



The Hon. Karlene Maywald MP

Minister for the River Murray
Minister for Regional Development
Minister for Small Business
Minister for Consumer Affairs
Minister for Science and Information Economy



Mr John Feil
Executive Director
National Competition Council
GPO Box 250B
MELBOURNE VIC 3001

Dear Mr Feil

Please find attached the South Australian Governments submission regarding the Lakes R Us application for declaration of a water storage and transport service.

If you have any queries in relation to the submission please contact Mr Stephen Wills, Manager, Urban Water Policy on (08) 84636927.

Yours sincerely

Karlene Maywald
MINISTER FOR THE RIVER MURRAY

17 June 2005

**South Australian Government submission to
the National Competition Council in relation to
the Lakes R Us application for declaration of
certain water storage and transport services.**

JUNE 2005



**Government
of South Australia**

The South Australian Government does not support the application for access to Snowy water storage and transport since it does not meet all the Trade Practices Act eligibility criteria, and particularly the public interest test.

The South Australian Government's primary concern is that if the application is granted, it would result in an increase in extractions which would have a deleterious impact on the health of the Murray system. It is expected that, unless there was an immediate compensating regulatory response from the NSW Government, the proposal could result in reduced flows into South Australia of several hundred gigalitres in a wet year which would put additional pressure on the Living Murray target of securing additional flows of 500 GL by 2009 and the estimated requirement for an additional 1600 gigalitres flows by 2018 to restore the health of the River Murray. Granting access to the Snowy facilities could result in an additional requirement of up to 100 gigalitres of environmental flows.

Section 44B of the Trade Practices Act provides that a service eligible for declaration does not include the use of a production process except to the extent that the production process is an integral but subsidiary part of the service. The South Australian Government considers that the water storage and transport systems of the Snowy system are ineligible for declaration since they represent a production process for the purpose of producing electricity and electricity risk management services. Hence the water storage and transport services are an integral and not subsidiary part of Snowy Hydro's operations.

The proposal is likely to have significant impact on the electricity generation operations of Snowy Hydro, particularly with regard to managing generation output and the profitability of the Snowy generation business. Capacity management and optimising the opportunity cost of stored energy is a key part of the Snowy generation business, which is likely to be impacted by this proposal. The availability of Snowy generation capacity during peak electricity demand periods over summer is vitally important to ensuring that customer load shedding is avoided in South Australia and Victoria.

In relation to the specific Trade Practices Act eligibility criteria, the South Australian Government considers that the following criteria are met:

- (c) that the facility is of national significance having regard to:
 - the size of the facility or
 - the importance of the facility to constitutional trade or commerce or
 - the importance of the facility to the national economy
- (e) that access to the service is not already the subject of an effective access regime

The South Australian Government does not consider that following eligibility criteria are met:

- that access (or increased access) to the service would promote competition in at least one market other than the market for the service
- that it would be uneconomic for anyone to develop another facility to provide the service

- that access to the service can be provided without any undue risk to human health and safety; and
- that access (or increased access) to the service would not be contrary to the public interest

Current allocation system and impacts

In NSW allocations downstream of Snowy storages are primarily general security water licences that are allocated to farmers depending on factors such as rainfall, inflows, volume of storages and releases. Farmers are advised of their allocation and must adjust their irrigation program accordingly or trade in water entitlements. There is some carryover provision between years (about 15 per cent) on these licences but this is adjusted by the volume that is available in the next years allocation. Accordingly, there is often unused water that becomes part of in-stream flows and possibly forms part of above entitlement flows to South Australia in that year or subsequent years through spillage from storages.

State resources allocation policies have led to water licences in Victoria generally having a higher level of security than those in NSW. South Australian licences have the greatest level of security. Neither SA or Victoria have provisions for carry-over of unused allocations.

The current limit on the ability of NSW irrigators to 'carry over' allocated water use rights from one year to the next ensures that some portion of flow is not able to be extracted and therefore is a gain to the environment because water flows through the rivers. The instream benefits of that water flowing through the rivers which is no longer available to extractive use rights would not be realised if the water was stored in upstream storage facilities. These benefits flow through the system and impact on South Australia either by increasing above Entitlement Flows or by improving the security of Entitlement Flows.

Given the volume of storage to which Lakes R Us is seeking access, it is evident that the reduction in flow to South Australia in some years may be several hundred gegalitres although the average reduction in flow will be less than the current head-room between current use and the valley Caps on diversions set by the Murray-Darling Basin Ministerial Council.

The proposal would also alter the timing of flow releases from Snowy Hydro storages since Lakes R Us would hold water accumulated in wet years for use in dry years. It is difficult to see how this could not affect flows into South Australia since farmers would be increasing the ability to use water carryovers from previous years and the proposal does not indicate how these impacts would be ameliorated.

Flows to South Australia have been severely impacted by increased allocations and diversions, particularly in NSW, since the Snowy Scheme was completed in the 1950s. Increased diversions have been somewhat limited by the Cap set by the Murray-Darling Basin Ministerial Council in 1995. However, further changes to maximise the potential for irrigators to extract water from the system within the current constraints would have a deleterious impact on the health of the Murray system and would be contrary to the principles of the Living Murray program to

restore the River Murray. This proposal would also be contrary to the principles of the National Water Initiative which seek to restore sustainable management of over-allocated surface water systems.

Chart 1: Annual flow at Euston and to South Australia 1903-2004

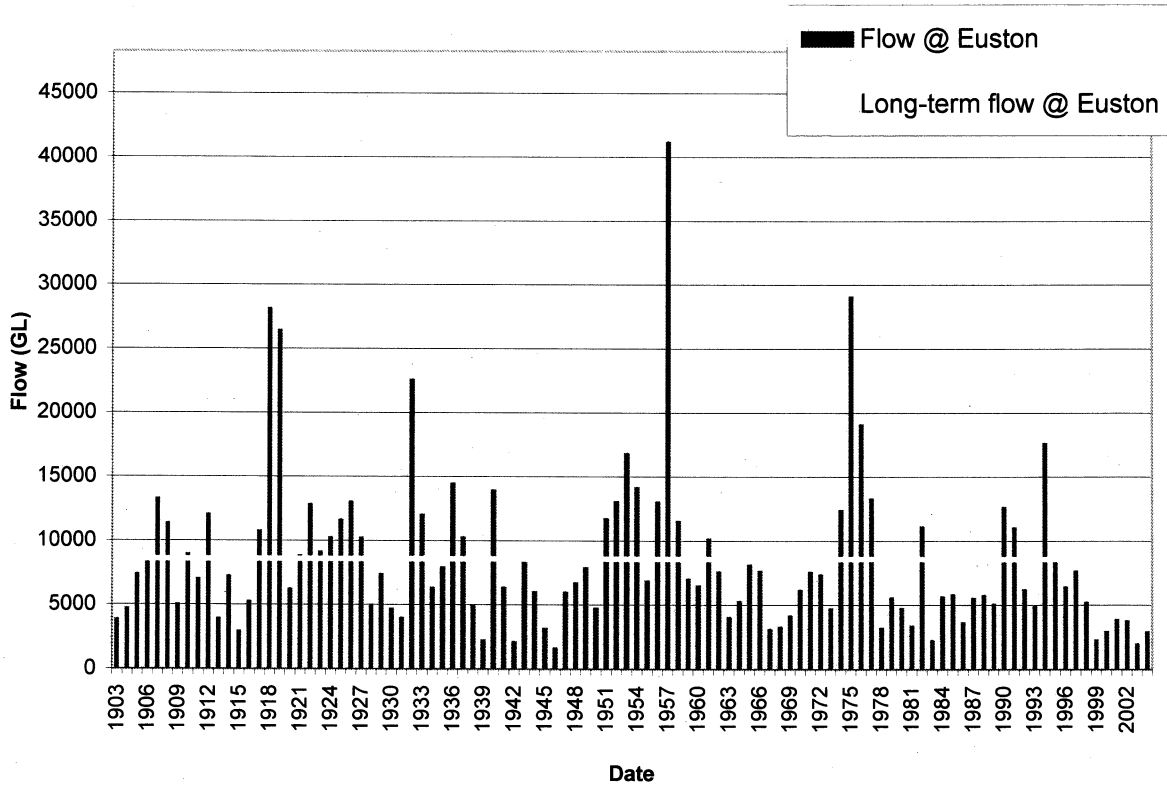
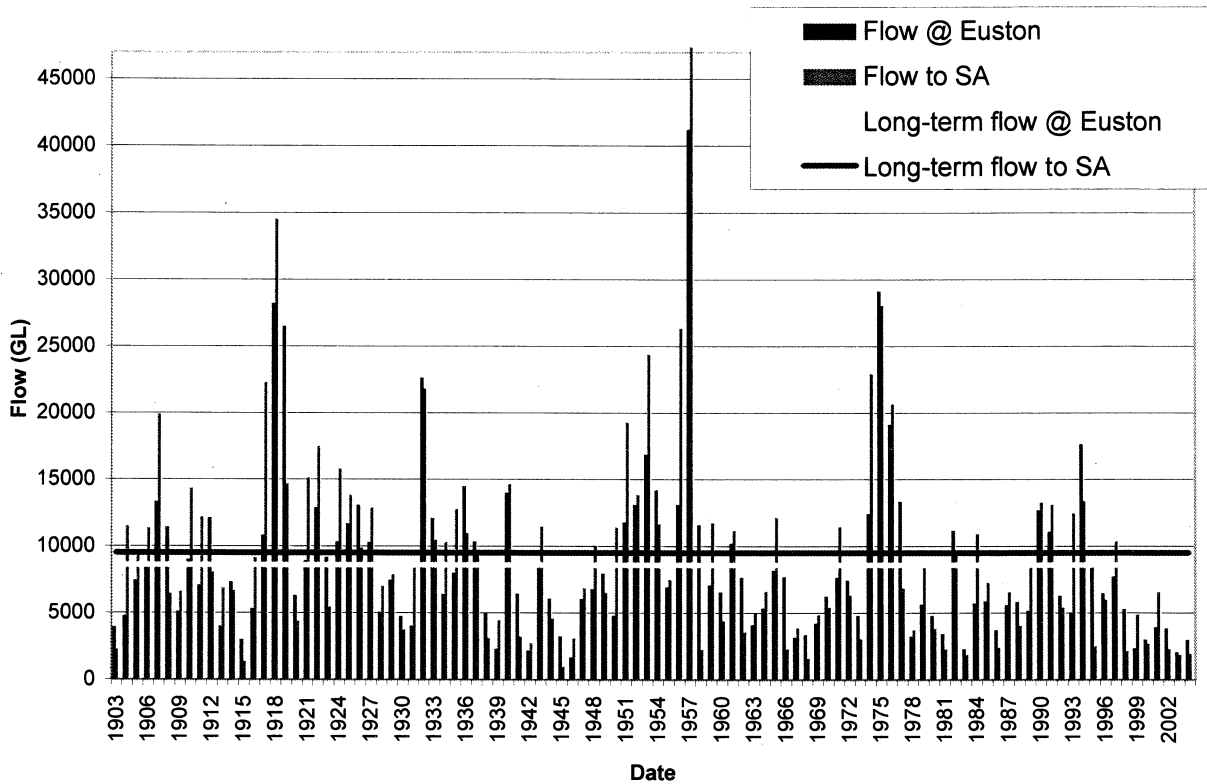


Chart2 Annual flow at Euston and to South Australia 1903-2004



A comparison of charts 1 and 2, shows that flows into South Australia are regularly below median flows in recent years despite the natural inflows to the system being similar to those experienced throughout the past 100 years. This highlights the problem of overallocation. There are inherent pressures on the Murray Darling basin system arising from surface and groundwater over-allocation, increased usage of existing allocation, forestry and other diversion losses that are likely to further reduce flows in the future. The Living Murray estimates that the Murray Darling system is overallocated by up to 1600 gegalitres and that a permanent return of this volume would be required to provide a moderate chance of recovering the ecological processes necessary for a healthy functioning river.

Reduced flow variability and alteration in the timing of flows is causing:

- Loss of plant communities, such as river red gums
- Declining number of native birds, animals and fish
- The spread of exotic weeds and pests
- Greater erosion of river banks and scouring of new channels; and
- Loss of natural signals that tell native fish, birds and aquatic insects when to breed

South Australia supports the move to fully functioning markets for water entitlements as envisaged under the National Water Initiative in order to facilitate efficiencies in water use. Full and efficient use of diversions (within environmentally acceptable

parameters) will achieve maximum water use productivity through market forces. Any water not used and either left in the system or returned to it is a bonus to the environment. However, there is a prior need to address the historical legacy of severe over-allocation and use decisions in the Murray Darling system. This task has been made more difficult by the substantial limitations in the attribution of costs of externalities and continued poor information on long term resource impacts of different patterns of resource use.

While recognising that water use outcomes need not be scripted by Governments or regulators, the public interest would be met by limiting actions that exacerbated the effects of overextraction of water from the River Murray.

Given the pressures on the Murray Darling Basin and the difficulty in reducing allocations in overallocated catchments particularly in NSW, it is recommended that declaration not be granted.