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Submission to
The Senate Inquiry Into the
Murray-Darling Basin Amendment Bill 2006

3rd January 2007

Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senators,

Thank you for providing the opportunity to provide comment on the above mentioned Bill.

The annuity concept as outlined in the Bill is nothing new to those associated with the water industry. Coleambally Irrigation Mutual Co-operative Limited (CIMCL) employs a similar approach for future capital replacements within our irrigation district. As a result member-customers pay an amount closer to the true cost of the water and associated service rather than forcing the next generation to borrow to cover the costs of the current generation i.e. delivering on intergenerational equity.

Long life assets with very substantial replacement costs have continuously challenged Governments. The approach as outlined in the Bill should avoid funding shocks and shortfalls for future generations and provide balance between short-term maintenance and capital works.

However I believe all irrigators and indeed the wider community would be reassured if a summary of the engineering and actuarial assessments that provide the basis of the annuity were made publicly assessable. As such the review process which is to be undertaken *at least every five years* would benefit by incorporating a public consultation element to add rigor to the review process.

It would be instructive if the cost implications for the various jurisdictions was made available to stakeholders, as the treatment of River Murray Water (RMW) costs are handled very differently by the States. New South Wales passes the full RMW costs through to irrigators. I understand that other States choose to pass on only some or even none of these costs to irrigators. This is an area I believe the Senate Committee should examine in more detail to ensure no unintended consequences as a result of the passage of this Bill.

Committee members would be aware of the recently released ACCC Advice which responds to the Government's request to develop a *consistent inter-jurisdictional framework* for facilitating permanent water trade across State borders. One of the ACCC's

driving objectives was to deliver a framework which was *competitively neutral in terms of its affect on interstate water trading*¹. This becomes extremely problematic when States have different interpretations of “Full Cost Recovery” and may not pass on RMW costs at all i.e. have an inherent built in State subsidy.

By way of example NSW’s *Independent Pricing and Regulatory Tribunal (IPART)* in handing down their *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation* in September 2006 passed RMW costs associated with Euston, Lock 9, Lake Victoria, Barrages, River (Gauging SA) and Water Quality (SA) through to irrigators in the Murrumbidgee Valley². All of these RMW assets are on the Murray River and provide no service to irrigators in the Murrumbidgee Valley. Effectively Murrumbidgee irrigators subsidise those that use the services of these assets by approximately \$8M over four years.

The argument mounted by RMW for this outcome is that if irrigators were not taking water from the Murrumbidgee then there would be no requirement for these assets. However this is clearly nonsense, particularly with regard to Lock 9, barrages on the lower Murray and the stream gauging and water quality monitoring. In regard to Lake Victoria, it provides a re-regulating function to downstream irrigators and a wider community benefit for which consumptive water users in the Murrumbidgee pay. It becomes very obvious why Queensland has sought and achieved clarification with regard to its liability excluding *works and measures in which it is not directly involved*. In terms of cross-subsidies NSW’s consumptive water users appear an easy touch.

No irrigator should be expected to pay for costs that cannot be shown to be prudent, efficient or required. MDBC/RMW costs must be reviewed and be shown to be fair and justified before they are passed on to irrigators. The concept of fee for service as outlined in the Bill could be strengthened. This together with transparent and open accountability could address these concerns.

As with the ACCC advice mentioned above, I believe the Bill should enshrine ‘competitive neutrality’ between the States and remove water trade distortions.

Do not hesitate to call should you have any enquiries with regard to the comments provided above. I look forward to expanding on these comments at a public hearing.

Yours sincerely,



Murray Smith
CHIEF EXECUTIVE OFFICER

¹ *A regime for the calculation and implementation of exit, access and termination fees charged by irrigation water delivery businesses in the southern Murray Darling Basin, Advice to the Australian, New South Wales, South Australian and Victorian Governments, 6 November 2006, PI - ACCC*

² *Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010 September 2006, Appendix 7, P199 - IPART*