{xi} Watson, A.S., Freelance Economist, Dairy Research & Development Corporation Final Report
“Conceptual issues in the pricing of water for irrigation”, December 1995