



Murray Irrigation

**To:
The Senate
Standing
Committee on
Environment and
Communications**

Inquiry into the Water Amendment
(Water for the Environment Special
Account) Bill 2012.

November 2012

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Executive summary

Murray Irrigation welcomes the reference of the Water Amendment (Water for the Environment Special Account) Bill 2012 (the Bill) to the Senate Standing Committee on Environment and Communications.

Murray Irrigation does not support further water recovery over and above the targets contained in the proposed Murray-Darling Basin Plan. We believe the Murray-Darling Basin Plan is a political response to an extreme, but natural, drought and the announcement of new targets before the Basin Plan is even finalised appears to reinforce this view. We are of the view that 2,750GL of water transfer to non-productive environmental accounts already places a significant burden on regional communities.

There has been no credible cost benefit analysis of the Basin Plan or of the Bill currently before the Committee. Further, in the absence of a water delivery strategy or an environmental watering plan, the risk to communities, public infrastructure, public safety and private property from increased water recovery and potential increased volumes of environmental flows is enormous.

Of foremost concern is the fact that the Government is targeting further water recovery, requiring further funding, before it has reached the Basin Plan target and monitored the outcomes to see if increased volumes of water are achieving the desired impact.

Murray Irrigation believes that the proposal to recover more water perpetuates the simplistic 'just add water' approach embedded in the Basin Plan. Achieving improved environmental outcomes is dependent on a range of actions. The Basin Plan offers a simplistic approach to what is a complex issue where environmental issues in the Murray-Darling Basin are not all related to volume or flow.

For example, more water flowed into South Australia in 2011 than proposed under any Basin Plan scenario, yet there are still salinity issues at Lake Albert that have not been reversed¹. This shows that the issues for Lake Albert are not related to flows from upstream, but relate to how the waters of the Lower Lakes flow within and through this system. Another example is the fact that numbers of the invasive fish species, European Carp, increase substantially with increased flows which in turn threatens native fish species².

Management of Murray-Darling Basin's resources must look at broader natural resource management issues to ensure substantial environmental improvements are achieved, not just increased flows and managed floods which appear to be goals of both the Plan and the Bill currently before the Committee.

This Bill proposes acquiring more water entitlements and addressing constraints; however, Murray Irrigation does not believe there has been a thorough investigation into the constraints within the system and the impacts on communities throughout the Basin from their 'removal'. Operational constraints have been developed over time, in consultation with communities, to protect public infrastructure, public safety and private property both on- and off-farm. Removal of constraints is a much more complex issue than merely raising some bridges and increasing dam outlets as identified by Prime Minister Julia Gillard at a press conference in Goolwa on 26 October 2012 when announcing the funding and special account enabled by this Bill.

Furthermore, the negative social and economic impacts of water entitlement recovery increase as more water is taken out of productive use. This is true even where water recovery is through efficiency projects. While efficiency measures are the preferred mechanism for the Commonwealth to acquire water, options to improve the management, delivery and efficiency of environmental flows must also be prioritised.

¹ "Dredge the narrows, lay the pipes, the water is coming", *Stock Journal*, 29 March 2012.

² "Explosion of feral carp after flooding", *The Sydney Morning Herald*, 7 October 2012.

1 Introduction

Murray Irrigation thanks the Committee for the opportunity to provide its comments. If the Committee would like further information about any of the matters raised, please contact Murray Irrigation's Executive Assistant, Alison Bult on T: 03 5898 3332 or email: Alison.Bult@murrayirrigation.com.au.

1.1 Background

Murray Irrigation Limited is an unlisted public company that provides irrigation water and associated services to almost 2,400 landholdings over an area of 748,000 ha in the NSW southern Riverina. Murray Irrigation's source of water is the regulated River Murray and the company's water supply is almost exclusively NSW Murray General Security Water.

Murray Irrigation's shareholder customers are farmers with food and livestock being the focus of regional production for both domestic and international markets. With a regional population of over 30,000, irrigated agriculture is the foundation of the social and economic wellbeing of our communities, towns and businesses.

Murray Irrigation has a strong link with the communities within its area of operation and endeavours to support them, including providing annual school grants to the 24 primary schools and three high schools in the region and supporting a learn-to-swim program each year. Any impact on Murray Irrigation's revenue base will impact on our ability to participate in and support our community.

Murray Irrigation is a member of both the National Irrigators' Council and New South Wales Irrigators' Council

1.2 Introduction

Murray Irrigation welcomes the reference of the Water Amendment (Long Term Average Sustainable Diversion Limit Adjustment) Bill 2012 (the Bill) to the Senate Standing Committee on Environment and Communications.

We thank the Committee for calling for submissions, providing stakeholders an opportunity to outline concerns with the Bill as it is currently drafted.

Murray Irrigation does not support further water recovery over and above the targets contained in the proposed Murray-Darling Basin Plan. The impact of water recovery on a system such as ours is significant even when water is recovered through efficiency measures, unless we are able to concurrently reconfigure our water delivery system.

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2.1 Just Add Water

Murray Irrigation is concerned that the Government is promising increased water recovery even before the Basin Plan has been finalised, implemented, monitored, evaluated and reported.

Murray Irrigation in 2004 first highlighted the fact that many of the environmental issues confronting the river system cannot be fixed by increased flows alone when ecologist Dr Lee Benson reviewed the scientific documents underpinning *The Living Murray* program³. He found there was a concentration on volume at the expense of other significant management actions.

At the time the House of Representatives Standing Committee on Agriculture Fisheries and Forestry report on future water supplies for agricultural industries concluded that; “*there is too much focus on specific volumes of water*”. It reported that focus on a specific amount had confused the issue “*which should be about what combination of measures will result in river health and sustainable rivers.*”⁴

The committee points out; “*the actual volume of flow in a river is an essential component of river management, but is not sufficient in itself to ensure the health of a river.*”⁵

Unfortunately, the proposed Murray-Darling Basin Plan and the Bill currently before the Committee perpetuate the ‘just add water’ approach.

Murray Irrigation supports a Basin Plan that endeavours to achieve quantified environmental outcomes rather than a specific volume. We support an adjustment mechanism in the Basin Plan that allows environmental works and measures to be constructed to enable effective delivery of environmental flows to where it is needed without risking public infrastructure, public safety and private property.

We believe the Special Account that this Bill will establish should be used specifically to achieve environmental outcomes and thereby should allow funds to be used for approved supply measures⁶ projects and not limited to projects that return entitlement to the Commonwealth.

2.2 Impacts of water recovery

Water recovery for the environment as held water entitlements impacts on communities and, more specifically, Irrigation Infrastructure Operators (IIOs), like Murray Irrigation, and their customers because it reduces the available water in the consumptive pool and therefore the volume of water that can be delivered. This is true even where the recovery is through on-farm irrigation efficiency projects which we acknowledge provides significant benefits to farmers.

The majority of irrigators in the southern connected Murray-Darling system receive their water through some form of group scheme, either a State owned entity, Private Corporation or smaller group trust.

Like many IIOs, Murray Irrigation earns revenue from a combination of fixed and variable fees from its irrigation services. The primary source of fixed fee revenue is and will likely remain via delivery entitlement⁷ (DE) charges.

Customers who sell or transfer Water Entitlements (WE) to the Commonwealth can retain DEs or terminate access to the system by paying a termination fee in accordance with the Water Charge (Termination Fees) Rules. The termination fee was implemented to recognise lost fixed fee revenue to the IIO. However, it only

³ “*The science behind The Living Murray initiative*”, Ecology Management Pty Ltd, October 2003.

⁴ *Getting Water Right(s): The future of rural Australia*, House of Representatives Standing Committee on Agriculture, Fisheries and Forestry, June 2004, p.10

⁵ This definition, used in *Getting Water Right(s)*, is taken from the CRC for Freshwater Ecology report prepared for the MDBC “*Independent Report of the Expert Reference Panel on Environmental Flows and Water Quality Requirements for the Murray River System*”, February 2002, p.4

⁶ As per the definition of supply measure in the Proposed Basin Plan, MDBA, August 2012, Chapter 6, Part 3, 6.09

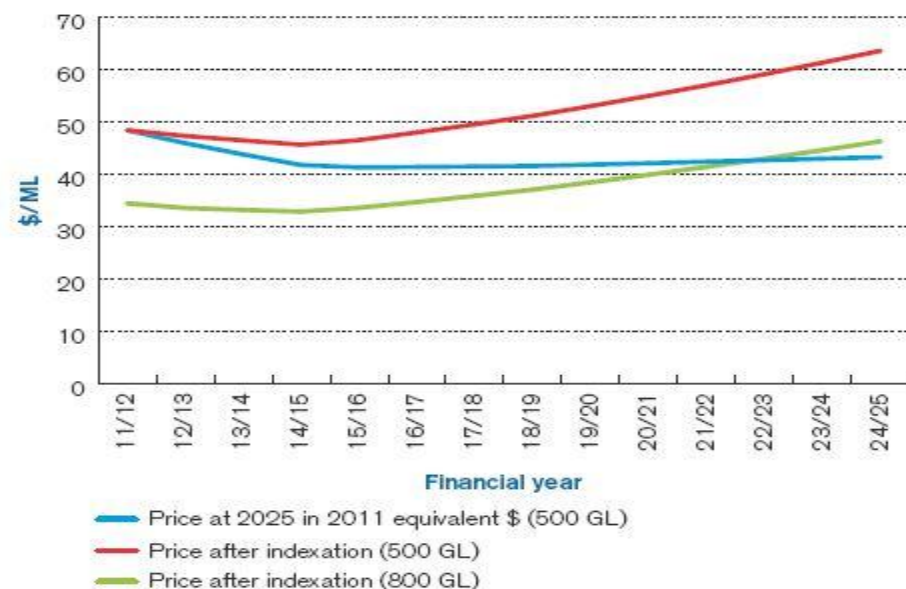
⁷ Note: A DE is a right to extract water but is separate to the actual WE which is linked to allocation water.

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goes part way to achieving this as it is a one-off payment. Without a future reduction in fixed costs, termination of DEs will ultimately result in increased fixed fees to other customers.

The potential future impact of changes to the volume of water delivered was identified in our Network Consultation Paper⁸ (NCP) (December 2011). The following graph (taken from the NCP) highlights the variance in price after indexation of delivery of 500GL per annum compared to 800GL per annum.

Price \$/ML to 2025 in 2011 equivalent and indexed
Strategic Plan achieved



Note: Murray Irrigation's 2014 Strategic Plan, the basis of these forecasts, includes a variety of assumptions about significant reconfigurations and rationalisations to reduce the company's total asset base.

Since privatisation in 1995, over 20 percent of Murray Irrigation's original general security licence volume has been recovered for environmental purposes, however retirement of infrastructure has been minimal. The Commonwealth Government's Private Irrigation Infrastructure Operators Program project recently approved will go some way to reducing our total asset base to ameliorate some of the cost pressures, but as further water is transferred from our system to the environment, further review of our footprint will be required. The difficulty for IIOs is that it is impossible to know where water recovery will occur within our own region.

Murray Irrigation's experience with customer participation in Government tenders to date is that successful tenderers are located throughout our area of operations and the percentage of entitlements sold varies widely (ten to 100 percent). While some have terminated their DEs, others retain them and continue to irrigate relying on access to water on the annual water market. This situation and the "Swiss cheese effect" of indiscriminate buyback makes business planning for IIOs very difficult. Further purchase will exacerbate the issue.

The Government's announcement of "strategic" buyback for another round of tenders in February 2012 offered IIOs the chance to determine which entitlements holders could participate in the tender. Murray Irrigation considered this program and determined that it was not their role, as a service delivery provider, to effectively veto a water entitlements holders' right to participate in the water market. We believed to do so would contravene the intent of Commonwealth competition law.

⁸ http://www.murrayirrigation.com.au/media/7188/MI_NCP_WEB.pdf

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Murray Irrigation supports the intent of the On Farm Irrigation Efficiency Program and concurs that it provides a mechanism to recover water for the environment while maintaining regional productivity.

However it needs to be recognised that the transfer of water entitlements from an IIO's area of operations will impact customer fees unless there is an ongoing ability for IIOs to retire and reconfigure their systems as the full impact of water recovery within their system becomes apparent.

2.3 Social and Economic considerations

The Bill presented to the Committee for review identifies social and economic impacts but allows for payments to be made to address negative impacts that stem from a project or purchase undertaken using funds from the Special Account. Communities have long stated they prefer productivity over support packages⁹.

According to the Marsden Jacob Associates report to the MDBA, around 90 percent of businesses in Murray Irrigation's area of operations are directly reliant on irrigated agriculture¹⁰. Any reduction of business from irrigated agriculture in our area will impact their ability to support the community.

Murray Irrigation alone employs over 100 staff throughout our area of operations, most of whom participate in community clubs and organisations and have children in local schools including small regional schools. A significant loss of revenue, as described above, would trigger a corporate restructure that would no doubt result in job losses – loss of community club membership and loss of school enrolments. If this is replicated in the other 90 percent of affected businesses, community clubs will struggle to maintain membership, school enrolments will decline impacting teacher numbers and even small school viability. This then spreads further through the community with essential services (such as Health) based on population numbers.

2.4 Constraints

Murray Irrigation supports the development of a comprehensive constraints management strategy as recommended in the proposed Murray-Darling Basin Plan¹¹. We believe it is vitally important that such a strategy carefully looks at the impacts of modification of constraints on environmental water delivery and third parties, including downstream impacts, before decisions can be made as to the viability of relaxing them.

Our location, bordering Australia's two largest redgum forests and incorporating the Edward-Wakool Rivers system within our area of operations, means that we, and our shareholders, would be directly impacted by changing the operational constraints in the River Murray System to deliver increased flows.

There is no such thing as a rule change that has "no cost"¹².

It took years and millions of dollars to negotiate access to easements in the Hume to Yarrawonga stretch of the River Murray for current operational flows of 25,000ML/day and there are still unresolved issues. The relaxed constraint modelling now proposes 40,000ML/day for this section of the river. This will effectively require these easements to be renegotiated as well as introducing kilometres of riparian frontage that will need the whole process to be repeated along the length of the Murray where plans to increase flow rates beyond current capacity are implemented. The modelling released by the Murray-Darling Basin Authority in October 2102¹³ shows that constraints would need to be addressed throughout the system to achieve the

⁹ "Support no substitute for production", Press Release, Murray Group of Concerned Communities, 4 October 2012

¹⁰ NSW Central Murray Community Profile: Irrigation Region, Delivering the Basin Plan, Marsden Jacob Associates, EBC Consultants, RMCG, DBM and advisors, May 2010, p.6.

¹¹ Proposed Murray-Darling Basin Plan, MDBA, August 2012, Chapter 6, Part 2, 6.07

¹² "Stakeholders condemn new MDB model", The Land, 11 October 2012.

<http://theland.farmonline.com.au/news/nationalrural/agribusiness-and-general/general/stakeholders-condemn-new-mdb-model/2628249.aspx?storypage=0>

¹³ Hydrologic modelling of the relaxation of operational constraints in the southern connected system, MDBA, October 2012.

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outcomes described. There is no point negotiating increased flows from Hume to Yarrawonga if you have failed to negotiate easements downstream.

The MDBA modelling showed there can be increased environmental outcomes achieved through increased flows, but the same can be said about being smarter in how we use and deliver water as identified by the proprietor of Chowilla Station, James Robertson, who says more efficient use of environmental water could deliver the same environmental benefit¹⁴.

The modelling also highlights how any changes to the management of environmental water can negatively impact on long term water use and the amount of stored water for consumptive use (p12). The modellers have taken steps to minimise that risk by minimising low flow events in preference for high flow events, however, the reality of our variable climate and the characteristics of the water held will all dictate how it is managed and adverse impacts on reliability cannot be guaranteed against.

The issue of constraints is complex and resolving them will take time, money and extensive consultation and negotiation. While the Bill before the committee identifies improving or modifying any infrastructure that constrains the delivery of environmental water, it does not require any investigation of negative impacts or the costs to communities of doing so.

Murray Irrigation believes constraints must be considered but any management actions taken to modify river operating constraints must only be undertaken where there is a neutral or positive benefit to other water users and communities both adjacent to a constraint and downstream. Such a caveat must be included in the Bill to ensure that funds are not spent on bridges or dam outlets before it is known whether the flows can actually be delivered without liability.

2.5 Priority environmental targets

The *Water Act 2007* was established to enable the Commonwealth, in conjunction with the Basin States, to manage the Basin water resources to give effect to relevant international agreements¹⁵ including but not limited to the Ramsar Convention.

The Bill before the Committee appears to give priority to certain environmental targets by unnecessarily identifying them as examples of how environmental assets may be protected or restored¹⁶. Murray Irrigation believes it is inappropriate to identify unique assets for special mention when the intention of the *Water Act 2007* is to protect and restore ecological values and ecosystem services of the entire Murray-Darling Basin. All assets must be treated equally and consideration must be given to how management options that are good for one particular asset may negatively impact on another. For example, relaxing constraints to push large flows through the River Murray system to increase flow through the barrages to the Coorong (86AA(2)(a)) can lead to prolonged flooding in the Barmah-Millewa Forest leading to over-inundation.

Further, specific targets related to water quality, salinity and salt load export are to be included in the Murray-Darling Basin Plan therefore there is no need for these to be mentioned in relation to the Water for the Environment Special Account.

¹⁴ "Doubt aired over new Murray modelling", ABC News, 11 October 2012. <http://www.abc.net.au/news/2012-10-11/doubt-ai-red-over-new-murray-modelling/4307448>

¹⁵ *Water Act 2007, Commonwealth, Part 1, Section 3 parts (a) and (b)*.

¹⁶ *Water Act Amendment (Water for the Environment Special Account) Bill 2012, Schedule 1, 86AA(2)*.

3 Suggested amendments

Murray Irrigation has considered the Bill before the Committee and, while not supportive of further water recovery, believe if the following changes were made it would reduce the potential for the Special Account to inadvertently result in further negative social and economic impacts.

3.1 Section 86AA.

Section 86AA outlines the objectives of the Water for the Environment Special Account.

Section 86AA(1) is consistent with the objects of the *Water Act 2007* and requires achieving enhanced environmental outcomes through protecting and restoring environmental assets and biodiversity so as to give effect to relevant international agreements.

Section 86AA(2) would appear to be entirely unnecessary in the context of the Bill. There is no reason to provide examples of how environmental assets may be protected or restored. As it stands, the list provided in this section would imply priority for those examples listed rather than allow the Environment Special Account funds to be used for the enhancement of environmental outcomes throughout the entire Murray Darling Basin consistent with the *Water Act 2007*.

These examples are not required as part of the *Water Act 2007* itself and should be deleted from this amendment. The proposed Murray-Darling Basin Plan is the right place for specific targets or goals to be listed including Chapter Eight, which outlines salinity targets and salt load export for the Basin and in the safety nets being drafted in conjunction with the Long Term Sustainable Diversion Limit Adjustment Mechanism which is expected to be detailed in schedule 5. Both of which would offer more protection than listing selected examples of protecting environmental assets while ignoring others.

Section 86AA(3) should acknowledge the proposed constraints management strategy (CMS) that is currently mentioned in Chapter Six of the proposed Basin Plan¹⁷. Specifically the Bill this section should ensure that easing or removing constraints is only done in accordance with the CMS which assesses the impacts of modifications on environmental water delivery and third parties as well as downstream impacts and, where negative impacts are identified, no action be taken.

3.2 Section 86AD

Section 86AD sets out the purposes of the Water for the Environment Special Account.

Section 86AD(2)(a) is overly specific and appears to rule out funds being used to achieve the objects of the *Water Act 2007* that do not require entitlement transfer or constraints removal. That is to say, it does not allow funds to be used for public infrastructure that is not associated with constraints or irrigation, such as the Barrages in the Lower Lakes, despite many outcomes in this region being listed as examples under Section 86AA(2). Murray Irrigation is of the view that if it can be shown that upgrading and better managing the barrages can allow the Murray Mouth to be kept open without the need for dredging or increased flows from upstream, then this should be a project considered for funding from the Water for the Environment Special Account.

Murray Irrigation does not support further Commonwealth buyback of water entitlements believing that any transfer of entitlement must be directly related to an efficiency, infrastructure or reconfiguration project. For that reason we believe **Section 86AD(2)(b) should be removed entirely.**

Further, as it is currently drafted section 86(2)(a) of the Bill offers no social and economic protection from projects undertaken using these funds. Rather, **Section 86AD(2)(c)** proposes funds to “address any detrimental social or economic impact on the wellbeing of any community in the Murray-Darling Basin”. The

¹⁷ Proposed Murray-Darling Basin Plan, MDBA, August 2012, Chapter 6, Part 3, Section 6.07

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addition of such a clause could be seen as acknowledgement that the management and projects undertaken by the Water for the Environment Special Account will lead to negative community impacts.

If **section 86AD(2)(a) is redrafted**, it would negate the need for section 86AD(2)(c)(ii). Murray Irrigation would suggest it could be redrafted to read:

Making payments in relation to projects whose aim is to further the object of this act where that project has no negative social or economic impact on the wellbeing of any community in the Murray-Darling Basin. (delete subsections (i) through (vi)).

4.0 Conclusion

Murray Irrigation supports a focus on infrastructure, efficiency and management actions to achieve the objectives of the *Water Act 2007* and the Murray-Darling Basin Plan. We do not believe though that these activities should come at a negative cost to Basin communities.

Murray Irrigation does not agree that the focus of the Basin Plan should be on a volume of water held and/or delivered by the Commonwealth, but rather outcomes that can be achieved. Our view is that it is inappropriate to focus on one set of environmental assets that could be to the detriment of other assets and communities.

Murray Irrigation has long called for a thorough review of system constraints that includes looking at the cost of constraints removal or relaxation against the incremental benefits (cost benefit analysis) achieved by taking such action. We agree that funding will be required to address some constraints, however until a thorough review has been undertaken it is impossible to know how much can be realistically achieved and whether investment in removal or relaxation of constraints can be justified based on an assessment of the benefits and costs.

We thank the Committee for allowing Murray Irrigation to make a submission to this inquiry and hope our input is considered.

Anthony Couroupis
General Manager