

Chairman
PART.
P O Box Q290,
QVB Post Office N S W 1230



“Kooyong Park”
P O Box 65
Moama. 2731.
6th Nov. 2001

Re: draft Report - Bulk Water Prices - from 1 October 2001

My apologies for the lateness of this response. It is because I have had great difficulty in putting it together as it was coming out as an attack on your report and that is not what I want to say. The best way to say it now is to suggest to you that you have responded to the question you were asked to address, in brief to provide a “Business Plan” for State Water. That you have done. But the question I believe you should have been asked is how can the resources of the state, in this case water, be best managed to the benefit of the state. This requires a change of thinking, in that you have to look at the final result not at the individual parts of it. I am going to suggest that State Water in their management of the water have actually impeded the full benefit of this water being passed on to the **total** community

To try and explain this I have to start with a few basic comments

1. Water is a **gift** from Mother Nature.
2. The state does not own the water or claim ownership of it unless it has been captured in a dam.
3. It is not the water **itself** that creates wealth, but the use of that water that creates the wealth.
4. Drainage is not part of this brief, but is an integral part of the whole question and has to be considered.

Now to put some substance on these basic comments and why I make them

Water is absolutely essential to our very existence. It is a **gift** from mother nature and **we** have no control over its arrival and if it fails to arrive we can't go down the street and buy some more. All societies and communities have developed around a secure supply of water and what it can produce for us in the way of food. It is from this secure supply of quality water and food that our own society has developed to its present stage of what we call a modern society or a 1st class world. It has been developed so well that we now can enjoy many other facets of life which we now refer to as essential and it is those extras that we spend all of our time arguing about because we don't have to concern ourselves about the real essentials. I am not suggesting that this has come about purely because of the existence of irrigation but it has certainly helped.

The state does not claim ownership **of** the water. To do so they would have to accept responsibility for when it is in excess supply, namely flooding and this I am sure they do not wish to accept. Though they did not accept responsibility for the flooding

caused, MDB did make, (To the best of my knowledge) some ex-gratia payments for losses caused as a result of the extra water released from Hume Dam when the wall commenced to move.

It is the use of that water which creates wealth. I suggest that a brief analysis of the information provided in your report in Tables A9.1 and A9.2 demonstrate clearly what I am suggesting here. In table A9.1 none of the representative farms is using in excess of 50% of the water available to them. This suggests to me that though those irrigators have a low farm income they are not using the extra water available to them because they cannot make extra income from the industries they are in by the use of that water. If we now look at table A9.2 we see a different situation where a greater % of water available was actually used and in one case more than allocation was used. In looking at the information provided I can only draw the conclusion that the farmer growing cotton was receiving a far greater return than the others and it was in his interests to use as much water as he could. Looking at the figures I can only assume that there was a far greater return to the state in the use of that water there. I now have to go back to personal experience to provide circumstantial evidence. For a period of time I was involved with Murray-Goulburn irrigation in the Rochester irrigation district. Irrigators there have a guaranteed (97% guarantee) supply for their allocation, which they had to pay for whether they took delivery of the water or not. It is a mixed irrigation area with just over half of the farms being dairy farms and the rest a mixture of grazing and irrigated cereals. If supplies of water were plentiful then a sales allocation was announced and paid for on use at the same price/Ml as quota water. It was an observation that dairy farmers used in excess of 160% of allocation while the mixed irrigator rarely used more than 100% (there was anecdotal evidence that irrigators who had not used their allocation during the season would start their wheels and let the water run down the drain- they had to pay for it whether they used it or not). This observation intrigued me sufficiently to look for a reason. From economic data available I took a theoretical 200ha farm with a water allocation of 300 Ml, with an assumed allocation of 200%, ie 600Ml of water available. By looking at the potential of production with the basic resources available I developed theoretical Gross Margins for each industry in the area. In summary they provided Gross Margins of \$30-\$40/Ml for grazing properties about \$80/Ml for various irrigated crops and \$200/Ml for dairying. It was obvious as to why the dairyfarmers were using more water, they could make more money out of it and was worth their while to produce more. For the total community the use of water for dairying was far more profitable than other industries pursued in the district

If I look at other natural resources and how the state handles those, it provides an indication of how water could be handled. If I look at our mineral resources it is left to the individual or company to mine those resources and the state gains a benefit by taking a royalty based on production plus providing employment for those involved in the operation. If the commodity becomes uneconomic to produce then the mine is closed but that will not happen until the actual cost of production (variable costs) exceeds returns. The same analogy could be used for infrastructure put in place by Government such as road and rail. These are open for all to use but you only pay if you use it.

I appreciate that drainage is not part of this brief but it must be taken into consideration in making decisions about the use of water. Availability of quality water for our community is essential. Contamination of that supply of water has to be prevented and this then becomes part of the irrigation scene. If drainage off the irrigated property destroys the quality of water in that stream then that should be prevented. I don't believe it is possible **to** stop all drainage from irrigated land, heavy rainfall will and does occur.

General comments.

Many irrigators have spent a lot of money in improving irrigation efficiency over the last fifteen to twenty years.

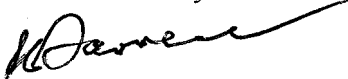
The freeing up of water transfer has allowed irrigators to try and ensure a supply of water to try and ensure a return on this investment.

Many commentators have suggested that pricing of water should be used as a mechanism to control the use of water. This assumes that beurocrats have a better idea of the value **of** water than the market place .

Summary

In your opening comments you state that one of the Tribunal's primary considerations for this determination is the need to set maximum prices for bulk water services that more adequately recover the costs of DLWC. I hope **I** have provided you with sufficient data to go back to Government and convince them that the community, who they are supposed to represent are already getting a return from the investment and will continue to do **so**. No it is not in the terms of hard cold cash but in a plentiful and guaranteed supply **of** food and water. Instead **of** providing a subsidy for farmers to provide these goods as they do in many countries, that money is left in kitty for our politicians to spend on the other perceived essentials of our lives. Good Luck.

Yours faithfully



Roger O'Farrell