



25 February 2020

Dr Sean Turner
Committee Secretary
Senate Select Committee on the Multi-jurisdictional Management
and Execution of the Murray-Darling Basin Plan

Via email: murraydarlingplan.sen@aph.gov.au

Dear Dr Turner

Thank you for providing a right of reply for Murrumbidgee Irrigation Limited (**MI**) to adverse comments made by Mr Paul Pierotti on behalf of the Griffith Business Chamber during the Committee's Griffith Hearing.

Please find below our response to the statements made by Mr Pierotti:

1. Incorrect and misleading statements about the value of government funding received by MI and how it was used

- The Commonwealth Government's Private Irrigation Infrastructure Operators Program (**PIIOP**) operated over three tranches and provided funding for capital works in return for water for the environment.
- MI received funding under each of the tranches to a total of \$348m, which included \$48m of funding for on-farm projects.
- Approximately \$70m of this capital expenditure was spent directly with local contractors and suppliers. Additional amounts were also spent locally through accommodation and other services throughout the project, providing significant flow-on benefits to the community.
- Additional information on the PIIOP program, including the program evaluations, is publicly available on the Department's website at:
www.agriculture.gov.au/water/mdb/programs/nsw/piiop-nsw

2. Incorrect statements about MI funding arrangements and staff

- From 2010 to 2019 MI was part of an alliance (**MIARA**) formed for the delivery of capital works funded by the Commonwealth Government's PIIOP program. MIARA included staff from MI, John Holland, GHD and UGL.
- Generally, MIARA had 25 staff in the project team, of which the majority resided in the local area for the duration of the projects. Only high-level managers were on a FIFO arrangement.
- Peak employment (over 200 people) occurred during the short non-irrigation windows in winter 2018 and 2019.
- MIARA contracted a large number of local and regional contractors, providing significant economic benefits to the community.
- MI staff numbers have declined over the last three years. MI currently has 148 full-time equivalent employees (reduced from 181 in 2017) who live locally and are part of the community.

3. Incorrect and misleading statements about how MI issues delivery entitlements and charges relating to delivery entitlements and costs to customers in general

- No customer is required to hold delivery entitlements (DEs). Customers have a choice as to whether they hold any DEs, and if they do, how many.
- MI does not sell DEs. If there is available capacity, MI will issue DEs at no charge. If a subsystem is constrained (i.e. at full capacity) DEs are available either via the market (from another customer in the same part of the network) or by MI constructing additional works that increase capacity. Sometimes the additional capital works will require a customer funding contribution. This is determined on a case by case basis in response to the scale and cost of the works. More information on how DEs work and Frequently Asked Questions about DEs is publicly available on our website at <https://www.mirrigation.com.au/Learning-Centre/Fact-Sheets>.
- Over the last 3 years, the annual charge per DE has decreased **not** increased as claimed by Mr Pierotti. In 2017/18, the price per delivery entitlement was \$9.60. With greater network utilisation achieved from growth projects, the price per DE in 2018/19 was reduced to \$9.47 and reduced again in 2019/20 to \$9.44.
- Over the same period MI's other customer charge increases have been contained to CPI. Copies of MI's current and previous Schedule of Charges are available on our website at <https://www.mirrigation.com.au/Customers/Schedule-of-Charges>.
- Any change to voting rights requires a change to MI's Constitution which must be approved by MI's shareholders. A suggestion to base shares on DEs was made from the floor at our 2018 AGM by a shareholder and was not popularly supported. MI's Board of Directors has never proposed to shareholders that voting rights be altered in this way.

4. Incorrect allegations regarding MI's insider trading with respect to water entitlements and water allocations

MI emphatically rejects Mr Pierotti's claims of insider trading and questions his understanding of the term. With respect to water markets, MI takes the term insider trading to imply the use by MI of confidential information that is not publicly available to gain an unfair advantage for itself, or for any of its individual officers or employees:

- MI's role in processing water trades on behalf of customers is to confirm the trade meets the relevant rules set by Government bodies, ensure the seller has the water available to sell in their account and then to effect the exchange into the buyer's account. The information necessarily collected as part of the transaction is used to enable the effective transfer of the water and provide a probity trail.
- The water market is affected by supply and demand forces which are in turn influenced by Government allocation announcements, special programs (e.g. water for fodder) and changes to trading terms set by State Governments. MI receives this information at the same time as all other participants.
- MI has a Water Investment Fund which is part of the Company's Asset Reserve. This water is held in a separate Water Allocation Account (not on a separate licence as suggested by Senator Davey). The allocation is sold each year to generate funds for the ongoing working capital needs of the business.
- MI's fully-funded Asset Reserve ensures that its forward asset renewal capital needs are met and that MI's customers are not required to fund future infrastructure renewal.
- The water is predominately sold through water brokers where MI receives the market price. Information on the Water Investment Fund is reported to our shareholders annually at our AGM and in our Annual Report which is publicly available on our website at: <https://www.mirrigation.com.au/About-Us/Annual-Reports>

- MI has a number of policies and procedures in place to create “Chinese walls” or separation between our customer trade processing and investment water sales areas, including:
 - Code of Conduct
 - Privacy Policy
 - Conflicts of Interest Policy
 - Delegations policy /authority structure
 - Board Charter
 - Directors’ Conflicts of Interest Policy
 - Constitution – ownership restrictions for independent directors and CEO
- MI is participating in the ACCC’s Water Markets Inquiry, and has provided a submission on its views, which include support for increased market transparency. The submission is available on the ACCC’s website at: www.accc.gov.au/system/files/Water%20Inquiry%20-%20Submission%20-%20Murrumbidgee%20Irrigation%20Ltd%20-%206%20December%202019.pdf
- With regard to carryover and all other requirements, MI applies the rules set out in the NSW Murrumbidgee Regulated Rivers Water Sharing Plan.

5. Untrue assertions about MI’s trading practices affecting market prices

Mr Pierotti’s claim that MI is listing large parcels of water and setting the price and volumes is similarly untrue and demonstrates his ignorance of water management in the area:

- Prices are determined by brokers, between buyer and seller whose trades are posted on their websites for all participants.
- Brokers post details of water for sale and water wanted without details of specific buyers or sellers.
- As in the **attached example from Wilkes Water**, a broker may list water for sale and water sold in relation to the area it is coming from. The example shows water for sale from the Murrumbidgee Irrigation Area (**MIA**) and **not** from MI per se. It appears that Mr Pierotti has confused water being advertised for sale in the MIA as water being sold by MI.
- At no stage in the last four years has MI received a request from the Griffith Business Chamber with respect to water transfer information.
- Information on net trade in and out of the MIA is reported to shareholders annually at our AGM and in our Annual Report which is publicly available on our website at <https://www.mirrigation.com.au/About-Us/Annual-Reports>.

6. False and misleading claims about MI’s Northern Branch Canal Expansion Project and other channel expansion projects

Mr Pierotti made a number of false and misleading statements about the Northern Branch Canal (**NBC**) Expansion Project. These statements include the supposed lack of customer consultation, the involvement of the Commonwealth Government in funding the expansion works, and general claims regarding the effectiveness and of the Government funding:

- The Commonwealth Government funded the modernisation of MI’s existing NBC under Round 2 of the PIIOP program. No Commonwealth funding was utilised to expand the capacity of the NBC or any other part of MI’s network. The expansion works were funded by MI and participating NBC customers’ capital contributions.
- Historically, the NBC experienced constraints during high allocation years and during periods of peak demand due to capacity limitations in regulating structures and in the channel itself. This created customer frustration with service levels and limited opportunities for customers to grow their businesses. During the consultation phase for

the modernisation of this system, customers approached MI regarding the potential to increase the capacity of the system.

- MI consulted with all customers in the NBC system to ascertain the levels of interest for the works, which included discussions regarding a capital contribution to these works. Expressions of Interest were gathered and once the costs of the upgrades were understood, further consultation was conducted with those customers who had previously lodged an expression of interest to clarify whether they wished to proceed with the project.
- The total project cost was \$12.3m, of which customers made a capital contribution of \$6.6m and the balance being funded by MI. In return for their capital contribution, 50,909 DEs were issued to these customers. All participating customers contributed an amount equal to the number of DEs they sought to acquire. No “special deals” were entered into with any customer.
- The length of the NBC was not altered.
- Overall, through all the improvement works completed, MI has reduced its footprint from over 690,000 hectares to approximately 380,000 hectares. Total delivery channel length has reduced from over 3,000km to 1,774km. No channels have increased in length. Several channels have been shortened and several areas have been rationalised.
- MI is in a solid financial position with its focus being on supplying water at affordable prices for the next 50 years and beyond. The company has enabled this whilst ensuring customer pricing has been kept below CPI through lower DE charges.

7. False statements that MI shut down the water system in Griffith in 2017 causing the city to run out of water

- During winter 2017, MI conducted planned works on the Main Canal that resulted in a shut-down of certain sections of the supply system. This shutdown was not related to any works on the NBC.
- The Main Canal works coincided with major works conducted by WaterNSW at our main river off-take when no water could be brought into the MIA via the Main Canal. This enabled MI to take advantage of a single outage period to carry out necessary repair and upgrade works.
- Through extensive pre-winter planning with Griffith City Council (**GCC**), MI was able to secure town water supply throughout the outage predominantly via river-sourced water held in the Yenda Storage and in the Main Canal system itself.
- Over the entire winter period, and in consultation with Griffith City Council, water was drawn from Lake Wyangan to supplement flows into the town’s water treatment plant for only 15 days.
- During this period, the blue-green algae levels in Lake Wyangan were in the Green and Amber ranges, meaning that the water was suitable for general irrigation use including for stock and domestic purposes.
- GCC treated and tested the water regularly and provided communication to the local residents as part of their water supply requirements.

8. False and misleading claims about the collection of fees from farmers and the community, and MI’s advocacy role

- MI does not collect fees from farmers or the community on behalf of any peak body and has never been a member of the National Farmers Federation.
- MI does not purport to represent the community and in particular the views of the Griffith Business Chamber. MI is not a member of the Griffith Business Chamber.

- As a significant local employer with a customer base of close to 7000 individual community members who have invested in water and irrigation, MI does and will continue to engage in matters of significance to the region and the irrigation industry.

9. False and misleading statements about Mr Pierotti's interaction with MI as a customer and his claims that he is entitled to take water ("overdraw") beyond his allocation

- Mr Pierotti has not entered into a Water Entitlements Contract or Water Delivery Contract with MI in his personal capacity. Instead, he is part of a Water Users Association (the **Association**). The Association's Secretary, and therefore its contact point with MI, is not Mr Pierotti. The Secretary coordinates all affairs for the Association and keeps MI dealings at an association level, as per the terms set by the Association's own governance Agreement.
- Customers are required to manage their water account balances so as not to use water that they do not own. MI has a procedure whereby the customer is notified at month's end if they have a negative water account balance. The customer is requested to remedy the negative balance and advised that if the negative balance continues over a second month, a \$85/ML administration fee will be charged. If the customer's account continues to have a negative balance over a second month, then the administration fee is applied and the customer is informed that if the negative balance is not remedied by the next month's end, MI will adjust the customer's balance back to zero and charge the average water allocation price for that month as the cost.
- MI does not support or condone unauthorised use and believes this to be a fair and reasonable approach to customers who use water they do not own rather than locking outlets and taking other more drastic measures.
- This process was followed for the Association, who had an accumulating negative balance over several months.
- Following complaints from the Association, MI entered into good faith negotiations which resulted in the Association transferring in water and MI reversing the administration charge, not charging the market charges payable, and only invoicing the Association for our time.
- MI acted in good faith throughout these dealings and consistently with its processes as applied to all customer accounts.
- MI is not a statutory authority and does not issue "fines".
- MI's customer contracts, Schedule of Charges, Rules and relevant fact sheets are published on its website at <https://www.mirrigation.com.au/Customers>.

MI appreciates the opportunity to correct the adverse comments made to the Committee by Mr Paul Pierotti on behalf of the Griffith Business Chamber. The company continues to focus on providing water delivery services to its customers in the best way possible ensuring the sustainability of the company to remain in business and support the region for the next 50 years and beyond.

Yours sincerely

Brett Jones
Managing Director

Attachment 1 – Wilkes Water Example

wilkeswater.com.au/temporary-water#MurrumbidgeeValley

Home About Us Forms Water Auction Current Allocations Water News Contact Us Links

FOR SALE MURRUMBIDGEE VALLEY - TEMPORARY - NO BUYERS COMMISSION

Seller Ref.	Source	Volume (ML)	Price (\$)/ML	Additional Information
17233	Murrumbidgee Irrigation	20	\$650.00	
17234	Murrumbidgee Irrigation	40	\$670.00	
17231	Murrumbidgee Irrigation	12	\$680.00	
17232	Coleambally Irrigation	50	\$698.00	
17230	Murrumbidgee River	14.4	\$700.00	
17183	Coleambally Irrigation	500	\$700.00	
17194	Murrumbidgee Irrigation	100	\$700.00	
17201	Murrumbidgee Irrigation	30	\$700.00	
17184	Murrumbidgee River	200	\$710.00	
17179	Murrumbidgee River	30	\$720.00	
17186	Murrumbidgee Irrigation	42	\$740.00	
17195	Murrumbidgee Irrigation	8	\$740.00	
17173	Murrumbidgee River	40	\$750.00	
17202	Murrumbidgee Irrigation	30	\$750.00	
17039	Murrumbidgee Irrigation	50	\$750.00	
17178	Murrumbidgee Irrigation	10	\$775.00	
17158	Murrumbidgee Irrigation	100	\$800.00	
17166	Murrumbidgee Irrigation	25	\$800.00	
17153	Murrumbidgee Irrigation	100	\$819.00	
17048	Coleambally Irrigation	100	\$820.00	
17226	Murrumbidgee Irrigation	19	\$850.00	
17050	Murrumbidgee River	312.5	\$900.00	