3 July 2006

Vicki Thompson
Rural Water Study
Productivity Commission
LB2 Collins Street East
MELBOURNE VIC 8003

Dear Vicki

Thank you for the opportunity to attend your workshop on the Productivity Commission draft report on Rural Water Use and the Environment: The Role of Market Mechanisms in Melbourne yesterday.

The discussions were very useful, not only for expressing our views but also hearing the views other participants and I would now like to follow up my comments in a brief written submission.

1. General Comments

   As the discussion progressed in Melbourne I thought the objectives were unclear about whether the focus was on solving the over allocation of water (a huge issue in the Murray Darling Basin), using trading mechanisms to obtain water for rivers and the river environment (the only option capable of delivering the quantities needed) or trading to “higher value uses” to improve the environment (a flawed argument, firstly because water will move to where demand and capacity to pay are greatest and that is not necessarily the highest value use and secondly because trade continues to mobilise unused water and increase total extraction from the river).

   I think the report would benefit from clearly outlined objectives, which may not be the same for all basins.

2. Exit Fees

   Exit fees were the most contentious issue for our business. There is not much doubt that an exit fee of $450 in a water price of just over $500 will impede trade from an irrigation district. In the case of our business the exit fee of $360 in a typical water price of $1450 has been successful and during the first year of implementation we are unable to cite one instance where trade has not taken place because of exit fees.

   Nor do exit fees at this level appear to have affected the market price of permanent water which mostly occurs in the $1400 to $1500 per megalitre range regardless of whether the water source is an irrigation district or private pumper.

   That is because the seller in a district is paying the exit fee and taking a lesser price for the water in a process which enables the seller to discharge their obligations in a once off payment of $360 per megalitre at the time of sale. The fee was arrived at strictly in accordance with the guidelines developed by the Murray Darling Basin Commission.

We accept that there are alternatives to exit fees for meeting an irrigator's obligations such as continuing to rate abandoned land or tagging exported water. However, both of these alternatives are considered undesirable from the aspect of the costs and difficulties expected in billing and recovering rates from customers no longer receiving water delivery services.

Our view is that it would be much better to remove the potential for exit fees to impede water trade by establishing maximum levels for exit fees as a proportion of the water price at 30%.

3. Loxton Water Losses

Finally, a minor amendment is sought to a comment on page 220 that Loxton experienced water losses up to 40% prior to pipelining. The losses calculated for the Loxton channel distribution system were 4,800 megalitres out of a total water pumped ranging from 30,000 to 35,000 megalitres, making true losses closer to 15%.

Yours sincerely

Jeff Parish
Chief Executive Officer