



Submission Number: 440.2
Date Received: 06/04/2011



Trim Ref: TRF/77

Wednesday 6 April 2011

Committee Secretary
House of Representatives Standing Committee on Regional Australia

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Dear Secretary

Subject: Standing Committee on Regional Australia Supplementary Submission to the Inquiry into the Impact of the Murray Darling Basin Plan on Regional Australia

On Friday 25 March 2011 the National Irrigators' Council presented to the Committee's hearing in Canberra.

At this hearing I was asked a number of questions about changes in the Department of Sustainability, Environment, Water, Population and Communities' (the Department) approach to the "Swiss cheese" effect since the Inquiry's hearing in Deniliquin on the 24 January 2011.

This letter provides an update on the interactions between Murray Irrigation and the Department since the 24 January 2011.

1. Progress with Irrigator Led Group Proposals (Retirements)

The Department has continued to liaise directly with irrigator proponents according to the current guidelines for Irrigator Led Group Proposals. The price offered per water entitlement to the retiring irrigator in these proposals is around \$950 per water entitlement. Murray Irrigation supports both proposals and has completed assessment of the "Company" benefits associated with retirement of Murray Irrigation infrastructure, with a portion of these benefits being passed onto the retiring irrigator.

It is Murray Irrigation's opinion that, in both cases the continued interest in "the Irrigator Led Proposal" at the price offered is a consequence of financial duress.

The Irrigator Led Group Proposal offer contrasts with the average price paid per trade for NSW Murray general security (above choke) water entitlements, under the Restoring the Balance program as at 28 February 2011 of \$1,197 per water entitlement.¹

¹ www.environment.gov.au/water/policy-programs/entitlement-purchasing/2008-09 Purchases secured under the Restoring the Balance in the Murray-Darling Basin program (1/4/2011).

The offer is only sixty five percent of the average weighted price paid in December 2009, when the Department purchased over 40,000 water entitlements from Murray Irrigation's customers. (see attachment 1) and less than 50 percent of the price being paid for investment in On-Farm Irrigation Efficiency Program.

Murray Irrigation acknowledges the price offered is approximately 20 percent above the price offered in the February 2011 tender of \$790 per NSW Murray general security above choke water entitlement.²

The due diligence process for both retirements has taken several months. In both cases Murray Irrigation is waiting for advice from the NSW Office of Water.

Department representatives have also visited Murray Irrigation and the proponents to discuss the proposals and Murray Irrigation understands the Department's external consultants have completed "in field" due diligence.

I have attached (Attachment 1) a refined version of the chart presented in our original submission that clearly shows the impact of government participation in the water market since July 2009.

2. Potential changes to the Department's approach

Murray Irrigation attended the Irrigator Roundtable with the Water Minister, the Hon. Tony Burke in Canberra on Monday 7 March 2011. At this meeting Ms Mary Harwood provided a PowerPoint presentation of an alternative approach.

Murray Irrigation met with representatives from the Department in Deniliquin to discuss the Private Irrigation Infrastructure Operators Program (PIIOP) on Wednesday 16 March 2011.

At this meeting one of the Department's representatives said "*we may consider changes to our guidelines.*" [guidelines meaning Irrigator Led Group Proposals].

The significant opportunity for competition and conflict between Irrigator Led Group proposals and the PIIOP program was discussed the two programs are confusing for irrigators interested in sub system retirements. Assuming Murray Irrigation includes retirements as an integral component of any PIIOP program the Irrigator Led Group Proposal program is effectively a competing program with different guidelines and different timeframes.

The Department convened a meeting between the Department, Murrumbidgee Irrigation Limited, Coleambally Co-operative Limited and Murray Irrigation on Thursday 24 March 2011 with the meeting held on Monday 28 March 2011 in Jerilderie. This meeting was attended by the Minister's Water Adviser. The action from this meeting was for discussion to continue between the Department and the Irrigation Infrastructure Operators.

The Minister's Water Adviser also visited Murray Irrigation's area of operation on Monday 28 and Tuesday 29 March. This visit provided an opportunity for the range of issues associated with the Water for the Future program investment in the Murray Irrigation area to be discussed.

3. Government water tenders

² www.environment.gov.au/water/policy-programs/entitlement-purchasing/average-prices (1/4/2011).

The NSW 2010/11 purchasing limit of 80GL has been reached consequently the current call for applications does not apply to NSW irrigators.

Conclusion

1. The fundamental problem is a package that provides sufficient incentive to irrigators supplied by terminal channel systems on the end of Murray Irrigation's area of operation so that they drive "uptake" of the retirement option. The role of Government funding in this package is critical and the incentive or premium provided is currently not sufficient.
2. The ability of the Department to offer a solution for Irrigation Infrastructure Operators appears to be significantly constrained by;
 - The Guidelines written by the Department and approved by the Minister.
 - Government procurement requirements for purchasing.
 - Government requirements for grants.
 - Differences in Government requirements for purchasing versus grants.
 - The objectives of the Government's different programs in the *Water for the Future Program*.
3. The range of programs, different timeframes and competing elements of the Department's programs active in the Murray Irrigation's area of operation make it extremely difficult to achieve an integrated approach at an Irrigation Infrastructure Operator level.
4. The Department's new approach is a long way from being a solution.
5. Further progress and a solution is dependent on Irrigation Infrastructure Operators and the Department agreeing there are fundamental problems with the current approach and collectively finding a solution that meets both the Irrigation Infrastructure Operator's needs and the Governments needs.

Yours sincerely

Stewart Ellis
Chairman

Attachment 1 – 2011 04 06 RA PI Supplementary Submission Chart

Regional Australia Inquiry

