



2018

Parliament of Tasmania

LEGISLATIVE COUNCIL

SELECT COMMITTEE

FINAL REPORT

ON

Tasmanian Irrigation

Members of the Select Committee

Hon Ivan Dean MLC

Hon Greg Hall MLC, Chair (to 28 January 2018)

Hon Craig Farrell MLC, Deputy Chair (from 30 May 2018)

Hon Leonie Hiscutt MLC

Hon Tania Rattray MLC, Deputy Chair (to 28 January 2018),
Chair (from 30 May 2018)

TERMS OF REFERENCE

On Tuesday 14 November 2017, the Legislative Council resolved that a Select Committee be appointed to inquire into and report upon Tasmanian Irrigation with the following Terms of Reference —

To inquire into and report upon the future management of water rights and associated assets that are currently administered by Tasmanian Irrigation Pty Ltd.

Disclosure: Mr Hall and Mrs Hiscutt are both customers of Tasmanian Irrigation's Meander and Dial Blythe Schemes respectively.

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ABBREVIATIONS

AAT	Anglers Alliance Tasmania
DPIPWE	Department of Primary Industries, Parks, Water and Environment
EMIT	Elizabeth Macquarie Irrigation Trust
EPA	Environmental Protection Agency
EPBC	Environment Protection and Biodiversity Conservation (Act 1999)
GBE	Government Business Enterprise
IRC	Irrigator Representative Committee
MSP	Macquarie Settlement Pipeline
RWSC	Rivers and Water Supply Commission
SERUS	South East Re-Use Scheme
TAPG	Tasmanian Agricultural Productivity Commission
TI	Tasmanian Irrigation Pty Ltd
TIDB	Tasmanian Irrigation Development Board

CHAIR FOREWORD

The Inquiry into Tasmanian Irrigation (TI) was established at the initiative of Hon Greg Hall MLC to examine the current governance and management of TI as a result of a number of issues raised by some members of the agricultural sector.

Concerns had been expressed that TI pricing of water was higher than anticipated at the outset of the proposed schemes. Whilst there was strong support for personnel working within TI, there was also concern that TI had excluded irrigators from the planning and decision-making process. Some concern was also expressed that management of the completed schemes would not devolve to irrigators, as had been the initial understanding by some of the user groups.

To its credit, TI has acknowledged the concerns and issues raised throughout the course of the Inquiry. In response, TI has made significant changes to its management and communication processes. These include improved communications, including financial information, with irrigators via its website, greater engagement with irrigator representative committees and development of a reference document explaining the process options for transition to self-management of schemes. These changes are outlined in a document tabled by TI (Appendix 2) and in Hansard transcripts of 16 August 2018.

An important recommendation of the Inquiry is that a pathway be facilitated for each scheme to determine its own future, whether this be remaining with TI, self-management, or a hybrid model using the resources of TI. Other recommendations include options for irrigators to have more input into the management of their schemes and to ensure that TI continues to be transparent, accountable and responsive to its users.

On behalf of the Committee, I would like to thank all individuals and organisations who participated in the Inquiry for their time, effort and patience in making submissions and providing information during public hearings.

The Committee also acknowledges the valuable contribution of the former Chair of the Inquiry, Hon Greg Hall MLC, whose interest in both this matter and the broader agricultural sector continues to be of great benefit to Tasmania.

I also extend the Committee's thanks to the Inquiry Secretary Natasha Exel and Executive Assistant Allison Waddington.



Hon Tania Rattray MLC
Chair

INTRODUCTION

Background

1. TI is a State-Owned Company that develops, owns and operates irrigation schemes in Tasmania. TI is governed by a Board comprised of five independent non-executive Directors.
2. TI was formed in 2011 when the Tasmanian Government dismantled the Rivers and Water Supply Commission (RWSC) and merged its two entities, Tasmanian Irrigation Development Board (TIDB) and Tasmanian Irrigation Schemes (TIS) into TI.
3. TI currently manages a portfolio of assets valued in excess of half a billion dollars. It manages and maintains infrastructure which currently includes:
 - 25 dams;
 - 38 pump stations;
 - 3 power stations (including assets in construction);
 - 1,042 km of delivery pipeline; and
 - 992 property outlets.
4. As of January 2018 there were 979 active irrigation rights and 732 delivery rights throughout TI irrigation schemes.
5. Water sourcing for direct supply to irrigators or into storages is provided under the following arrangements:
 - Water Licenses for catchment runoff and pumping from rivers;
 - Water Supply Contracts from either Hydro Tasmania or TasWater.
6. TI is the holder of eighteen water licences under the *Water Management Act 1999*. These licences have 46 allocations that authorise access to water for operational schemes and for those currently under construction. TI is responsible for management of these licences. TI also has a number of contractual water supply arrangements in place with Hydro Tasmania and TasWater.
7. Water is supplied to irrigators via pipelines, channels or waterways and a combination of one or more of these mechanisms may be used.
8. TI coordinates 13 irrigator representative committees, providing them with detailed scheme operational information including maintenance plans, financial information and water delivery plans.
9. All schemes developed by TI are designed to last 100 years and deliver water at an average reliability of greater than 95 per cent.

10. The first stage of irrigation development, Tranche 1, delivered nine irrigation schemes delivering approximately 75,000 megalitres of water to a potential area of 133 000 hectares. These schemes include the Dial Blythe, Great Forester, Lower South Esk, Midlands, Upper Ringarooma, Whitemore, Sorell, Kindred North Motton and Sassafras Wesley Vale schemes.
11. The second phase of irrigation development, Tranche 2, is underway, with a further five schemes approved, under construction or completed. These schemes will have a combined capacity of 28,000 megalitres, with a potential to reach 82,000 hectares. They include the Southern Highlands, Duck, North Esk, Swan Valley and Scottsdale irrigation schemes.
12. The Tasmanian and Commonwealth governments are jointly supporting an investigation into further opportunities in a potential third stage of development. Eight possible schemes are being considered for development, with the potential to make available in excess of 45,000 megalitres of summer irrigation water. A further five scheme modernisation or augmentation projects are also being considered.¹
13. TI advised that 13 of its schemes had been funded using the public-private partnership model:

...the public-private partnership model is one where the private sector contributes some of the funding and the government is set to contribute some of the funding.... For the 13-odd schemes to date, the private funding has represented 25 per cent of the funding of the schemes. The private funding comes in through the purchase of water entitlements. The other 75 per cent is being funded through both the federal and state governments' contributions.²

14. In 2011-12, TI's Annual Report reported its Statement of Corporate Intent: The principle purpose of Tasmanian Irrigation, as outlined in the Members' Statement of Expectation prepared by the shareholding ministers, is to undertake the following:
 - develop, own and operate irrigation schemes in Tasmania, and where feasible and appropriate, to facilitate local community management of these schemes.³
15. In 2016-17, TI's current Statement of Corporate Intent changed to:

The principal purpose of Tasmanian Irrigation is to develop, own and operate irrigation schemes in Tasmania, in accordance with sound commercial practice, for the purposes of facilitating the expansion of agricultural production in the State.⁴

¹ Hansard transcript, Carole Rodger, 25 January 2018, p.34

² Hansard transcript, Samantha Hogg, 16 August 2018, p.2

³ Tasmanian Irrigation Annual Report 2011-12, p.12

⁴ Members' Statement of Expectation, Tasmanian Irrigation Pty Ltd, June 2017:

https://www.tasmanianirrigation.com.au/source-assets/documents/publications/Members_Statement_of_Expectations_-_No_Title_Page.pdf (Accessed 18 September 2017)

Establishment of the Inquiry

16. The Inquiry was established by resolution of the Legislative Council on 14 November 2017 and its operation is governed by Standing Orders agreed to by the Council.
17. The Committee met on 16 November 2017 and elected Hon Greg Hall MLC Chair and Hon Tania Rattray MLC Deputy Chair.
18. The Inquiry was advertised in Tasmania's three daily regional newspapers. The Committee contacted a number of individuals and organisations with specific knowledge and interest in the matter and invited them to provide evidence to the Inquiry.
19. The Committee established a dedicated webpage at:
<http://www.parliament.tas.gov.au/ctee/Council/LC%20Select%20Tas%20Irrigation.html>.
All submissions and transcripts are included on the web-page and these should be read in conjunction with the Committee's Report.
20. Fifteen submissions were received. Public hearings were held in Launceston on 23 January, 24 January and 25 January 2018. The Inquiry took verbal evidence from 18 groups and individuals. A list of submissions and witnesses is provided in Appendix 1 of this Report.
21. Parliament was prorogued on 28 January 2018 and the Committee was unable to continue until the commencement of the new Parliament.
22. The Committee was re-established by resolution of the Legislative Council on 28 January 2018.
23. The Chair of the Inquiry Hon Greg Hall retired from Parliament on 5 May 2018.
24. The Committee met on 30 May 2018 and elected Ms Rattray as Chair and Mr Dean as Deputy Chair.
25. Public hearings were held in Hobart on 16 August 2018 and two organisations provided verbal evidence.
26. The Committee reviewed its Report on 25 September 2018 and resolved to release a Final Report. The Committee intends that this Report be considered in its entirety.

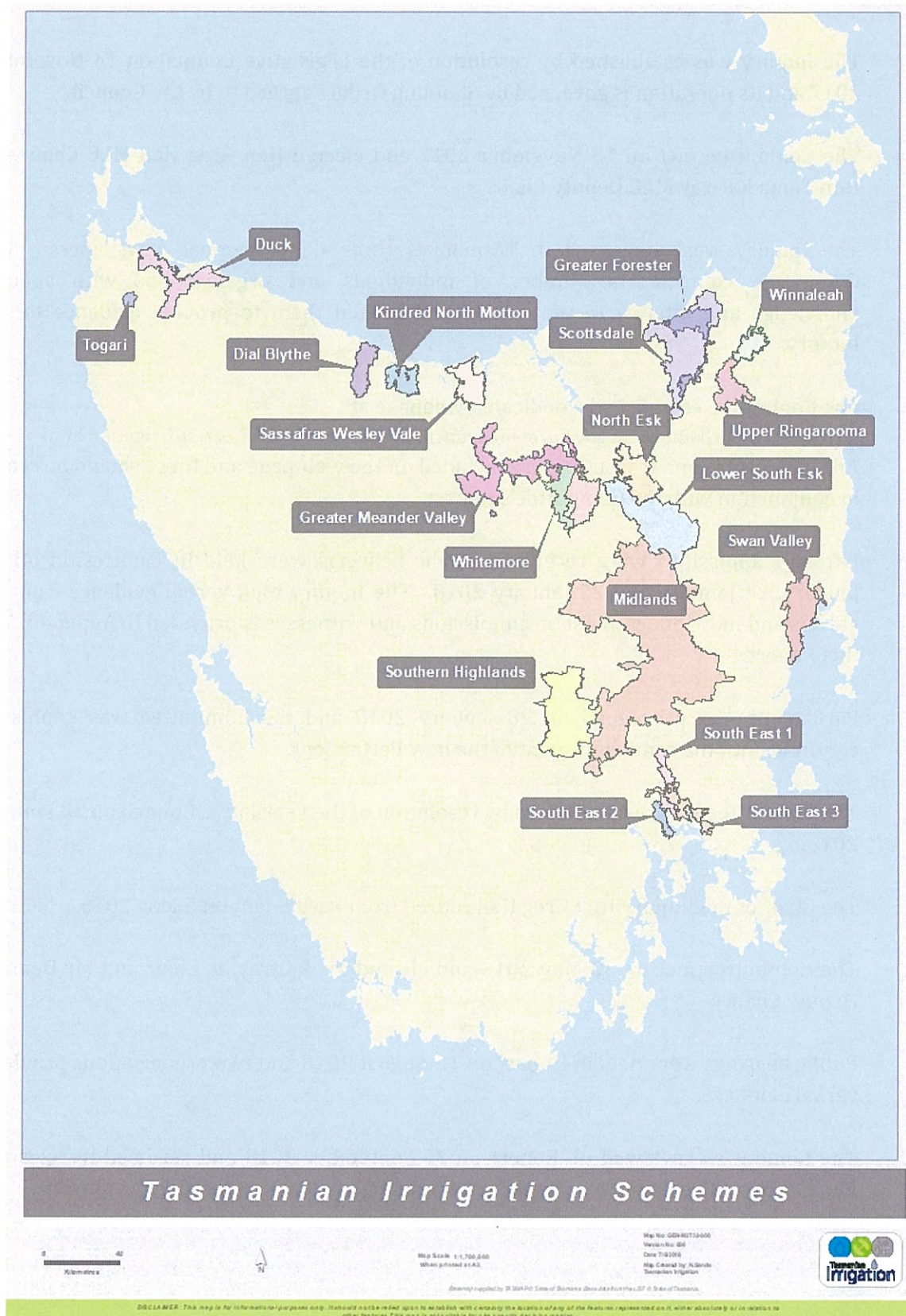


Figure 1: Map of TI irrigation schemes (courtesy of Tasmanian Irrigation)

FINDINGS

1. TI has successfully developed and rolled out irrigation infrastructure schemes in Tasmania. TI was only established in 2011 and is expected to continue to evolve.
2. TI is funded through a public private partnership model. Private individuals are investing in publicly owned irrigation infrastructure, including future maintenance.
3. TI is working on a full cost-recovery basis including the costs of staff administration which is built into annual fees.
4. TI has a monopoly on the provision of large-scale, off-farm irrigation services in Tasmania.
5. TI schemes will provide 95% reliability in the delivery of irrigation water in Tasmania.
6. The post farm-gate sector has invested significantly in Tasmania and water reliability has been an important contributing factor.
7. Availability of water will boost agricultural productivity in areas of Tasmania that would not previously have been so productive.
8. The Meander Scheme cost of \$1,100 per megalitre has become the benchmark. The cost of delivery is approximately \$485 per megalitre.
9. The Elizabeth Macquarie Irrigation Trust does not wish to lose control of the management of its Scheme.
10. The Elizabeth Macquarie Irrigation Trust Scheme meets all statutory requirements at a lower cost.
11. Self-management of access to water provides flexibility to irrigators.
12. TI's statement of corporate intent was changed to state that TI would develop, own and operate irrigation schemes rather than facilitate local community management of the schemes.
13. Legal access to irrigation valves is critical for irrigators.
14. Irrigators may consider developing their own private schemes in order to bypass TI as the cost of building their own dams can be depreciated.
15. Some schemes have not had full uptake of their available water entitlements.

FINDINGS CONTINUED

16. The Tasmanian Irrigation Board is not representative of its customer base.
17. Water costs are not consistent across the schemes, leading some consumers to believe that they are subsidising other schemes.
18. TI has been negotiating more favourable terms with Hydro and Tas Water.
19. There would be significant benefit in retaining TI corporate expertise within Tasmania.
20. TI has significantly reduced corporate costs and further cost reductions are anticipated.
21. Information is not publicly available from TI and other schemes regarding water allocations, volumes and water flows.

RECOMMENDATIONS

The Government –

1. Facilitate a clear pathway for each scheme to determine its own future, whether this be:
 - self management;
 - a hybrid model using the resources of TI; or
 - management remaining with TI
2. Ensure that irrigator groups remaining with TI have the opportunity to provide input into the management of their schemes.
3. Facilitate local community management groups, together with the means for smaller schemes to pool resources, for example, to share the costs of a business manager.
4. Ensure that TI continues to be transparent, accountable and responsive to its users, including making all relevant information publicly available.
5. Review the TI board membership with a view to making it more representative of its customer base.

EVIDENCE

Value of TI to Tasmania

1.1 The TFGA, in its written submission stated:

The TFGA note that Tasmanian Irrigation Pty Ltd (TI) have undertaken an ambitious program of developing irrigation schemes across Tasmania, and they should be commended on the timely construction of dams built to last 100 years, and to deliver water at an average reliability of greater than 95%.

The development of irrigation schemes has brought the following to many districts, including:

- *Increased output per hectare;*
- *Improved surety of product quality and supply;*
- *More enterprise (product) options;*
- *Downstream processing;*
- *Economic stability; and*
- *High level of water supply surety for users.⁵*

1.2 Mr Jim Wilson, Chair of the Tasmanian Agricultural Productivity Group (TAPG) spoke of the value of TI to Tasmanian agriculture, particularly with regard to risk mitigation:

.... Tasmanian Irrigation provides a great risk mitigation tool for Tasmania. If you consider yourself as an international agricultural business looking for places to invest, Tasmania is a compelling case on the basis that water has mitigated a lot of risk attached to biological processes attached to our agricultural industries.⁶

And

There are companies now, a large Dutch seed company, that are growing crops in Tasmania - crops that were traditionally grown in France, which cannot be grown there now because it is too hot. Many businesses are future proofing their operation. At the level they operate on and the expenditure that they are going to risk, they want to meet a body that is responsible for providing that insurance policy.

There is a case for TI to be recognised as that senior body in terms of... the provision of the water ongoing into the future.

And

However, there is a professionalism about Tasmanian Irrigation that I think is healthy and projects Tasmania well at the international level.⁷

⁵ Written submission, TFGA, p.2

⁶ Hansard transcript, Jim Wilson, 215 January 2018, p.17

⁷ Hansard transcript, Jim Wilson, 25 January 2018, p.19-20

- 1.3 This was echoed by Sassafras and Wesley Vale Irrigation Scheme (SWIS) water rights owners Stuart Greenhill and David Addison in their written submission:

It is our belief that without TI, SWIS would never have been built, which would have definitely further eroded confidence after the closure of the Australian paper mill and excess water not being used. Instead we received an irrigation scheme that slowly started to help and rebuild confidence with new industry coming into the area such as Costas berry operation which had never done business in this area before and now employ substantial amounts of locals.⁸

- 1.4 Mr Doug Dickinson of Cuthbertson Bros Pty Ltd advised:

As a retired Property Valuer, I am aware that a government supported water right increases land values by as much as \$10,000 per hectare. A water right promotes development of approximately \$40,000 per hectare of cherries, grapes etc.⁹

Current management and operation of TI

- 1.5 TI stated that an irrigator satisfaction survey carried out by DPIPW found that 83% of those surveyed and who identified themselves as TI irrigators were satisfied or extremely satisfied with the service and support provided by TI during the 2015/16 season.¹⁰

- 1.6 The TFGA in its written submission stated that:

Some schemes have become increasingly sceptical of TI's ability to efficiently administer the schemes, irrigators are wanting a more balanced model that allows meaningful input to business and operational decision making with a view to developing a more competitive enterprise.

The TFGA recommended that the Inquiry consider, as an overarching problem, the lack of meaningful involvement of irrigators in business decision making, and in the strategic direction of TI.¹¹

- 1.7 The submission from TI advised:

The benefit of independent governance and oversight provided by TI was proven during the 2015-2016 extreme dry conditions. TI ensured that all water was delivered state-wide; it worked in the South East to harness newly built TI infrastructure to supply water to older schemes where reliability could not be sustained and it negotiated strongly with Hydro Tasmania to ensure that supply to the Midlands irrigation scheme was secure.¹²

- 1.8 A number of witnesses and submissions raised the issue of water restrictions in the Coal River (Stage 1) and South East Stage 2 schemes.

⁸ Written submission, Stuart Greenhill and David Addison, p.2

⁹ Written submission, Doug Dickinson, p.1

¹⁰ Ibid, p.7

¹¹ Written submission, TFGA, p.4

¹² Hansard transcript, Nicola Morris, 23 January 2018, p.1

- 1.9 Mr Doug Dickinson informed the Inquiry of the situation in the Coal River:

The scheme under which we operate has been in operation for approximately 30 years and worked very well for 25 years. Recent years have seen a continual restriction on water use during the Summer period because of availability of water quota in recent times. This has led to frustrations by existing operations since more water rights have been sold than the existing scheme can handle. There is no doubt that our Coal River Stage II scheme has been badly managed.¹³

- 1.10 TI acknowledged that some short-term flow limitations had been implemented due to the low level of the Craighourne Dam. However it also pointed out that it holds no water entitlements in the Coal River and therefore is unable to sell any.¹⁴

- 1.11 Mr Anthony Bayley, representing South East Irrigators Stage 3, made the following statement:

...we have been approached as an irrigation representative committee by numerous irrigators who are concerned with inefficiencies within TI. We do not really know ourselves what the situation there is. There are anecdotal reports that it has been a bit top heavy as far as management goes, a few other things like. We feel there needs to be some sort of reporting or transparent type of reporting to irrigators so we can be assured and we can go back to our irrigators in our area and we can assure them that this is what it costs. We see that if TI was able to reduce costs and make things more efficient then that is going to benefit us. It is going to reduce the cost of our water, we are going to have more money to spend on infrastructure and it is a snowball effect.¹⁵

- 1.12 Mr Nigel Clark, former Manager of the Cressy Longford Scheme, however, believed that disputes over water supply were uncommon and that TI therefore did not have a role negotiating disputes. Mr Clark stated:

There would be the odd one where someone had started too many pivots or something like that and run someone below their amount of water, but it was just a matter of me going along and saying, 'Hey, you need to turn that off, I've given you a pretty good run', and it was only a phone call.....I haven't heard of any conflicts on any irrigation schemes where farmers have actually stood back and argued... They've (TI) never come in and settled anything; I've never heard of it. They definitely haven't had to come and do it at Cressy Longford because if I couldn't settle it, no-one was going to settle it.¹⁶

- 1.13 The written submission from Elizabeth Macquarie Irrigation Trust (EMIT) advised:

The Trust contributed a substantial amount of funding to the cost of repairs to the Lake Leake dam wall in 2015. These repairs were undertaken by TI on behalf of the owner, DPIPWE. Subsequent inspections showed evidence of leakage at the base of the dam, and a noticeable slump from the masonry wall across from the area repaired.

¹³ Written submission, Doug Dickinson, p.2

¹⁴ Tabled document TIR/6, Tasmanian Irrigation, p.21

¹⁵ Hansard transcript, Anthony Bayley, 25 January 2018, p.77-78

¹⁶ Hansard transcript, Nigel Clark, 24 January 2018, p.5

DPIPWE was notified of these matters in October 2016 and, in response, advised that further inspections to ascertain the cause of these issues and remedial work required would be undertaken in early 2017. The Trust has subsequently been advised that there are no plans to redress these issues. That is not a satisfactory outcome.

The Trust believes that the cost of these repairs was inflated by specifications beyond the base requirements, and that appropriate commercial practices were not followed in that the works were not completed to an acceptable standard and no steps have been taken to effect repairs.

Cost estimates provided to the Trust for these repairs by reputable operators ranged from \$100,000 to \$150,000.

The total cost of the repairs undertaken by TI on behalf of the department was around \$450,000 - and the problem is yet to be rectified.¹⁷

1.14 In response, TI advised:

DPIPWE engaged TI for specific works to stabilise the dam, following a "dam safety" event at Lake Leake. This work was undertaken in accordance with the grant deed using available expertise and resources. The work was completed as an emergency event and TI utilised external contractors for all aspects of the work which was required to be compliant with ANCOLD dam safety guidelines.

The repair is performing exactly as it was designed to, which allows seepage to occur.¹⁸

1.15 Mr Julian von Bibra, Chair of EMIT, advised the Inquiry:

It was always a requirement of us, we had a right of way to our valves, so whilst we do not own the dam, we do not own the body of water, we have a proportion of water in that and it is critical to us and if we do not have a right of way to the valve, our lifeline is cut. Whilst TI is saying they will work with us, if we do not have a right of way we are essentially at the behest of what they might say to us. We have lost control of our resource.¹⁹

For us to be able to manage that water is key. If someone else gets control of that, we are in all sorts of trouble. If we cannot access it, we are absolutely in trouble - for any reason. If they suddenly decide they are shutting those facilities down, they are deemed dangerous or whatever, there is our stock and domestic water gone; there is our township water gone; there is our community water gone; and our environmental water - to say nothing of the irrigation water.

To me, that is non-negotiable and who knows why they might suddenly assess. At the moment relationships are really good but what if we dig our heels in on cost and say that we can't afford that bill. What if they then say, 'You guys can't touch that valve.'? Or what if it is only an engineer can be on there? Or only someone of certain safety surveillance? Or two people have to be there? Whatever it might be, we are suddenly ruled out of having access to our water, it is critical.²⁰

¹⁷ Written submission, Elizabeth Macquarie Irrigation Trust, p.5-6

¹⁸ Tabled document, TIR/6, Tasmanian Irrigation, p.15

¹⁹ Hansard transcript, Julian von Bibra, 24 January 2018, p.35

²⁰ Hansard transcript, Julian von Bibra, 24 January 2018, p.42

Corporate and operating costs

- 1.16 A number of witnesses and submissions stated that TI's corporate and administrative costs, as well as infrastructure development costs, were higher than could reasonably be expected. A number of examples were provided.

- 1.17 Midlands Water Scheme Irrigator Representative Committee, in its written submission stated:

The Midlands Water Scheme Irrigator Representative Committee (MWS-IRC) is dissatisfied with:

- *The high level of administration costs, (\$700 000 in 2016-2017 year) charged annually by Tasmanian Irrigation Pty Ltd to the Midlands Water Scheme.²¹*

- 1.18 Mr Andrew McShane, representing MWS-IRC, advised the Inquiry:

It is a built scheme that we've got here. It has one very small dam; the rest is pipelines. It has some complex infrastructure in terms of a mini-hydro, but apart from that it is pipes and valves. It is a built scheme. It shouldn't cost \$700,000 a year for administration.²²

- 1.19 Mr Nigel Clark advised the Inquiry of the management of the Cressy Longford Scheme, which is a self-managed trust administered by KPMG at an approximate cost of \$40,000 per annum:

The water is probably the cheapest water in Australia but it is also one of the most profitable little schemes. We have millions of dollars in the bank.²³

- 1.20 In relation to the Cressy Longford Scheme, TI advised:

KPMG services relates to governance, secretarial and financial advice only. Total costs are significantly more than this.²⁴

- 1.21 The Dial Blythe Water Scheme advised that it had recently proposed to establish its own management board, paid for by funds previously paid to TI.²⁵

- 1.22 Mr Derek Gee, representing the Dial Blythe Scheme outlined charges to the Dial Blythe Scheme for TI staff support:

One bloke goes around 36 gate valves, turns them all on. At the end of the period he turns them all off, reads the meter and he has to be available through the period of scheme to be able to turn others on or off and be available. In 2015 we were charged \$150,000. In 2016 it was \$201,000 and it is proposed another \$187,000 this coming year. A total of \$545,000

²¹ Written submission, Midlands Water Scheme Irrigator Representative Committee, p.1

²² Hansard transcript, Andrew McShane, 24 January 2018, p.61

²³ Ibid, p.7

²⁴ Tabled document TIR/6, Tasmanian Irrigation, p. 17

²⁵ Hansard transcript, Derek Gee, 25 January 2018, p.4

over three years, to have one bloke support us for having backup support and it is only half a full-time equivalent.

Our scheme has been built, we do not want to be exposed to those further costs. We think the scheme we have is excellent. We are very happy with it, but it is a dam. You just turn the pump on and it pumps water; it is brand new and there is very little maintenance required. Our attitude is, the expected costs for this overhead O&M is going to be in the order of \$545,000 over the three years.... It is not a huge scheme to have a half a million dollar operations and maintenance costs applied, it seems over the top. We are concerned the current management is not transparent in its presentation of costs.²⁶

- 1.23 In August 2018, TI advised that its corporate costs had significantly reduced over the past two years, with a 28 per cent reduction from 2016-17 to 2017-18 and a further 9 per cent reduction forecast for 2018-19.²⁷

Water costs

- 1.24 The written submission of EMIT noted:

...the ongoing cost of water delivery through fixed and variable charges in TI-managed schemes is much higher than that in farmer-managed schemes such as EMIT and the neighbouring Macquarie Settlement Pipeline (MSP) scheme.²⁸

- 1.25 The Inquiry received evidence that water could be delivered at a cost of \$485 per megalitre, but that TI had set benchmark prices of \$1 100 - \$1 200 per megalitre. Mr Ferdie Foster advised the Inquiry:

The other point I would like to bring up is the cost of water. I do not know if you are familiar with how the cost of water was derived that farmers pay but initially when they built the Meander Dam they promised it would be at cost to the farmers. On the amount of water that has been allocated the Meander Dam, the cost is \$485 per megalitre or thereabouts. I got this under freedom of information [RTI] from the department and I said to the very nice gentleman who gave me this information, 'How the hell do they come up with \$1,100 [per megalitre]?'. He looked at the ceiling and he looked at the floor and said, 'The powers that be decided that is what farmers could afford to pay'..... while the people in Deloraine may be able to afford to pay that, when you come down the Midlands it's a totally different ball game because basically we need double the water per head there because of the climate, the soil type and everything else. What I'm trying to say here is that production is limited by affordability.²⁹

- 1.26 Mr Ken Lawrence, Chair of Meander Irrigators advised:

Fixed water charges have increased by 19 per cent over the eight years, so about 2.4 per cent a year which is they have said is in line with inflation. The variable charges are a very different arrangement. That is cost recovery of delivering the water. The river is just a

²⁶ Hansard transcript, Derek Gee, 25 January 2018, p.3

²⁷ Hansard transcript, Samantha Hogg, 16 August 2018, p.1

²⁸ Written submission, Elizabeth Macquarie Irrigation Trust, p.5

²⁹ Hansard transcript, Ferdie Foster, 23 January 2018, p.28

straight release out of the dam and down the river so there is minimal increases there, 16 per cent over the eight years.

The pipelines are a different story. Pumps are involved to deliver water around the different regions. The coast side pipeline has increased 68 per cent over the eight years; Rubicon's 49 per cent over the eight years; Hagley, 78 per cent; and Quamby, 55 per cent. The irrigators are paying quite high increases on water charges. We do struggle with their increasing by that amount.

Our main comments are that the inconsistency in the financial details provided and the differences in the coding make it very hard to compare from year to year.³⁰

- 1.27 AK Consultants written submission made the following observations regarding water pricing:

In our opinion the capital and annual costs of water from TI are high, when compared with farmers' own dams and direct takes, even after allowing for differences in reliability. Of course, this is not always the case, but we have conducted quite a few financial comparisons and higher costs for TI water are not uncommon. This is not to say the TI costs are unjustified, rather that it is appropriate to review the annual costs that TI charge to irrigators, and determine whether there is opportunity for the TI's annual costs to be reduced; perhaps via local management.³¹

- 1.28 Mr Jim Wilson expressed the following point of view:

Yes, we acknowledge that the water does look expensive at the moment, but using the hydro analogy the long-term position is that we will reflect on this time in the future and think it was a critical step in creating value in Tasmania and that water will indeed look cheap over a longer period of time.³²

- 1.29 TI advised that centralised water delivery costs are also forecast to reduce over a three year period, with a 19 per cent reduction forecast for 2018-19.³³

- 1.30 Mr David Downie, representing EMIT, advised the Inquiry of the inability for users to depreciate their purchased water rights:

With the TI schemes, unfortunately there was no tax rebate so in the TI schemes you could not depreciate your investment off your accounts, but with us, it is privately funded, just like if anyone builds a private dam on their property, you can get that depreciation back, which makes it a lot more affordable.³⁴

³⁰ Hansard transcript, Ken Lawrence, 24 January 2018, p.14

³¹ Written submission, AK Consultants, p.6

³² Hansard transcript, Jim Wilson, 25 January 2018, p.20

³³ Hansard transcript, Samantha Hogg, 16 August 2018, p.1

³⁴ Hansard transcript, David Downie, 24 January 2018, p.40

Water sales

- 1.31 The TFGA advised that the uptake of available water rights in some of the newer schemes remains at around 70% and pointed out that less water sold would increase costs for each irrigator.³⁵

- 1.32 Mr Julian von Bibra made the following statement:

The Midlands Water Scheme, which is the one EMIT now has a lot of influence with, had some unsold winter water. The scheme was very expensive and most of my peers did not invest in it, which is a warning sign it was not going to meet our needs. In areas like the Southern Midlands where there were no options, it was very much an easy decision. In our landscape where we have Tooms Lake, Lake Leake and a lot of private water held on farms and annually recharged through the river system and its tributaries, this was not seen as a saviour. There was not a lot of investment in it and we are left with some unsold water.

That unsold water needs some creativity to get it back into the marketplace.³⁶

- 1.33 Mr Nigel Clark advised the Inquiry of dissatisfaction regarding the operation of the Cressy Longford Scheme:

There are 40-odd farmers at Whitemore and they have asked me time and time again the Cressy Longford scheme should take over. Because they are getting the water out of our scheme, we should be running that scheme.

.....It made sense for Cressy Longford to take the scheme over. It is not a big scheme to run and it is all pipes, so not hard to run. The guys running it now are doing a great job. The managers on the ground are doing a great job. The idea of water delivery was you are entitled - you have 40 farmers, and yes, they spread it out, so you might be entitled - depending on how much water you bought, you will get half a meg a day, so you have to run your water.

They have never run a system at 40 megs a day, so therefore there is extra water available to farmers, but they will not let the farmers have it unless they do a water trade with another farmer. What farmer has the time to go mucking around doing a water trade? When I was running the scheme at Longford, if I had extra water, I would let the farmers have it. They would ring me up on the day and say, 'Hey, can I run an extra pivot?' I would say, 'You are up to your limit, but I have a heap of water going past you. Why don't I let you have it, because tomorrow I might not have it?'³⁷

- 1.34 TI advised:

Since January 2017, TI has sold around 1,180 ML within operational schemes.

³⁵ Written submission, TFGA, p.2

³⁶ Hansard transcript, Julian von Bibra, 24 January 2018, p.35

³⁷ Hansard transcript, Nigel Clark, 24 January 2018, p.2

When the business case for a scheme is developed a sales plan for unsold water is included with further water sales extending over a 5 to 10-year period. Despite this assumption, TI continues to sell unsold water in a quicker timeframe than had been originally budgeted.³⁸

Transparency and communication

1.35 A number of witnesses and submissions raised the topic of a lack of transparency around TI finances and decision-making processes.

1.36 The TFGA recommended that the Committee consider the lack of transparency around financial, administrative, operational and broader policy, such as the apparent abandonment of the principal purpose of the Statement of Corporate Intent.³⁹

1.37 AK Consultants recommended that:

Information about water allocations provided by TI and other Schemes is not publicly available. We see no reason why the volumes and flows of water provided to irrigators should not be publicly available in the same way as licensed water.

And

We are aware of reports that have been commissioned as part of Scheme feasibility assessments. Whilst in most cases these reports have been made available after persistent requests, in one case the reports have been withheld due to a perceived conflict between an irrigator (our client) and the Department. We believe feasibility studies commissioned using public funds should be easily accessible via TI's website.⁴⁰

1.38 Mr Darren Wigg, representing the Dial Blythe Irrigation Scheme described his experience obtaining water testing results:

One last thing, and this is something that happened to me personally. I have one of my farms on the market and the people required a water test so I thought the scheme does water testing, I will just ring the TI and get a water test for our scheme. Well and good. I said send it back to me; send it to my real estate man so he can pass it on. What he got back was a sheet of paper stating the freedom of information and saying to get that sort of information you would have to apply. We had 30 days to respond and if we did not respond then, 'Here is a number at Tas Irrigation to call and we will consider your request'.

This is for a water test that is paid by us, which should be mandatory that we get all tests and all paperwork required for the test because we pay for it. They should be given to us as a committee to verify that they are actually doing it because there is no verification coming back to say they are doing these things.

And

³⁸ Tabled document TIR/6, Tasmanian Irrigation, p.12

³⁹ Written submission, TFGA, p.4

⁴⁰ Written submission, AK Consultants, p.6

*To get freedom of information over a water test is absolutely ridiculous.*⁴¹

- 1.39 Mr Ken Lawrence also expressed concern regarding the lack of transparency surrounding TI's loan arrangements and urged that an independent audit be conducted:

The lack of information about borrowings is frustrating - not knowing an end point to the loans besides TI saying that they need to sell all the water. We feel that they have increased the amount of water available. They have already sold the amount of water that was originally designed for the scheme; therefore, we cannot see that there should be such a high level of borrowings still there. Certainly, more disclosure on that side of it - the finance and the amount of money that is owed and the time frame that they view that, that can be paid off regardless of the amount of water that is still there to be sold.

*The Meander Valley Irrigation Scheme Advisory Committee believes an independent audit should be carried out to ascertain how efficient TI is in delivering water and managing the regulatory requirements of running the scheme. This would allow accurate benchmarking of their performance which may help determine TI's suitability in managing the scheme. That is really what we believe should happen. They have said that they benchmark, but we have not seen any comparative figures on that.*⁴²

- 1.40 Mr Tony Clarke, farmer, also recommended:

*That a full and independent investigation and financial audit is conducted into the expenditure and activities of Tasmanian Irrigation. This investigation should be wide ranging and explore whether the organisation delivered on the original intent, whether the organisation has delivered value for money, and the effect of Government policy has had on Tasmanian Irrigation's activities and irrigation development generally.*⁴³

- 1.41 Mr Ferdie Foster also made a general comment regarding transparency:

*Similarly, TI is a GBE. Unfortunately, as you well know, if you want information about GBEs you have to go through the minister. I believe that GBEs should have to report to their shareholders so that you or anybody else can get information from the GBE, in this case, Tas Irrigation, without having to go through the minister.*⁴⁴

- 1.42 TI acknowledged that:

*...one of the key risks of having centralised management is that management can become distanced both from operational staff in the schemes and from its irrigators.*⁴⁵

- 1.43 However, TI went on to say:

TI recognises this risk and is working to address it, there have been improvements made with communications, including plain English now being used in all communications that

⁴¹ Hansard transcript, Darren Wigg, 25 January 2018, p.15

⁴² Hansard transcript, Ken Lawrence, 24 January 2018, p.14-15

⁴³ Written submission, Tony Clarke, p.1

⁴⁴ Hansard transcript, Ferdie Foster, 23 January 2018, p.29

⁴⁵ Written submission, Tasmanian Irrigation, p.5

leaves the TI office, with the aim to establish a working relationship with irrigators and others that is more of a partnership and less of a dictatorship.⁴⁶

- 1.44 In August 2018, TI advised that it had noted and taken action upon a number of the issues raised throughout the course of the Inquiry:

The first very strong learning was that our method of communicating with the irrigator community wasn't strong enough. We have sought to rectify that. Some of the changes were in play prior to the inquiry beginning, but a lot of traction has been built subsequent to that. A lot of work has been done to understand where the costs are really being incurred and being able to explain that clearly to ourselves and also to the irrigator community. We have also set up meetings between the irrigator chairs and boards so that we can hear directly from the irrigator chairs what works well and what we as an organisation can do better. We are also strongly encouraging input from each committee about things they would like us to investigate and that we can potentially do better for their particular scheme. That might involve flow rates, the way we allocate their asset renewals levy and so on. We are working openly with those groups to do that.⁴⁷

Representation

- 1.45 The TFGA noted that the Irrigator Representative Committee (IRC) had been intended to improve transparency and increase irrigator input. The TFGA, however, advised that because the IRC had only been used to inform the committee of decisions and not to seek their advice to inform decisions, it had not fixed the issue of transparency.⁴⁸

Some schemes have become increasingly sceptical of TI's ability to efficiently administer the schemes. Irrigators are wanting a more balanced model that allows meaningful input to business and operational decision making with a view to developing a more competitive enterprise.⁴⁹

- 1.46 Mr von Bibra made the following comment:

Ms RATTRAY - *In regard to having input into this situation and more broadly for irrigators around Tasmania, my understanding is that there is one representative on the board. Do you think that is a deficiency?*

Mr von BIBRA - *We have Michael Chilvers on the board and he represents agriculture. I do not think it is enough, no, and agriculture has definitely been driving the need for irrigation. We are the ones that benefit but we also have a lot of the expertise. I think a greater presence there is something that we have always looked for. One member on a board is probably not enough.*

And

⁴⁶ Written submission, Tasmanian Irrigation, p.3

⁴⁷ Hansard transcript, Samantha Hogg, 16 August 2018, p.2

⁴⁸ Written submission, TFGA, p.2

⁴⁹ Written submission, TFGA, p.4

I sit on a representative irrigators committee, but once again we are dictated to. The bureaucracy calls the shots and we regularly have to really go in hard because we are not listened to. That is a pretty big statement. We find that our needs are overlooked.⁵⁰

Water quality

- 1.47 Mr John Broomby, representing Anglers Alliance Tasmania (AAT), raised the following concerns regarding water quantity and quality:

Regarding water resources, we would like a definite draw-down level placed on each lake used as irrigation reservoirs, beyond which water will not be available for irrigation purposes. The highland lakes used as irrigation reservoirs were established for power generation. We accept that this is their primary purpose. Irrigation should remain a secondary use.

And

One of our bigger concerns is water quality. AAT is concerned, particularly in areas of naturally low fertility and potent salinity problems that an amount of fertiliser and spray products combined with extensive irrigation could leach into the waterways. It has been brought to our attention by a leading fishing guide that the quality of the midlands river system appears to have already deteriorated. Is regular water testing undertaken in these areas? We would like to see the EPA adequately funded to monitor this situation.⁵¹

- 1.48 Mr Michael Caminada, also representing AAT, expressed the following concerns regarding the Midlands region:

If you go to the head waters of the South Esk and there are greater flows in the head waters than what there are around the likes of Perth these days. There is so much water being taken out of there. It obviously needs better management as far as water draws go and on-farm storage or whatever during winter months. It is a fairly fragile area. You have an entire river ecosystem that is in danger.⁵²

- 1.49 TI advised:

Environmental monitoring takes place based on the risk levels within each region. This monitoring is important to ensure that conditions are not worsened by the introduction of irrigation.⁵³

- 1.50 In relation to salinity, Mr David Armstrong of AK Consultants advised:

We know there is salinity in some areas and I've seen a couple of cases in the Cressy area, for example, where salinity is being made worse by perhaps careless irrigation without proper consideration of the risk.... We've been irrigating in Tasmania for 100-plus years in

⁵⁰ Hansard transcript, Julian Von Bibra, 24 January 2018, p.34-35

⁵¹ Hansard transcript, John Broomby, 24 January 2018, p.27

⁵² Hansard transcript, Michael Caminada, 24 January 2018, p.31

⁵³ Tabled document TIR/6, Tasmanian Irrigation, p.19-21

*some places, and we haven't had catastrophes as a consequence of that. I think the farmers are pretty careful.*⁵⁴

Water access plans (WAPs)

1.51 A farm WAP is a property-specific document that identifies where TI water is to be applied and details actions to manage potential risks from applying it. WAPs apply to all land (including dams) to which TI water is to be applied within schemes built by TI. WAPs are prepared by qualified consultants at the expense of the irrigator.⁵⁵

1.52 A number of witnesses and submissions stated that WAPs were an unnecessarily complex administrative burden, given the relatively low risk of salinity.

1.53 The Committee noted that WAPs are a federal regulatory requirement under the *Environmental Protection Biodiversity and Conservation Act 1999* and necessary in order to be eligible to receive Commonwealth funding.⁵⁶

1.54 AK Consultants in its written submission advised:

The WAPs are generally accepted by purchasers of TI water as a component of "Red Tape" associated with purchasing a TI water right. There seems to be little, if any, engagement with landholders to encourage them to consider the environmental risks, and little value to the farmers in general.

And

*In our opinion, the risks from irrigation are mostly low.*⁵⁷

1.55 AK Consultants recommended further consideration of WAPs.

1.56 In August 2018, TI advised:

*We also heard strongly that farm water access plans are painful. While they are a requirement for the federal funding we are getting, or the schemes attract, we will continue to work to make them as efficient and as effective as possible, and in that, we will look at ways to make them more valuable to the farmer, not just a chore. We are actively looking at that issue.*⁵⁸

⁵⁴ Hansard transcript, David Armstrong, 24 January 2018, p.73

⁵⁵ <https://www.tasmanianirrigation.com.au/farm-water-access-plans-1>

⁵⁶ Hansard transcript, Nicola Morris, 23 January 2018, p.24

⁵⁷ Written submission, AK Consultants, p.4

⁵⁸ Hansard transcript, Samantha Hogg, 16 August 2018, p.2

Future management of TI

- 1.57 DPIPWE outlined a number of issues that would need to be considered for the future management of irrigation schemes:

The management of irrigation districts is not straightforward and a range of issues need to be considered. This includes a state government position that will not privatise publicly owned assets or infrastructure; therefore, a joint management model may be required. This will need to be considered in the context that the dam safety and water licence obligations remain with TI, which raises a number of questions, including:

- *Who has the legal obligation to supply water and to manage any breaches and non-compliance issues? Currently, the contract to supply water is between the landowner and TI.*
 - *Who is responsible for issuing the irrigation rights?*
 - *Who is responsible for managing the water delivery?*
 - *Is the water licence leased from TI as part of the management arrangements?*
 - *Who is responsible for ongoing monitoring and reporting obligations for auditing farm water access plans?*
 - *How are the costs associated with managing TI's dam safety obligations and other environmental compliance monitoring passed on through the system of self-management?*
 - *How are the asset maintenance and refurbishment costs to be financed into the future?*
 - *How are other mandatory reporting obligations relating to the landscape monitoring protocol under the Environment Protection and Biodiversity Conservation Act 1999 and other national reporting requirements dealt with through systems of self-management?*

Consideration will also need to be given to the capacity of local irrigator communities to manage scheme operations. This covers a diverse range of requirements and obligations, such as the water delivery, restriction management, maintaining a water entitlement register, and managing trades, billing, compliance and monitoring.

As you can appreciate, there are significant degrees of complexity around providing irrigators with a greater role in managing or operating publicly owned irrigation schemes, and each situation will require careful consideration.⁵⁹

- 1.58 Ms Nicola Morris, CEO of TI, made the following statement:

With 13 schemes now operational and under TI management and four more expected to come on line in the next two years, we at Tasmanian Irrigation believe centralised independent management of the schemes enables the most cost-effective and reliable approach to the long-term viability of these schemes.

Centralised management allows for core knowledge and skills to be centralised and applied across all the schemes: standardised processes for addressing the environmental and government compliance tasks; economies of scale; group negotiation for water

⁵⁹ Hansard transcript, Fiona Bourne, 16 August 2018, p.17-18

purchases, and for power purchases and sales; the required focus in ensuring 95 per cent reliability of water delivery; strong governance around ensuring individual irrigators are complying with their rights; and a focus on asset management to ensure these assets are around for the 100 years that is stipulated in the water sales agreements.

There is also considerable value in having the construction arm of the business sitting beside the group that will ultimately operate the assets. The transfer of knowledge between these groups is significant.⁶⁰

And

That is not to say a self-managed scheme cannot manage them properly but there would be a lot of duplication across the individual schemes if you had them all set up individually, which would then add a lot of costs.

Another key element ... is about governance. That is key. Whether it is ensuring that individual irrigators are taking the water they are entitled to, whether it is ensuring that the work is being done across all the irrigation schemes and not just part of it, et cetera. There is strong governance required around all that.

The other element that came to the fore a little in this last 12 months was the group negotiation for water and power purchasing and selling⁶¹

- 1.59 However, Mr Darren Wigg had a different point of view concerning TI's negotiation role:

In regard to the power pricing, yes, they can negotiate with Aurora, but where is the benefit to us, the farmers? They haven't reduced their costs when they have got them. They sit on our profit that we make and don't use that to reduce the costs so anything they negotiate is not being transferred back because they are sitting on the profits.⁶²

- 1.60 Ms Brigid Morrison, TFGA Policy Officer expressed the following view:

There are benefits to be had of retaining an entity like that because of the expertise they will develop over time. As we go into an uncertain climate future or an uncertain population, any kind of future, that expertise will be absolutely essential. There is significant benefit to retaining that, as long as it works.⁶³

- 1.61 The Tasmanian Agricultural Productivity Group (TAPG) made the following comment in its written submission:

We believe there are two aspects of TI's current role that will require ongoing attention from a statutory body of some description:

- Dam safety along with maintenance and monitoring of what is steadily growing as a massive state-wide infrastructure.*

⁶⁰ Hansard transcript, Nicola Morris, 23 January 2018, p.1

⁶¹ Ibid, p.2

⁶² Hansard transcript, Darren Wigg, 25 January 2018, p.13

⁶³ Hansard transcript, Brigid Morrison, 24 January 2018, p.59

- *Business development as a consequence of the irrigation provision now available needs a view of the horizon that is not usually available to the individual grower. Understanding and utilising the related R&D learnings requires a time and resource allocation that is again outside the capacity of most individuals. Tasmania already has a wealth of commercially relevant data such as Land Use Suitability Mapping that can inform long term investment opportunities. Someone needs to do this work and it is argued that TI has an appropriate heritage to evolve its business model into this field.*⁶⁴

1.62 Mr Jim Wilson made the following statement:

*I would add our concern is there could be a loss of momentum in what we are delivering in terms of growth in Tasmanian agriculture. We acknowledge there are opportunities for improvement in the TI model. What we want to avoid is a landslide spill that is very disruptive to the investment framework and the growth we have in our sector. I ask you to think about that in forming your final view about any changes you implement.*⁶⁵

1.63 Mr von Bibra made the following statement:

At the outset, I commend TI to you in terms of what they have managed to achieve. I am mindful that a large amount of public money as well as private money went into getting these schemes up. They have had an enormous impact in the dry areas of Tasmania where water was not available. They have been really well managed and well put together, at the outset a positive for TI.

1.64 However, Mr von Bibra also expressed a number of concerns:

*A big concern for a number of us, is the lack of competition that now exhibits. We do not have alternatives and we are left with them as the player, yet they are no longer a department of government, but they are the department of irrigation, if you like. We have lost what we have and are worse off.*⁶⁶

*What we do not want to do is lose control and have them managing it and then dictating terms to us. For example, it costs us this much and you will pick up that full tab. There is no competition. We have nowhere else to go now. The government has handed it over without properly resourcing it from their point of view and we are the only option. We are going to very quickly find that this is super expensive and it prices the water out of what we can do with it.*⁶⁷

*.....Along the way we have been heavily involved in the process and yet at the very end we get totally overlooked in having no input into our right of way and no input into any of the resourcing that might take place or how they might raise money from us in future. We do not get to say how many engineers they employ and how top heavy they are. I look at TI and their presence at the airport and you realise it is not a low budget exercise. It is not operated on a shoestring the way small business might in a local community, yet for us the ownership of those dams need not be over-complicated.*⁶⁸

⁶⁴ Written submission, TAPG, p.1-2

⁶⁵ Hansard transcript, Jim Wilson, 25 January 2018, p.25

⁶⁶ Hansard transcript, Julian von Bibra, 24 January 2018, p.34

⁶⁷ Hansard transcript, Julian von Bibra, 24 January 2018, p.37

⁶⁸ Hansard transcript, Julian von Bibra, 24 January 2018, p.38

- 1.65 Mr von Bibra made the following suggestion about the future of TI:

There is a resource there that could be greatly reduced. There could be expertise left in the state; a watchdog or a regulator. At the same time, a very much reduced body that oversees a number of these farmer or community groups that are really well resourced and do a good job.⁶⁹

- 1.66 EMIT expressed the following view in its written submission:

As TI is a GBE, this cross-functional involvement is not the clear-cut delineation that is seen as best practice. As TI reaches the end of its construction phase, there is clear need for reassessment of its future role.

The Trust is of the view that this should be limited to functions that cannot realistically be performed by the private sector, or where there is a clear pathway to devolved management by irrigator groups.

There is a view that some of the additional costs result from 'gold-plating' of assets and from unnecessary bureaucratic processes. The Trust believes there is scope for review of operational standards and for efficiency gains to be reflected in reduced costs to irrigators accessing water from TI schemes.⁷⁰

- 1.67 Mr Ferdie Foster, farmer, expressed the following view:

Looking quickly at the future of TI, I think that as it winds down you people will have to do a massive rethink and replanning on its role and operation. If we, people like EMIT and our irrigators, are going to be lumbered to meet its overhead costs, it's going to be a hell of a cost on us to achieve nothing. We have the expertise on the EMIT board and I am sure on other boards too, because I can think of people who can run these schemes without having this bureaucracy at the top.⁷¹

- 1.68 Mr Peter Skillern, CEO of TFGA advised the Inquiry of the original strategic plan for TI:

In 2011-12 the Statement of Corporate Intent Part 1, the strategic direction business overview, qualified as the first members' expectation of TI to facilitate community management of the schemes. It read:

The principal purpose of Tasmanian Irrigation, as outlined in the members' statement of expectation prepared by the shareholder ministers, is to undertake the following: to develop, own and operate irrigation schemes in Tasmania and, where feasible and appropriate, to facilitate local community management of these schemes.

And

⁶⁹ Hansard transcript, Julian von Bibra, 24 January 2018, p.47

⁷⁰ Written submission, Elizabeth Macquarie Irrigation Trust, p.5

⁷¹ Hansard transcript, Ferdie Foster, 23 January 2018, p.28

The expectation was fundamental to garnering irrigator and broader community support for the scheme development and was a major consideration in decision making around the commercial viability of water right purchases during pre-development phases. However, there has been no evidence of the expectation being realised. It became obvious in 2015 that in fact the intention was quite the opposite.

- 1.69 Mr Skillern pointed to a lack of clarity between TI's strategic direction and strategic direction business overview:

The presentation of the same Statement of Corporate Intent in the strategic direction in the 2015-16 annual report was qualified as the draft expectation prepared by the shareholder members. The 2016-17 annual report states that TI received a finalised members' statement of expectations in August 2017. The Statement of Corporate Intent now reads as its first expectation of TI:

To develop, own and operate irrigation schemes in Tasmania.

- 1.70 In its written submission, TI advised the Inquiry that:

The State Government has always stated (refer to GBE hearings 2016) that, where appropriate and feasible, consideration will be given to local community management of these schemes. This is supported through TI's Statement of Expectations and its Statement of Corporate Intent.⁷²

- 1.71 Ms Brigid Morrison advised the following:

One scheme in particular, is perfectly happy for TI to retain management and oversight and administration of all the assets and want them to deliver water and believe they do it very well. Then the broader irrigation community has not had that experience. It is also important to note that scheme was one of the first to be built and they believe there has been opportunity for problems to be ironed out where the others might not. That is important.⁷³

- 1.72 Mr Andrew Mc Shane, Chair of the Midlands Water Scheme, expressed the following view:

There needs to be a clear pathway for each individual scheme to determine its own future. That may be self-management or a mix of. It may be a hybrid model of self-management and using the resources of TI. Each individual scheme needs a pathway not blocked at every front by, do you realise the complexities, do you realise you will have to become a water entity, do you realise all your obligations under the national. These things are road blocks to economically efficient management of built schemes. These schemes are built and they should be run economically efficiently and the road block is not allowing schemes to slowly merge into self-management at a pace and a level appropriate to each of those schemes.⁷⁴

- 1.73 Mr Derek Gee expressed the following view:

⁷² Tabled document, Tasmanian Irrigation, TIR/6, p.22

⁷³ Hansard transcript, Brigid Morrison, 24 January 2018, p.52

⁷⁴ Hansard transcript, Andrew McShane, 24 January 2018, p.68

I would imagine as a privately run scheme we would still have to comply with all the requirements as far as environmental controls and reporting and all of the rest of it. We think that we would be able to manage and run that way more efficiently than what has been done at the moment.

We see that, typically, government-controlled entities versus private controlled entities have been proven to be less efficient as constraints imposed and complied with by government bodies are not challenged for efficiencies as they would be under private management. You go and do that then you do it and expect this cost. We would think about it and probably go out and get prices and question things.⁷⁵

- 1.74 Mr Damien Carpenter, Chair of the Dial Blythe Scheme, expressed the following view:

On your comment about running it, we would run it better than they would. We're in touch with what's going on day to day so we can diffuse problems a lot quicker than they can before they escalate. We know the individual crops in the district and what needs what and can manage water delivery to those individual needs a lot more efficiently than they can. We know that such-and-such down the road might have an onion crop that needs watering today.⁷⁶

- 1.75 Mr Andrew Lester, Chair of Winnaleah Irrigation Scheme, expressed the following views regarding self-management:

Some of the reason behind our rationale is with self-management. We can use the full capacity of whatever is available at the time and benefit farmers. Where TI rationale is you have to stick to the rules, whether it is detrimental or not or whether you can go a little bit further and get a benefit for the community and we are not going to deviate from the rules. This is your flow rate and just because there is spare capacity in the pipe unsold, we are not going to let you have it. That was the type of mentality and where we see self-management as a great advantage to the community. We are all community members and if there a certain area and like the mini hydros developed which add value to lower cost of water and those things, that we can really make an impact. If there is an opportunity to deliver more water in a certain area, even though it might be outside the official criteria of what you are allowed to do, you can sometimes do stuff that benefits people.⁷⁷

And

We don't feel a burning desire, apart from the principle and maintaining a bit of control, to be the responsible water entity. They key is that we are allowed to continue to manage the scheme. We are so pleased that we had experience in running schemes before TI came along or the scheme that was built would have been a huge mess, a bigger mess than it has been.⁷⁸

- 1.76 Mr John Barker, representing South East Re-Use Scheme (SERUS) explained SERUS' point of view regarding private funding models:

⁷⁵ Hansard transcript, Derek Gee, 25 January 2018, p.5

⁷⁶ Hansard transcript, Damien Carpenter, 25 January 2018, p.12

⁷⁷ Hansard transcript, Andrew Lester, 25 January 2018, p.49-50

⁷⁸ Hansard transcript, Andrew Lester, 25 January 2018p.54

Ms RATTRAY - In regard to private funding of schemes in the most recent Member's Statement of Expectation for Tasmanian Irrigation, which is signed off by the Minister for Primary Industries and the Treasurer. It is on 4.1 of the document - nature and scope of operations. It says:

assist the development of privately funded irrigation schemes, on a commercial basis, as directed by the Tasmanian Government, and, where applicable, in accordance with National Competition Policy Competitive Neutrality Principles;

That reads the Tasmanian Government would almost give direction to TI to go down that path. Have you or your organisation had a conversation with the Government in regard to private funding for water access?

Mr BARKER - Yes, we have. We have discussed the option with them and they are clearly taking advice in respect to the scheme through TI, but at this point in time there has been no objection to the private funding scenario. What we are saying is it needs to be developed further to a point it is available and you could read into exactly what you have said. In our view it needs to be more concrete.⁷⁹

- 1.77 Mr Justin Nichols, Chair of Coal Valley Irrigators Group, advised that Coal River had explained their position on the privatisation of schemes:

We would like to see more rationalisation within that system. I believe they have taken that on board and there is some work being done there. A few years ago, back in the days of Rivers and Waters, we looked at the feasibility of privatising our own scheme and had a look at Cressy-Longford, which is a very effective system. It is a fairly simple model but it works exceptionally well, mainly because of the involvement of the people on the board of management and the operators as well. There are parts of that model that could be used elsewhere, I think. In our case we chose not to go that way because we rely heavily on negotiating with TasWater to get that allocation that goes into stage 2. We felt that a government body speaking to another semi-autonomous government body probably would have more success than a group of farmers, so we held off until we got a more reliable water source. That hasn't been achieved yet, unfortunately.⁸⁰

- 1.78 The TFGA also recommended that the Government develop an integrated irrigation and water management strategy to provide an overarching state-wide approach to manage water resources in an efficient and effective manner:

The objectives of the integrated water management strategy would be:

- *To provide strategic direction for all water entities – including TI, Hydro, TasWater and DPIPWE;*
- *To demonstrate water supply security;*
- *To demonstrate viable delivery of water;*
- *To demonstrate sound asset management; and*
- *To consider how this precious resource can be better managed within the State's water governance structure.⁸¹*

⁷⁹ Hansard transcript, John Barker, 25 January 2018, p.64

⁸⁰ Hansard transcript, Justin Nichols, 25 January 2018, p.70

⁸¹ Written submission, TFGA, p.4

1.79 Mr David Downie stated:

It is the scale of their bureaucracy and our inability to have alternatives. If we have a dummy spit then we simply can't use the water, and even then they will probably charge us an asset replacement levy and an annual cost. Our usage costs might be zero but everything else we are still going to be sluggish for. We can't get away from that and we were not paying that last year. The state Government picked up the tabs for that. You have introduced a new burden on us.⁸²

1.80 Ms Jan Davis, Secretary of the Elizabeth Macquarie Irrigation Trust, made the following comment:

This is the point that comes clearly from David's last comment: the work TI did with the Macquarie Settlement Pipeline was absolutely brilliant and very greatly appreciated, but they could do it because they had government funding. In this new world, the clock starts ticking the minute you pick the phone up and that means all of those costs would come back to the irrigators involved, even though many of the benefits are more broadly shared than the irrigators. It is a very different situation.⁸³

1.81 The Government stated that it remains open to facilitating opportunities for greater irrigator involvement in scheme management, including operations, and where feasible and appropriate, facilitate local community and management of the schemes.⁸⁴

1.82 Ms Carole Rodger, Acting Deputy Secretary, Agrigrowth, DPIPWE further advised:

This is already supported in each TI scheme where a committee of irrigators provides a forum for TI and irrigators to consult on irrigation scheme matters. Options for greater irrigator involvement in the management and/or operation of TI's own irrigation schemes could be scheme-specific and might include undertaking or assisting with compliance monitoring, rostering deliveries, facilitating trades, operating infrastructure, setting scheme penalties for access right breaches, price setting, restriction management and undertaking basic scheme maintenance.⁸⁵

1.83 The DPIWE written submission also advised:

There is a significant degree of complexity around providing irrigators with a greater role in managing or operating publicly owned irrigation schemes and each situation will require careful consideration. DPIPWE and the Department of Treasury and Finance would be able to support this process where necessary.⁸⁶

**Tania Rattray MLC
(Chair)**

25 September 2018

⁸² Hansard transcript, David Downie, 24 January 2018, p.39-40

⁸³ Hansard transcript, Jan Davis, 24 January 2018, p.40

⁸⁴ Written submission, DPIPWE, p.17

⁸⁵ Hansard transcript, Carole Rodger, 25 January 2018, p.36

⁸⁶ Written submission, DPIPWE, p.18

APPENDIX 1: MEETINGS, SUBMISSIONS AND WITNESSES

MEETINGS CONDUCTED AND ATTENDANCE

Date	Dean	Farrell	Hall	Hiscutt	Rattray
16 November 2017	✓	✓	✓	✓	✓
23 January 2018	✓	✓	✓	X	✓
24 January 2018	✓	✓	✓	✓	✓
25 January 2018	✓	✓	✓	✓	✓
16 August 2018	✓	✓	✓	✓	✓
10 September 2018	✓	✓	✓	✓	✓
21 September 2018	✓	✓	✓	✓	✓
25 September 2018	X	✓	✓	✓	✓

SUBMISSIONS RECEIVED

1. Anglers Alliance
2. Andreas Hastrup
3. Stuart Greenhill and David Addison
4. Dial Blythe Irrigation Scheme
5. Midlands Water Scheme
6. AK Consultants
7. Yalumba
8. Tasmanian Farmers and Graziers Association
9. Tony Clarke
10. Ben Hiscutt
11. Tas Agricultural Productivity Group Ltd
12. Tasmanian Irrigation
13. Elizabeth Macquarie Irrigation Trust
14. Department of Primary Industries, Water and Environment (DPIPWE)
15. Cuthbertson Bros Pty Ltd

HEARINGS AND WITNESSES

Tuesday 23 January, Launceston

Tasmanian Irrigation

Samantha Hogg, Chair

Nicola Morris, CEO

Leigh Nicholas, CFO

Ferdie Foster, farmer

Wednesday 24 January, Launceston

Cressy Longford Irrigation Trust

Nigel Clark, Manager

Meander Irrigators

Ken Lawrence, Chair

Anglers Alliance

John Broomby, Executive Member

Michael Caminada, Executive Member

Elizabeth Macquarie Irrigation Trust

Julian von Bibra, Chair

David Downie, Mayor Northern Midlands Council

Jan Davis, Secretary

Tasmanian Farmers and Graziers Association

Peter Skillern, CEO

Brigid Morrison, Policy Officer

Midlands Water Scheme

Andrew McShane, Chair

AK Consultants

David Armstrong

Astrid Ketelaar

Tony Clarke

Thursday 25 January, Launceston

Dial Blythe Irrigation Scheme

Damien Carpenter, Chair

Derek Gee

Darren Wigg

Ben Hiscutt

HEARINGS AND WITNESSES CONTINUED

Tasmanian Agricultural Productivity Group
Terry Brient, Executive Officer

Northern Midlands Council
David Downie, Mayor

Department of Primary Industries, Water and Environment
Carole Rodger, Acting Deputy Secretary
Fionna Bourne, General Manager Water and Marine Resources

Winnaleah Irrigation Scheme
Andrew Lester, Chair
Alan Davenport

South East Re-Use Scheme (SERUS)
John Barker

Coal Valley Irrigators Group
Justin Nichols, Chair

South East Irrigators Stage 3
Anthony Bayley
Colin Houston

Thursday 16 August 2018

Tasmanian Irrigation
Samantha Hogg, Chair
Nicola Morris, CEO

Department of Primary Industries, Water and Environment
Fionna Bourne, General Manager Water and Marine Resources
Christina Jackson, Manager, Water Policy and Planning



Legislative Council Select Committee:

**Inquiry into the future management of water rights and
associated assets that are currently administered by
Tasmanian Irrigation (TI)**

Section 1

Responses to questions from Committee

Questions from Committee.

Provide a comparison of Tasmanian Irrigation running costs from December 2016 to December 2018.

The Response has been provided in three parts:

Firstly the corporate expenses, secondly the water delivery centralized expenses and then thirdly the consolidated water delivery expenditure.

The aim of cost allocation is to ensure costs are allocated to the scheme in which they are incurred, once this analysis has been completed, costs are then analysed to understand if they are solely incurred for water delivery. If so they then form the water delivery centralized expenditure. This should leave only those costs which cannot be allocated to water delivery schemes or water delivery oversight. These final costs are the corporate expenses and these costs are allocated between the build business and water delivery.

Please note the same rigor is attached to analysis of build expenditure. No build related expenses are allocated to water delivery .

Corporate Expenses	16/17 Actual	17/18 Likey YE	18/19 Budget
Corporate Expenses \$	4,694,382	3,359,326	3,063,716
		-28%	-9%
Water Sold Mega Litres (ML)	86,742	95,907	102,245
\$ / ML	\$54.12	\$35.03	\$29.96

Please note of the total quantum of corporate expenses 25% are allocated to water delivery (irrigation schemes, power stations and older assets), the balance of 75% are allocated to the identification, design and development of new irrigation schemes.

Water Delivery Centralised Expenses	16/17 Actual	17/18 Likey YE	18/19 Budget
Water Delivery Centralised Exp \$	1,872,125	1,810,675	1,517,991
		-3%	-16%
Water Sold Mega Litres (ML)	86,742	95,907	102,245
\$ / ML	\$21.58	\$18.88	\$14.85

These costs are allocated to water delivery schemes and other irrigation infrastructure.

Water Delivery - Schemes	16/17 Actual	17/18 Likely YE	18/19 Budget	19/20 Budget	20/21 Budget	21/22 Budget
Income						
- Fixed Schemes	3,810,471	4,248,871	5,096,379	5,323,665	5,397,114	5,498,611
- Other Dam Safety Grant	1,106,348	100,125	1,119,067	1,123,450	1,103,000	1,154,483
- Other	74,726	335,636	307,155	314,154	291,397	283,419
Total Income	4,991,545	4,684,632	6,522,601	6,761,268	6,791,511	6,936,514
Expense						
- Fixed Schemes	5,016,220	5,556,137	6,369,837	6,300,964	6,395,914	6,447,110
Total Expense	5,016,220	5,556,137	6,369,837	6,300,964	6,395,914	6,447,110
Surplus / (Deficit)	(24,675)	(871,505)	152,765	460,305	395,597	489,404
Water Sold Mega Litres (ML)	86,742	95,907	102,245	107,172	110,516	113,860
Fixed Less (Dam Safety Grant) / ML	\$45.07	\$56.89	\$51.35	\$48.31	\$47.89	\$46.48

These are the consolidated fixed costs of water delivery and include both the water delivery centralized expenditure and 25% of the corporate expenses.

The fixed expenditure increases in keeping with the opening of new schemes and this is reflected by the increase in volume of water sold. Fixed costs per ML are a key ratio for the business.

Provide Tasmanian Irrigation consolidated staff costs from December 2016 to December 2018.

Staff Costs	Emp \$ - June 2016 Actual	Emp \$ - June 2017 Actual	Emp \$ - June 2018 Estimate	Emp \$ - June 2019 Budget
Staff	7,048,618	7,823,961	6,286,215	4,776,121
Board	267,958	268,351	228,037	258,880
Totals	7,316,576	8,092,312	6,514,252	5,035,001

These costs are for the full financial year .

Work Area	Employee Numbers - June 2016 Actual	Employee Numbers - June 2017 Actual	Employee Numbers - June 2018 Estimate	Employee Numbers - June 2019 Budget
Water Delivery	17	24	20	23
Build	15	11	11	11
Corporate	14	12	11	11
Totals	46	47	42	45

The increase in \$ in 16/17 reflects the timing in the change of staff, the mix and payout of employee entitlements - accrued leave balances upon staff leaving the business. There were no payments made to any departing employee other than time owing or accrued leave.

Provide details of reduced energy prices, as announced in December 2017.

As a contestable customer (large electricity user), Tasmanian Irrigation negotiates retail electricity usage ranges with Aurora for electricity consumption at the pump stations. The cost of this electricity is passed directly to the irrigators.

The early offer received from Aurora in April 2017 was for 11.44 cents per kilowatt hour¹. After running a tender process, this rate was reduced to 9.72 cents per kilowatt hour. Tasmanian Irrigation also provided pricing information to the Government, which resulted in an eventual price cap of 8.5 cents per kilowatt hour for 2017-18.

When compared to the general Irrigation Time-Of-Use tariff (Tariff 75) in 2017-18 which is used by non-contestable electricity customers, the TI rates have remained around 22% cheaper for the daily charges, and 27% cheaper for the cents per kilowatt charges.

These are the charges which TI is billed for pumping water, TI pays and then recoups this money from irrigators. There is no additional fee charge by TI and aurora bills are viewable for any pumping installation.

Provide details of the total fixed storage charge per megalitre by scheme.

Storage charges recover the cost to replenish major storages for their evaporation and seepage losses. This is calculated as the expected losses multiplied by the cost to replenish the losses, divided by the volume of entitlements on issue. Depending on the dam, the expected volume to be pumped to replenish losses ranges between 5% and 11% of dam capacity.

This charge only applies in schemes which incur a material cost for the dam fill (pumping or water purchases). This charge is issued to irrigators based on their water entitlement holding on the first day of the irrigation season, as a component of the fixed charges.

Storage charge: \$ per megalitre of entitlement	2017-18	Cost incurred to fill the dam
South East 2	\$6.54	TasWater water purchase cost
Lower South Esk	\$2.77	Hydro Tas water purchase and pumping costs
Upper Ringarooma	\$0.23	Pumping cost only
Dial Blythe	\$1.41	Pumping cost only
Sorell (South East 3)	\$3.96	TasWater water purchase cost
Duck	\$3.13	Pumping cost only
North Esk	\$2.10	Pumping cost only
Southern Highlands	\$3.25	Hydro Tas water purchase and pumping cost
Scottsdale	\$0.93	Pumping cost only
Swan Valley	\$4.03	Pumping cost only

¹ This is the 24-hour equivalent rate which includes peak and off-peak pumping.

Clarify whether future Commonwealth funding is conditional upon farmers returning to self-managed irrigation arrangements. Provide details of any Commonwealth reporting requirements.

The question of any future Commonwealth funding and any conditions that may be placed on this is a question for the government not for TI.

TI has a number of Commonwealth reporting requirements which must be met during the construction of a scheme including compliance against any environmental conditions imposed, as well as reporting against the attainment of project milestones. Funding is released by the Commonwealth Government upon attainment of project milestones during construction and then at commissioning.

The farm water access plan framework then requires TI to ensure that an active Farm WAP is in place for any land where TI water will be used, and then to audit compliance with the Farm WAP conditions on an ongoing basis.

Section 2

Responses to statements made during inquiry

Initial response to submissions at the public hearings (23 – 25 January 2018)

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1. Funding, design & construction of new irrigation schemes

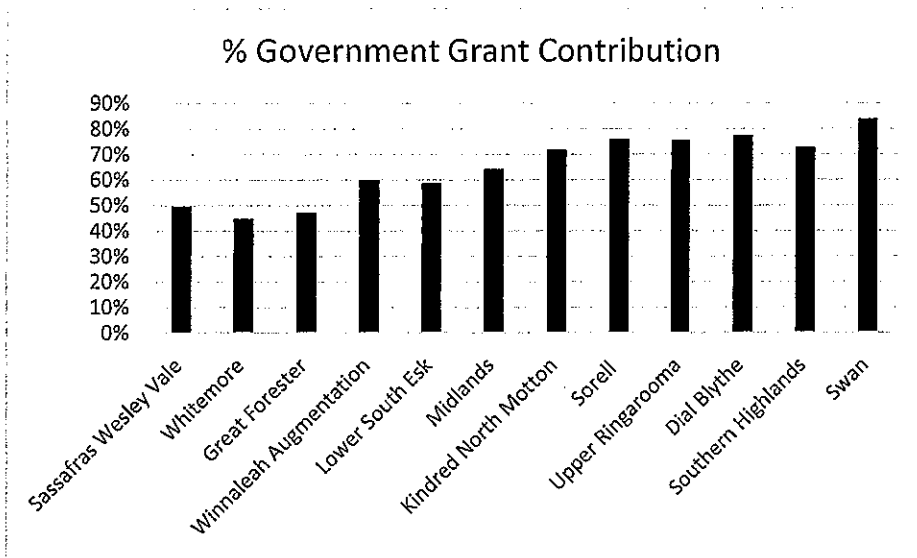
1.1 Public private partnerships & asset ownership

Statement Made: Lack of clarity over what public private partnership means and who owns the asset.

TI Response:

Public Private Partnership (PPP): a method of financing for infrastructure projects.

Tasmanian Irrigation is a state-owned company, thus the State Government owns the infrastructure. Construction costs are met by government funding, with revenue generated by the sale of water entitlements to the private sector also being put towards meeting capital costs.



Government funding is from both State and Federal governments. Whilst each scheme has a slightly different proportion of funding, representing its timing in either Tranche one or Tranche two, irrigators have as a rule provided 25% of the cost of constructing the scheme.

1.2 Pricing of water entitlements in specific Projects

Statements Made:

- TI has a mantra that “expensive water creates economic growth”.
- Meander Dam cost \$485M/L to build.
- Macquarie Settlement Pipeline was privately built for \$220/ML after tax benefits, compared to the Midlands water entitlement prices of around \$1,130/ML.
- Could build most dams in Circular Head for up to \$300/ML compared to Milford Dam in the Lower South Esk which cost around \$14.4m (\$2,718/ML).
- TI told the Winnaleah irrigators that it would cost \$800/ML to build the augmentation, but ended up charging \$1,170/ML.

- TI cost of construction is much higher than it should be. For example, Duck is costing \$30m compared to Sassafras Wesley Vale at \$7m

TI Responses:

Comparing irrigation schemes to indicate a “base / appropriate” construction cost is inherently problematic as each scheme will have different capacity, regulatory requirements, and infrastructure to deliver water.

Meander scheme cost	\$55m
Capacity (revised from 24,000 ML)	36,000 ML
Cost per ML	\$1,528/ML
Price charged to irrigators	\$1,100/ML

Unsold water entitlements and the cost of extended payment terms were met using debt finance

- The Midlands scheme is much larger and more complex than the Macquarie Settlement Pipeline.
- Information provided to Winnaleah irrigators at the option launch in 2010 outlined the water price (\$1,130/ML in 2010 dollars). Prior to this, Cradle Mountain Water estimated the cost for similar works, within 10% of the cost for the augmentation eventually performed by TI.
- The Sassafras Wesley Vale scheme (actual budget \$12.3m) had considerable infrastructure in place already from the paper mill, including a trunk line, reservoir, and the main pump station.
- The Duck scheme is made up entirely of new infrastructure.

Statement Made: Winnaleah wanted to increase the pipe size, Tyco advised this would cost around \$500k, but TI advised it would cost \$1.5m.

TI Response:

Meeting held between TI Development Board (TIDB) and Winnaleah (WISL) on 10 June 2011:

Original scheme design	500mm pipe
WISL request	710mm pipe in the Pioneer water race & 600mm pipe to the Ringarooma River
Hydraulic design	3,700 ML scheme from 2,000 ML Frome Dam, required inflows during the 120-180 day season
Cost of full upgrade	\$1.37m cost tabled at the meeting. Further discounts by Tyco were discussed, but not supported with evidence.
Funding of the upgrade	Require resubmission of the business case. Not expected to be successful due to already high level of subsidy (~60%).
Compromise	Upgrade section in the Pioneer race to 600mm pipe, funded from the contingency.

Outcome of the meeting: WISL and TIDB agreed that the compromise had made a significant difference in the hydraulic performance of the scheme.

1.3 Cost savings

Statement Made: TI has electricians, plumbers and fitters on staff. If there is an issue on a scheme, they spend hours on the road, rather than employing a contractor locally.

TI Response:

Some of TI's scheme operators have trade qualifications, they do not as a rule travel outside of their district, and local contractors are used for plumbing and other skills where that scheme operator does not have the skills. The two electricians / scada engineers manage all things relating to high/low voltage power as well as the scada control systems, these are specialist skills.

Statement Made: TI is a top-heavy bureaucracy.

TI Response:

There are two parts to TI, staff are involved in both designing and then building new schemes or in operating the schemes. Support staff are then utilized across these two functions.

Of the 49 employees within TI as at March 2018, there are 12 scheme operators and that number will grow as schemes are developed plus support staff who look after maintenance, electrical and control systems. The build team comprises 10 specialist engineers, project managers or systems specialists who work solely on developing new projects and the shared staff which includes finance, legal, compliance and environment staff are shared between the two functions with costs shared 75% to build and 25% to water delivery, this sharing allocation reflects the high level of scheme development that is still ongoing.

Statement Made: Allocation of administrative costs between build and operations, suspicion that the schemes are subsidizing the build business.

TI Response:

As above the corporate expenses (administrative costs of the business are very transparent and the total is then split with 75% to build and 25% to water delivery.

1.4 Sale of water entitlements

Statement Made: TI has not fulfilled the promise to sell unsold entitlements in operational schemes.

TI Response:

Since January 2017, TI has sold around 1,180 ML within operational schemes.

When the business case for a scheme is developed a sales plan for unsold water is included with further water sales extending over a 5 to 10-year period. Despite this assumption, TI continues to sell unsold water in a quicker timeframe than had been originally budgeted.

Statement Made: TI entitlement contracts last only four years.

TI Response:

Water entitlement contract terms reflect the underlying water supply agreements within each scheme, with the ability to apply to roll the agreements over.

1.5 Interaction between Whitemore and Cressy Longford schemes

Statements Made:

- TI took 40 ML/day from Cressy Longford (CLIS) against their will.
- TI had to duplicate and replace all of the pipes throughout the Cressy Longford scheme (CLIS) prior to commissioning of Whitemore. This has never been finished.
- TI did such a poor job of replacing the pipes, the only way to get TI back to fix the problem was to turn off their water supply

TI Response:

Access to the CLIS main channel was by agreement with CLIS, including specific works for TIDB to upgrade the main channel which has been completed.

There was a leak in the CLIS infrastructure, which was not connected to where TI works were undertaken. TI did assist with the repair of the leak upon request from CLIS.

Statement Made: TI should allow for irrigators to use the unsold flow rate for free

TI Response:

If an irrigator requires additional flow rates where there are unsold water entitlements available, they can request to lease this from TI. The lease charge recovers some of the interest costs relating to the debt which underwrites unsold entitlements.

Statement Made: It is possible to deliver more than the annual allocation in a scheme – Cressy Longford delivered more than double their scheme capacity within a single season.

TI Response:

TI delivers water within the framework, with consideration for:

- Legal implications (legislation, contracts, licenses, and guidelines);
- Environmental implications;
- Physical capacity of the infrastructure and potential impacts on the life-cycle cost of the assets; and
- Maintenance of the equality of all irrigators.

1.6 Hydrology modelling for new schemes

Statement Made: Clarify rainfall assumptions for TI scheme allocations.

TI Response:

Hydrology modelling is in accordance with the CSIRO Tasmania Sustainable Yields Project: Water availability for Tasmania. The model used by TI for business case development is the worst-case scenario (dry) modelled out to 2030.

Statement Made: irrigation season length and contractual flow rates are a hidden cost for irrigators.

TI Response:

Season length and flow rates are explained in the water sales documentation and discussed with the irrigators prior to the construction of new schemes.

Flow rates allow irrigators to be confident that they can receive their water at a set rate per day. If they wish to use more than their contractual flow rates, irrigators can schedule their flow requirements using short-term transfers.

In conjunction with irrigator committees, season start and end dates are agreed often with extensions to reflect seasonal requirements

1.7 New scheme capacities not allowing for future growth

Statement Made: TI should “future proof” the schemes

TI Response:

- Schemes developed by TI have a provision for future growth:

Water sales thresholds set in the business case: many schemes include a water sales threshold of around 75% of the capacity of the scheme meaning that there is additional water available for sale. *For example: Kindred North Motton scheme business case indicated an initial take up of 60%, with 100% of the capacity being on issue by 15 years post commissioning (Marsden Jacob Associates, 2011).*

- It must be noted that where there is unsold water, the liability for this is a debt which must be serviced by TI.
- To further future proof schemes TI would require additional investment from government to pay for the cost of this development.

2. Public funding for other activities

2.1 Transition readiness funding & the Cressy Longford Irrigation Scheme

Statement Made: TI was provided with \$1.4m to investigate improvements in Cressy Longford & Winnaleah schemes.

TI Response:

Public funding: There has been no specific funding to TI for any works at Cressy Longford or Winnaleah (other than the Winnaleah augmentation project under Tranche 1). Funding received by TI has been:

- | | |
|----------------------|--|
| Project funding: | Directly related to projects (tranche 1, 2, future irrigation project). |
| Transition readiness | \$900k over three years for issues relating to inherited assets, such as:

Dam safety review program, due diligence for Tooms Lake & Lake Leake, control upgrades at Hagley and Richmond Pump Stations, upgrades at Craigbourne Dam, Greater Meander pump station efficiency works, and South East Stage 2 telemetry upgrades. Each year a request was made for one third of the funds which had to be allocated to specific projects. |

2.2 Welcome River Improvement Scheme

Statement Made: A few hours in an excavator could solve the problem with the Welcome River.

TI Response:

- Works must be in accordance with environmental regulations and permits and works cannot commence unless these approvals have been received.
- Independent advice has been received that an EPBC referral must be completed before any work could commence.

2.3 Lake Leake dam safety event & repair works

Statement Made: TI did a poor job of fixing a leak at Lake Leake, despite charging around \$340,000 more than the quotes obtained by EMIT.

TI Response:

DPIPWE engaged TI for specific works to stabilize the dam, following a "dam safety event" at Lake Leake. This work was undertaken in accordance with the grant deed using available expertise and resources. The work was completed as an emergency event and TI utilized external contractors for all aspects of the work which was required to be compliant with ANCOLD dam safety guidelines.

The repair is performing exactly as it was designed to, which allows seepage to occur.

Statement Made: The main gate valve at Lake Leake is not working correctly, and TI won't fix

TI Response:

Lake Leake was transferred to TI in October 2017 and at that time TI became responsible for maintenance. The gate valve is working, but with some limitations due to corrosion. A new valve has been ordered and the replacement is expected to be completed in August 2018.

3. Annual irrigation scheme charges

3.1 Scheme costs recovered from entitlement holders

Statement Made: The irrigator representative committees can't set/negotiate the annual charge pricing.

TI Response:

- Pricing is based on recovery of actual costs with no profit margin.
- There are no alternative sources of funding for the ongoing operation of the schemes.
- Committees have input into maintenance charges and staff coverage.

Statement Made: Only the irrigator representative committee chair or vice-chair can meet with TI.

TI Response:

- TI organizes meetings with the full irrigator representative committees at least once a year (and more frequently if required).
- All water entitlement holders are invited to scheme general meetings prior to the start of each irrigation season.
- Irrigators can and do make contact with TI staff and meet with them regularly.

Statement Made: When irrigators want to access water prior to the season opening, TI says that it is impossible, because it is too much work.

TI Response:

- In some schemes it is possible to supply water to irrigators outside of the irrigation season. This is dependent primarily on the dam fill programs which support the reliability of in-season delivery.
- This decision is made in conjunction with irrigator committees.
- The cost of water outside of the season is higher: higher electricity rates, some water purchase costs, lower efficiencies, additional wear and tear on the assets.

Statement Made: Irrigators expected that after two years that the asset renewal charge in Dial Blythe would be dramatically reduced or removed.

TI Response:

- Asset renewal levies are determined by the asset refurbishment and replacement requirements over their 100-year life.
- This is reviewed annually. Communication has been that there will be a level reached when contributions will reduce however the balance must cover replacement of key assets as there are no provisions to fund from elsewhere.

Statement Made: TI is not open to feedback regarding the annual charge pricing.

TI Response:

- TI welcomes feedback, and where possible has adjusted pricing after considering the feedback received.
- The bulk of TI costs are fixed which limits the areas where interventions can be made at a scheme level.

For example, a review of the Midlands Water Scheme and Power Station asset management plan indicates a required increase in the asset renewal levy in 2017-18. Discussions with the committee resulted in the increase being deferred with consideration for the strong working capital.

Statement Made: administrative and compliance costs for Cressy Longford Irrigation Scheme (CLIS) are only \$40k per annum.

TI Response:

KPMG services relates to governance, secretarial, and financial advice only. Total costs are significantly more than this.

TI administrative costs are actively managed and reviewed. Compliance costs will depend upon the scheme and the regulatory requirements.

Statement Made: the cost to install additional outlets in a scheme is prohibitive.

TI Response:

TI recovers the cost for installation of additional outlets from the party who requests the installation. There is no margin added to this installation cost.

3.2 Nodal pricing utilized in schemes, including Whitemore

Statement Made: All irrigators in Whitemore pay the same charge price, regardless of the level of required pumping.

TI Response:

Annual variable charges are based on the cost to pump water into different areas within a scheme.

Whitemore scheme has two charge zones, depending on whether pumping is required at one or both pump stations.

3.3 Cash surplus impact on annual fixed charges

Statement Made: Not confident that TI is quarantining scheme funds.

TI Response:

Asset renewal levy funds for each scheme are kept in separate bank accounts. The working capital balance for each scheme is accounted for separately for each scheme. Any surplus cash is included when setting the pricing for the next year.

Statement Made: TI doesn't pass on cash surpluses through the annual charges (specifically Dial Blythe)

TI Response:

In Dial Blythe scheme, annual charges were reduced for the 2017-18 irrigation season due to their cash position.

Due to the accounting treatment of asset renewal levies, schemes can sometimes reflect a profit position which doesn't represent over-recovery of charges. Therefore, TI focuses on the scheme cash balances rather than profit when setting the prices.

3.4 Power price negotiations

Statement Made: Not confident of the value of TI negotiating position for power prices.

TI Response:

Electricity negotiations for 2017-18:

Early indications of retail electricity cost increase: 43%

Final actual increase in retail electricity cost: 25%

Any movements in the cost of electricity is passed to the irrigators.

4. Compliance & governance

4.1 Water use monitoring, particularly in CLIS

Statement Made: TI and DPIPWE monitor the meters within Cressy Longford (CLIS), so water theft is unlikely.

TI Response:

Neither TI nor DPIPWE monitor meters in the entire CLIS network of channels.

4.2 Farm Water Access Plans

Statements Made:

- Farm Water Access Plans are irrelevant and expensive.
- TI designed the Farm Water Access Plans.

TI Response:

In conjunction with DPIPWE, TI established the framework and content of the Farm Water Access Plans (FWAP). FWAPs are a funding requirement of the Commonwealth who agreed and approved the framework, content, pre-qualified consultant procedures, auditing process, and audit certifications.

The content of the FWAP is referred to in the EPBC² approval conditions, DPIPWE approved audit processes, contingency plans, and DPIPWE district establishment conditions.

TI continues to seek ways to make the processes more effective and efficient.

Statement Made: TI should trust people with their own judgement to ensure environmental sustainability.

TI Response:

A level of independence is important to ensure objectivity in environmental monitoring.

4.3 Tasmanian water responsibilities

Statement Made: Lack of clarity around which entities are responsible for river health and lake levels.

TI Response:

DPIPWE explains the responsibilities for the water industry in Tasmania (<http://dPIPWE.tas.gov.au/water/a-guide-to-water-in-tasmania/water-in-tasmania>):

- DPIPWE have responsibility for management and regulation of the river systems and compliance under the *Water Management Act 1999*.

² EPBC: Environment Protection and Biodiversity Conservation Act 1999

- TI: Under the *Irrigation Clauses Act 1973*, TI develops and manages new irrigation schemes, and keeps a register of all entitlements in each district. TI must comply with water license conditions imposed by DPIPWE for the delivery or harvest of water from specific watercourses.
- Hydro Tasmania has a special license to take water for generation purposes and is responsible for managing lakes, rivers, streams and canals in the hydro-electric catchments.
- TasWater has responsibility for drinking water and sewerage services.
- The Department of Health & Human Services regulate the quality of drinking water from public systems.
- The EPA regulates sewage treatment plants and offers guidance on wastewater issues. The EPA is also responsible for water quality measures, and to address any problems associated with water pollution.
- Tasmanian Natural Resource Management groups work to prevent waterway decline from poor land and waterway management.

4.4 EMIT compliance requirements & governance

Statement Made: EMIT self-management model is a good model to work with, including good governance & compliance.

TI Response:

- TI has provided support to EMIT, for example taking a more active involvement in the management of flows in the Macquarie River, particularly around transmission losses during dry periods.
- TI has been asked and has declined to assist EMIT with compliance problems in particular around water usage and environmental monitoring.
- Any self-managed scheme will need to have sound rules relating to governance, managing conflicts of interest and ensuring compliance with legislation and regulations.
- The TI legislation requires best practice governance.

4.5 Water quality test results

Statement Made: TI refused to provide water quality tests to an irrigator in Dial Blythe.

TI Response:

TI does not collect water quality data for specific water outlets in Dial Blythe. There are water quality tests taken within Dial Blythe, at specific monitoring sites both upstream and downstream of the South Riana Dam.

Statement Made: Salinity isn't a high-risk issue in Tasmania.

TI Response:

Environmental monitoring takes place based on the risk levels within each region. This monitoring is important to ensure that conditions are not worsened by the introduction of irrigation.

4.6 Headquarters Road Dam losses

Statement Made: Headquarters Road Dam is leaking.

TI Response:

Headquarters Road Dam is not leaking. This is a zoned earth fill construction which is expected to have a level of seepage which is normal and is monitored twice per week.

5. Water shortages in the South East schemes

5.1 Restrictions in the Coal River (Stage 1) and South East Stage 2 schemes

Statement Made: Tight restrictions maintained in the Coal River and South East Stage 2 schemes.

TI Response:

Irrigators in Coal River (Stage 1) and South East Stage 2 have had access to 100% annual allocation for as long as TI has managed these schemes.

Some short-term flow limitations have been implemented:

- The low level of Craigbourne Dam for Coal River (Stage 1) during 2015-16: irrigators limited to 80% of their volume for part of the season, later increased to 100%.
- SEIS Stage 2 during 2014-15 and 2015-16: Flow restrictions were introduced for short periods to match supply from TasWater.
- During extreme weather conditions, additional supply was sourced from the Sorell scheme, which had some unused capacity at the time.

5.2 Oversubscription of water entitlements in the South East schemes

Statement Made: TI has sold too many entitlements in Coal River (Stage 1) and South East Stage 2.

TI Response:

TI has not sold any water entitlements and holds no available entitlements in the Coal River (Stage 1) and South East Stage 2.

Statement Made: TI won't allow trading between Coal River (Stage 1), South East Stage 2, and Sorell (South East Stage 3).

TI Response:

The Coal River (Stage 1) and South East Stage 2 and Sorell (South East Stage 3) districts have different water supply sources - trading between schemes would impact on the reliability for the other users of each scheme.

Statement Made: TI hasn't undertaken any development in the area, despite suggestions from irrigators.

TI Response:

TI is investigating options to improve water supply into the region, which is expected to be completed in the coming months.

TI does not have funds for development other than maintenance charges to irrigators.

5.3 Winter dam fill opportunities in the South East schemes

Statement Made: there are no winter dam fill opportunities, or off-peak price encouragement in the South East schemes.

TI Response:

The Coal River (Stage 1) and South East Stage 2 schemes both have 365-day irrigation seasons. The annual allocation can be accessed by irrigators all year round.

- Coal River (Stage 1): there is no variable charge price for water usage.
- South East Stage 2: variable charge is based on the actual cost to purchase water from TasWater.

6. Self-management model

6.1 Requests for self-management

Statement Made: The productivity commission recommended that the preferred model is local ownership and management.

TI Response:

The draft report into the National Water Review, by the Productivity Commission:

- "Net gains may also be difficult to realize for smaller networks [with transfer of distribution networks to local ownership and management], such as some of those in operation in Tasmania, because of the fixed costs of transferring ownership and the relatively small cost base on which to make efficiency gains." - (Page 232)
- "The viability of any transition to local ownership and management is dependent upon the ability of irrigators to demonstrate a collective ability to manage their network...any initiative to progress toward local ownership and management needs to be advanced on the initiative of irrigators." – (Page 232)

The State Government has always stated (refer to GBE hearings 2016) that, where appropriate and feasible, consideration will be given to local community management of these schemes. This is supported through TI's Statement of Expectations and its Statement of Corporate Intent.

Statement Made: The Dial Blythe irrigators have been asking for self-management, expecting to transition once the scheme was running smoothly.

TI Response:

TI has not received a formal request to transition to self-management.

Statement Made: TI is building a mini-tower version of Goulburn Murray Water (GM Water).

TI Response:

The difference in scale make comparisons irrelevant

Very different water entities	GM Water	Tas Irrigation
2016-17 water delivery	995 GL	33 GL
Irrigation customers	12,352	831
Examples of other differences	Age of infrastructure, method of delivery, reliability, interconnectivity.	

Minister position on self-management

Statement Made: The Members Statement of Expectations has changed significantly.

TI Response:

The Members Statement of Expectations was amended by the Shareholding Ministers prior to the Inquiry, after the Corporate Plan was released for 2017:

"The principal purpose of Tasmanian Irrigation is to develop, own and operate irrigation schemes in Tasmania and where feasible and appropriate, to facilitate local community management of these schemes."

Statement Made: The irrigators/TFGA haven't had input into the Members Statement of Expectation.

TI Response:

The Members Statement of Expectation is provided by the shareholding Ministers and the legislation does not require consultation on the Statement.

7. Public Water Entitlements Register

7.1 TI website access to the Water Entitlements Register

Statement Made: TI has removed the Water Entitlements Register from the website.

TI Response:

The Water Entitlements Register has not been removed from the website.

8. Competition

8.1 Water licenses in the Meander & Macquarie Rivers

Statement Made: Since the Meander scheme was commissioned, nobody can access additional Meander River licenses.

TI Responses:

Meander River surety 5 water licenses were converted into irrigation rights in consultation with license holders and TFGA. There is no unallocated water on the main stem of the Meander River within the water district boundary.

Statements Made: There was to be no further allocation of water in the Macquarie River, but TI obtained supply for the Midlands scheme.

TI Response:

TI does not supply into the Midlands scheme from the Macquarie River. Supply in this river is with water from Arthurs Lake in accordance with a Hydro Tas water supply agreement.

Statement Made: TI should transfer the spare [unsold] water volumes to EMIT.

TI Response:

TI maintains open communications with EMIT, particularly about matters involving the Macquarie River. Unsold Midlands entitlements are underwritten by debt, to be recovered through water entitlement sales.

Annual charges will apply to the purchaser of the entitlements, on the same basis as the other entitlement holders in the Midlands scheme.

8.2 Incentives for water entitlement investors to trade

Statement Made: Investors are sitting on their entitlements with no incentives to trade to irrigators.

TI Response:

Annual fixed charges are levied on entitlements held at the start of the irrigation season. This is an incentive for entitlement holders to trade, to reduce their costs of holding the entitlements.

8.3 Perceived hostility to private irrigation scheme development

Statements Made:

- TI was hostile towards proponents of private schemes.
- There has been around 50,000 ML of irrigation development in the last 6-7 years in the Midlands which has been funded privately.
- TI schemes operate in competition with private schemes

TI Response:

TI supports irrigation development in Tasmania, including by the private sector.

TI has engaged with the Circular Head irrigation Group repeatedly providing them with engineering and technical advice.

9. Power generation

Statement Made: Lack of clarity around the breakdown of power station revenue and how this is distributed.

TI Response

Power generation revenue for the year ending 30 June 2017:

	Meander Mini Hydro	Midlands Power Station	Total
Electricity generation	630,469	1,056,957	1,687,426
Renewable Energy Certificates	801,903	1,520,213	2,322,116
Total power generation revenue	1,432,372	2,577,170	4,009,542

The revenue generated by the power stations is distributed:

- Meander Mini Hydro:
 - Cost of running the Meander Mini Hydro;
 - Finance the loan attributed to the Meander Mini Hydro;
 - Contribution toward the operation of the Meander Dam;
 - Contribution toward the Meander Dam construction loans.
- Midlands Power Station:
 - Cost of running the Midlands Power Station;
 - Distributed to the Midlands Water Scheme to offset the cost of purchasing water from Arthurs Lake.

Section 3

Learnings

10. Useful learnings

Learning 1: Communications with entitlement holders in operational irrigation schemes

Improve the understanding of what is involved in the operation of irrigation schemes, and actual/perceived accountability for costs:

- Expand the existing Scheme Overviews published on the website for each scheme to include a summary of compliance and operational requirements for the scheme.
- Make financial information available to the irrigator representative committee at least two days prior to the meeting:
 - Scheme detailed profit & loss statement with an explanation for the net profit/loss position;
 - Scheme cash balance;
 - Asset renewal fund movements and bank balance; and
 - A summary of transactions over \$10,000.
- Make financial information (actuals and budget) available to the wider irrigation community via the website:
 - Scheme summarised profit & loss statement with an explanation for the net profit/loss position;
 - Scheme cash balance; and
 - Asset renewal fund movements and bank balance.
- Review annual charge pricing announcements to better explain prices and how these have been set.

Formalise the process for requests or suggestions which are outside of normal operations (for example, out of season water, suggestions for design improvements, increased flow rates):

- Better tracking of complaints and suggestions, including allocation of items to a specific person to take ownership until it has been closed out.
- Ensure that the outcome of any complaint or suggestion is clearly communicated with humility:
 - Explain the outcome and any recommendations.
 - Explain how and why this outcome was reached.
 - Confirm with the requestor that the issue has been properly addressed.

Learning 2: Communication with purchasers of water entitlements as new schemes are developed

Clarify the origin of their water entitlement purchase price, and the rights and obligations of water entitlement ownership:

- Expand the initial water sales Scheme Overview to include the overall project budget, and the proportion which has been funded by the government and the private sector.
- Improve the visibility of irrigation season length and flow rates within documentation and discussions during the development of the schemes.
- Upon notification of the contractual commissioning of new schemes, advise entitlement holders:
 - Final cost to complete the project compared to budget (total and \$/ML).
 - Funding breakdown of the cost of the project, split between government, private, and the component relating to unsold water entitlements.
 - Strategy for any unsold water entitlements remaining at the commissioning date.

Learning 3: Review the Farm Water Access Plans

Continue to work with the regulators to improve the appropriateness of the Farm Water Access Plans (FWAPs):

- In conjunction with the regulators and (where possible) farmers, review the content for Farm Waps in each scheme:
 - Opportunities (and cost) to include more information which the farmer finds useful.
 - The impact for the farm of applying non-TI water (e.g. Macquarie River).
- Improve the visibility of information about FWAPs on the TI website.
- Include more information on the website:
 - Why FWAPs are required and their purpose.
 - Minimum FWAP content for each scheme, and why this is the case.
 - Why and how audits are performed, and what a farmer is to expect if they are audited.
 - How to request a review of a FWAP to ensure ongoing compliance, and any associated costs.

Learning 4: Review of the allocation of indirect (overhead)

- In conjunction with the irrigator representative committee chairs assess:
 - The appropriateness of the method of allocation of these costs between the build business, and between the schemes.

Learning 5: Review the management and funding of non-irrigation scheme assets & obligations

- Lake Leake:
 - Continue to work with EMIT to document the minimum operation and compliance requirements.
 - Work with DPIPWE to investigate opportunities for alternative funding to complement EMIT's contribution

Learning 6: Clarify TI role in water management in Tasmania

TI to clarify their role in water management in Tasmania:

- Include information on the website explaining TI's responsibilities.
- Include useful links to other water entities in Tasmania.

Learning: Clarify the process for investigating options for transition to self-management

In conjunction with DPIPWE, create a reference document explaining the process for enquiries about self-management. This may include:

- An outline of the process for investigating a transition (for example: application, investigation, recommendation).
- Contact details for notifying DPIPWE/TI of intention to investigate a transition.
- Outline any legal requirements for transition to self-management.
- Clarify the position regarding infrastructure ownership, asset management programs, and any ongoing costs which may apply if the scheme transitions to self-management.
- An indication of the ongoing compliance obligations which would be required of the self-managed entity.

