

**Submission to**

**National Competition Council  
The Lakes R Us application for  
declaration of a water storage  
and transport service  
Issues Paper**

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## Table of Contents

1.	Introduction .....	3
2.	The Australian Rice Industry .....	3
3.	Ricegrowers Association of Australia Inc (RGA) .....	4
4.	The Application .....	4
4.1	Water Sharing Rules.....	4
4.2	Snowy Scheme Storage Sharing and Spill.....	5
4.3	Cost of Water Storage .....	6
4.4	Issues Arising in the LRU Application .....	6
5.	Criterion (b): the uneconomical to develop another facility test .....	7
5.1	Alternative Facilities .....	7
5.2	What is the reasonably foreseeable demand for water in the Murray, Murrumbidgee & Snowy river systems over the medium to long term .....	8
6.	Criterion (a): The promotion of competition test – Market Power .....	8
7.	Conclusion .....	8

## **1. Introduction**

The Ricegrowers Association of Australian Inc. (RGA) welcomes the opportunity to comment on the National Competition Council (NCC) Issues Paper for the Lakes R Us (LRU) application for declaration of a water storage and transport service.

Whilst the RGA appreciates the parameters under which the NCC is to base its decision on this declaration application, there are a number of other issues which should be included as part of that assessment. These issues revolve around water management at both NSW State and Murray-Darling Basin (MDB) jurisdictional levels as well as the current arrangements via Snowy Hydro.

To make a judgement call on such important facilities to water users in both the NSW Murray and Murrumbidgee Valleys without including these issues will compromise current and future water sharing arrangements which have been negotiated between the various stakeholders over a significant time frame.

The expertise of the RGA is largely confined to issues affecting the rice industry and water policy. Therefore the ability for RGA to make a comprehensive submission based on the Trade Practice Act is somewhat limited. Given the importance of water to the Australian rice industry, this submission will largely deal with the issues concerning water management.

## **2. The Australian Rice Industry**

The rice industry encompasses the Murray Valley of NSW and Victoria and the Murrumbidgee Valley of NSW. Typically, around 150,000 – 160,000 hectares are sown to rice in October of each year across this region producing an average of around 1.2 million tonnes of rice annually. The industry has a farm gate value of around \$350 million and total value (export earnings, value-added) of over \$800 million. Including flow-on effects, it is estimated that the industry generates over \$4 billion annually to regional communities and the Australian economy.

Rice growers have individually invested over \$2.5 billion in land, water, plant and equipment and collectively invested around \$400 million in mill storage and infrastructure through the Ricegrowers' Cooperative Limited (SunRice) and the Rice Marketing Board of NSW (RMB). The industry is the backbone for our regional communities generating around 21% of total regional income and 18% of total regional employment<sup>1</sup>.

The rice industry has also invested significantly in environmental improvement and impact reduction as part of its efforts towards better natural resource management and environmental stewardship. The Rice Environmental Program's flagship is the Environmental Champions Program (ECP) which has received over \$1.8 M in funding from the Department of Agriculture, Fisheries & Forestry to implement a pilot program and roll out of the ECP.

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<sup>1</sup> Leslie, D.G., Keyworth, S.W., Lynn, F.L., Magill, A.F. 1992, *Rice 2000 Project*.

### **3. Ricegrowers Association of Australia Inc (RGA)**

The RGA is the collective voice of rice growers in Australia. RGA represents over 1600 voluntary members in NSW and Victoria on a wide range of issues.

As much of the Riverina region has been built upon rice, and rice is still the mainstay of many towns today, it is important that RGA members have strong and effective representation. RGA fulfils this role by representing and leading growers on issues affecting the viability of their businesses and communities. Importantly, the RGA also looks to lead its members through a process of improved environmental management.

### **4. The Application**

#### ***4.1 Water Sharing Rules***

According to the Issues Paper, the LRU application is seeking a declaration for a water storage and transport facility to enable the venture company to “manage unused water allocations” in the Snowy Scheme. Further, LRU proposes to use the existing systems in order to deliver this water to irrigators. Specifically, LRU seeks to use up to 800,000 ML of supposedly unused water storage capacity in the Snowy Scheme.

At the same time, LRU states that this water will be derived from water savings from individual licence holders. These statements create some confusion. On the one hand, irrigators are able to access a share of the available water each year but investment in water efficiency doesn’t necessarily provide them with more allocation, it just improves their on farm water use. For example, an irrigator may take delivery of 100 ML of water, some of which is lost through evaporation or seepage. If investment on farm decreases these losses, the irrigator will only be able to use a greater proportion of the original 100 ML – not 100 ML plus the saved water. This water may be used in an individual irrigation season, or may be carried over to use in the following irrigation season.

It should be noted that irrigators in NSW operate under annual accounting protocols. This means that if water is not used in one irrigation season, it cannot be stored for successive irrigation seasons except by use of carry over. In the Murray Valley, irrigators are able to carry over 50% of their allocation (less 5% for storage losses) and in the Murrumbidgee Valley irrigators only have access to 15% carry over<sup>2</sup>. In other words, an individual irrigator in either the Murray or Murrumbidgee Valley can carry over only 50% or 15% of their allocation respectively into the following season.

The carry over policy is effectively a demand suppressant and irrigators use this tool as an “insurance policy”. In other words, irrigators use carry over to deliver a higher level of security (i.e. chance of attaining 100% allocation) or a higher starting allocation on which to base their planting decision. However, in order to achieve this, allocation use in the current season must be reduced.

In order to ensure that the MDBC Cap is not exceeded each year, there are a number of policy instruments used by the NSW Department of Infrastructure,

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<sup>2</sup> Discussions are currently underway to increase the 15% to 30%.

Planning & Natural Resources (DIPNR). These include carry over and the Water Sharing Plans. Carry over is acknowledged as reducing water use.

It should also be noted that in NSW, there is a general formula under which water use on farm is governed and this is reflected in the rules in each valley's Water Sharing Plan. The formula is: -

$$\text{Allocation} + \text{carry over} - \text{water sold} = 100\% + \text{water purchased} + \text{supplementary water use}$$

Any water which is not used or carried over at the end of each irrigation season is forfeited and effectively socialised between all users in the following irrigation season.

It should also be noted that modelling at NSW and MDBC levels for a range of water management decisions (such as MDBC Cap, Water Sharing Plans etc) are based on existing water management rules. To change these rules will undoubtedly impact on water users, creating a third party impact which is contrary to the principles behind the COAG Water Reform agenda.

In reality, the LRU proposal seeks to instigate a capacity sharing model for the Snowy storages only. However, this could not be implemented without a change from annual water accounting in the NSW Murray and Murrumbidgee Valleys. It is acknowledged that there may be a number of advocates for this. Nevertheless, there can be no decision without a complementary full investigation of the benefits and dis-benefits for NSW irrigators. To do otherwise will be to make a decision using little or no supporting information. Such an investigation should also include a full assessment of the impacts and benefits for the MDB Agreement, which all Victorian, NSW and South Australian irrigators should be allowed adequate, full and reasonable opportunities for input.

Likewise, under present water sharing rules any water released from the Snowy storages is shared by all water users downstream of the headwater dams (Hume and Blowering). It is unlikely that this will change if the LRU proposal is successful. Therefore, any water stored in the Snowy Scheme by LRU will eventually be shared by all water users in the respective valleys.

There is an existing precedent for this. Currently, NSW has implemented Water Sharing Plans for all valleys above Menindee Lakes. Ostensibly, this water is NSW water yet when the increased flow reaches Menindee Lakes, under the existing MDBC Agreement this water is shared equally with Victoria.

The situation with the LRU proposal is the same despite the specific ownership of the water previous to its release. It is difficult to see how the LRU proposal would be treated any differently, especially for any water delivered to Hume Dam.

#### **4.2 Snowy Scheme Storage Sharing and Spill**

The LRU application states that if the Snowy Scheme storages spill, then the LRU "water" is the first water to spill. This inherently produces a range of inequities for water users who have ostensibly entered into a financial contract with LRU and this must be clarified and communicated to water users.

The LRU application does not discuss what happens if there is no spill and Snowy Hydro increases the volume of water they hold in the Snowy Scheme storages. Does this lead to a reduction in the volume of water held by LRU for water users?

RGA seeks clarification of who would bear the impacts and costs of these events in both dollar and water terms.

### ***4.3 Cost of Water Storage***

There is no basis on which LRU can seek a charge of \$1/ML for using the vacant air space, despite the claim in the LRU application that this is the same as the cost to Snowy Hydro to store water.

There is another process in NSW under the Independent Pricing and Regulatory Tribunal (IPART) which determines the cost of bulk water. Current pricing principles under this process mean that the operating and capital expenditure of water delivery and water resource management are included in the cost of bulk water. The RGA sees no reason why these principles should not be passed onto any proposal of LRU.

This will result in LRU incurring these costs for utilising the Snowy Hydro, State Water and MDBC facilities, as does all other irrigators, and passing these costs onto those irrigators whom they will undertake water transactions on behalf of.

RGA understands that Snowy Hydro has taken over the Snowy Scheme debt and is required to deliver a return to its shareholders – namely the NSW, Victorian and Commonwealth Governments. It is entirely possible that these costs will also be passed onto water users.

### ***4.4 Issues Arising in the LRU Application***

There appears to be some confusion as to what LRU are actually proposing in this application. At some stages, it appears that the proposal is to supply a service to irrigators in which their unused allocations can be stored in the Snowy Scheme facilities. When required, LRU intends to supply this water (owned by irrigators) using the water delivery and other systems of Snowy Hydro, State Water and MDBC.

However, at other times, the application appears to infer that LRU will enter the water trading market to purchase unused irrigation allocations from irrigators and to store this water in the Snowy Hydro storage facilities. When re-sold (either in the same or subsequent years), this water is supplied to irrigators again using the Snowy Hydro, State Water and MDBC water delivery and other systems.

The other confusing aspect of the LRU application is that not all of the required water delivery and hydro generation facilities have been requested. For example, the emphasis appears to be on the Murrumbidgee system yet Murray facilities are mentioned but not in their entirety, eg Hume Dam and Lake Mulwala.

In addition, the LRU application does not clarify how this LRU “water” is to be treated with the context of water management and The LRU application does not discuss how it will ameliorate any impacts to the Snowy Hydro business (through increased electricity generation) or to the environment through possibly unseasonal and cold flows.

Of major concern is the possible consequences of the LRU proposal on the MDBC water sharing arrangements and in particular the requirement for NSW to ensure that Victoria and South Australia are not impacted under the water sharing arrangements. This could potential result in NSW General Security irrigators having the water available for consumptive use reduced to ameliorate any impact to the other States. This was an outcome from the corporatisation of Snowy Hydro and each of the States has enacted legislation to cater for this as well as amendments to the MDBC Agreement.

The RGA is of the view that the LRU application requires further clarification as there is potential for third party impacts to water users based on the intent of LRU business. For example, irrigators cannot store water indefinitely and for one business to store water for an indefinite period of time will create impacts via MDBC Cap compliance. In addition, the LRU application may be against the provisions of the MDBC Agreement and Water Sharing Plans of the Murray and Murrumbidgee regulated water supplies.

## **5. Criterion (b): the uneconomical to develop another facility test**

RGA agrees that it is uneconomical to develop another "Snowy Scheme" however, RGA also agree with Snowy Hydro that other facilities are available downstream or could be built at a greatly reduced cost. The only distinct advantage of using the Snowy Hydro facilities is reduced losses but without modelling to ascertain the difference between Snowy Hydro storage facilities and those of Hume and Blowering Dams and perhaps further facilities downstream (yet to be constructed), there is no real data to determine the extent.

RGA disagrees with the views of LRU regarding farm dams. In this age of water use efficiency, there is scope to improve on farm water use efficiency greatly and RGA sees this area as that which provides irrigators with the most scope for improvement. This is a critical component of Land and Water Management Plans and the Australian rice industry's Environmental Champions Program. The components which can be addressed include irrigation layouts, laser levelling, and recycle systems on farms including storage dams.

At this stage, the current water sharing arrangements, combine with improvement on farm irrigation systems will provide most irrigators with the flexibility required to manage their irrigation businesses, including water trading and carry over facilities. Nevertheless, the RGA is aware that there is a culture with a small number of irrigators which resent the introduction of a water trading market.

### **5.1 Alternative Facilities**

RGA perceives the LRU application as one which seeks to facilitate LRU participation in the water trading and lending markets. It seems that LRU would propose to purchase long term entitlements and or lease products from irrigators. Is it then the intention of LRU to sell this water to irrigators or as earlier stated, provide a service to irrigators? In this regard the LRU application is very unclear and consequently makes it difficult to make any inform comment.

If this is the intent of LRU, RGA would question why LRU does not use the existing water management frameworks?

The application also appears to provide a service for irrigators by storing their water allocations higher up in return for a fee but that irrigators will still own the water. Again, this can only be done within the existing water sharing rules and the LRU application does not clarify how its proposal will fit within these frameworks.

There also appears to be some confusion as to whether the LRU application seeks to have monopoly on the electricity market or water market. The NCC implies latter in which case, this means that there is no monopoly as there are numerous existing players such as MDBC, State Water, individual irrigators, and water traders etc.

## ***5.2 What is the reasonably foreseeable demand for water in the Murray, Murrumbidgee & Snowy river systems over the medium to long term?***

Water is a scarce resource which is already fully allocated within NSW (embargoes existing on the issue of new licences). In addition, there are water sharing plans and an MDBC Cap which governs how the available water is shared and how much water can be used. The National Water Initiative (NWI) also has some provisions for over allocated systems, water property rights and who will share future risk.

Over the medium to long term, there will continue to be a demand for water. However, this will be limited by the CAP and the possible future provision of additional water for the environment. There will be increased water demand but not increased extraction. Consequently, the RGA strongly supports the use of the water trading market to ensure that there are no third party impacts to either the environment or other water users.

## **6. Criterion (a): The promotion of competition test – Market Power**

The LRU application criticises the cost charged by Snowy Hydro to irrigators for the early release and repayment of future year's water. This is clearly an indication of the lack of knowledge of the reasons for the high cost and the business drivers of Snowy Hydro. In reality, the Snowy borrows were a commercial contract between Snowy Hydro and either the irrigation corporations or SunRice at the time these agreements were struck.

The cost related entirely to the opportunity cost of foregone electricity generation for Snowy Hydro and did not in any way reflect the cost of water for irrigators. Those irrigators who accepted these deals did so in the light of a commercial business proposition. For those representing irrigators in these negotiations have reduced considerably the cost of this water more recently due to the nature of the offer and the ability to trade off the "required annual release" flexibility to reduce the cost of the proposals. This option will not be available to LRU.

## **7. Conclusion**

In summary, RGA views the LRU proposal as being simplistic in its intent with little real knowledge of the water management regimes governing the management of



water in the Murray and Murrumbidgee regulated river systems. It is clear that if the proposal is accepted on the merit of whether or not it meets the criteria to declare the service sought by LRU, then there is a real likelihood that there will be third party impacts to water users and the environment in both the Murray and Murrumbidgee Valleys.

In addition, is it clear that LRU has not requested all the water storage and delivery services required to delivery water from the Snowy Scheme storages to water users in either valley. This is either an oversight or deliberate but again no clarification or reason has been presented for this issue.

Therefore, until there is more information on the business proposition and intent of LRU and full disclosure of all possible impacts and consequences to irrigators, the RGA cannot with any real confidence support this application.