



Incorporating Buronga,
Coomoalla and Curlwaa
Irrigation Areas.
ACN 067 197 853

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19 April 2005

Mr. James Cox
Chief Executive Officer
IPART
PO Box Q290
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Dear Sir,

Western Murray Irrigation Limited's submission to IPART's review of Bulk Water Prices from 2005/06

Please find enclosed Western Murray Irrigation Limited's (WMI's) submission to IPART's review of bulk water prices from 2005/06.

I would like to thank you for the opportunity to provide this submission, and would welcome the opportunity to attend the hearing.

In the mean time, should you have any queries regarding this submission, please do not hesitate to contact WMI's General Manager, Michael Sautner, on (03) 5027 4953.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Ian Murdoch".

Ian Murdoch
Chairman



Western Murray Irrigation Limited

ACN 067 197 853

Submission to the IPART Review of Bulk Water Prices from 2005/06

1. Introduction

Western Murray Irrigation Limited (WMI) is an unlisted public company limited by shares. WMI shareholders hold an entitlement to approximately 61,000 ML of high security water, of which approximately 30,000 ML is delivered annually to irrigators within WMI's three irrigation areas of Buronga, Coomealla and Curlwaa. The water is pumped directly from the River Murray via three separate pumping stations and delivered through fully pipelined delivery infrastructure.

2. This submission

WMI supports the NSW Irrigators Council submission to IPART. There are two areas where WMI would like to add to that submission, namely the balance between high security and general security entitlement prices, and wholesale discounts.

3. Balance between high security and general security entitlement charges

WMI supports full cost recovery, and is not arguing against paying a higher price for high security water compared with general security water. It is important to note, however, that the price differential should be based on additional costs incurred by State Water in administering and delivering this water, and not the benefit of additional security that high security water brings. This benefit is reflected in the premium in the retail price of high security water.

State Water's submission cites two main reasons for increasing the ratio of high security to general security prices. These are firstly the opportunity cost of not being able to sell water that has to be retained for high security allocations in the following year, and secondly, increased evaporation and transmission losses resulting from State Water having to store the water for two years rather than one.

Similarly to the Murrumbidgee Valley, high security water in the Murray Valley is underwritten by the Minimum Notification Releases by Snowy Hydro. This, along with the minimum historical inflows, is sufficient to cover high security entitlements in the Murray Valley.

Even if State Water was required to store water for high security entitlements for an additional period of time, it is important to distinguish between the opportunity cost of not being able to sell that water, and the additional cost of storage. While the storage cost may be directly proportional to the time that the water spends in storage, the opportunity cost of the additional storage time is simply the cost of delaying the sale of the high security water by the additional time it spends in storage, not the complete loss of that sale. It could also be argued that the opportunity cost is a once off cost

(the first time the additional water was collected in the dam) and that this was incurred prior to the formation of State Water.

The introduction of the cap further decreases this opportunity cost (assuming there is one) because in the majority of years, State Water would not be able to sell this additional water.

State Water also argues that the additional time the water spends in storage increases both evaporation and transmission losses, however, it provides no information on the magnitude of these losses. WMI believes that if State Water wishes to implement charges for increased evaporation and transmission losses, these charges should have a scientific and economic basis, and State Water should provide relevant data in their support.

In addition, State Water argues that the conversion of general security licenses to high security licenses results in a reduction in State Water's revenue. While this may be the case, this cost should not be borne by existing high security license holders, but rather by the license holder converting the entitlement from general security to high security. This could be implemented in a number of ways, including the tagging of all water that is converted, or by imposing a fee upon conversion which covers State Water's loss in revenue. WMI does not believe that State Water's proposal of increasing the charges for high security entitlements is appropriate, and State Water must be careful not to introduce third party disbenefits.

WMI argues that if State Water wishes to levy higher charges for high security water than general security (which is supported by WMI), State Water should clearly demonstrate how these additional costs are calculated, and not simply list a number of additional costs, and apply what appears to be an arbitrary factor.

If State Water cannot produce the supporting documentation for its proposed increased ratio of high security to general security water prices, WMI believes that the current ratios should be maintained until the supporting documentation can be produced.

4. Wholesale Discounts

WMI supports the submissions of NSWIC and Murray Irrigation Limited on the issue of wholesale discounts. Applying the principal of economies of scale, the cost per megalitre of servicing a given license must decrease as the volume of water attached to the license increases. In addition, Irrigation Corporations perform the functions that would otherwise be required of State Water. In the case of WMI, this includes the reading of approximately 400 meters. WMI also assists State Water's management of flows by providing four and seven day advance extraction forecasts, as well as actual daily extraction figures.

In addition, WMI is responsible for the management of irrigation drainage and stormwater, the monitoring of groundwater levels and the operation of several

groundwater interception pumps, all of which would not be undertaken by individual diverters.

WMI believes that the wholesale discounts should be retained, and would like IPART to consider increasing the size of the discount received by WMI, given the discounts and relative water diversions of other similar sized Irrigation Corporations in the Murray Valley.