

Chairman's report

Tuesday 22 September 2015



Murray Irrigation

All options must be considered

This is the Chairman's report, following a meeting of the Murray Irrigation Board of Directors on Thursday 17 September.

Efficiency allocation

Recognising the urgent demand for early season allocation, the Board has reviewed the Company's risk profile to consider how we can better serve our customers in low allocation years.

The Board carefully considered the available levers and has decided to make available a volume of water usually held as insurance to ensure we can deliver carryover in the next season. Historically efficiency allocations have been delayed until water efficiency gains have become more secure; however, recognising that the minor risk posed will be mitigated once general security allocations in 2016/17 reach one percent, the Board has decided to make potential water efficiencies available to customers immediately.

The Board approved an **efficiency allocation of three percent** of delivery entitlements excluding Class A (Town Water Supply) and domestic supply agreement customers. This allocation will be updated in customer accounts tomorrow (Wednesday).

PIIOP implementation

Since the last Board meeting Chief Executive Officer, Michael Renehan and his team have conducted a thorough strategic business review, including a detailed analysis of the Private Irrigation Infrastructure Operators Program (PIIOP) project.

As a Company it is clear that we underestimated the challenge of consulting with our customers on PIIOP and, despite the best efforts of our consultation staff, we acknowledge that we have to improve our processes.

Murray Irrigation is committed to learning from experience, both our own and that of other companies. Consistent with this, management presented the Board with recommendations based on the audit report from the Goulburn-Murray renewals project as well as an internal operational review.

As a result, the Board has asked management to reprioritise the roll-out of the PIIOP project to minimise overcapitalisation and maximise utilisation to avoid having stranded assets. This will include reviewing the low flow / no flow threshold to make the outlet and landholding thresholds consistent. It will also mean that the implementation plan will prioritise businesses, regardless of geographic location, that show a history of use that will ensure both Murray Irrigation and the farm businesses achieve an acceptable return on investment.

Sustainability

From Michael's recent customer meetings we heard feedback that, as an organisation, we need to improve our method of engaging with customers and become less bureaucratic in our operating style. As a result we are implementing a plan to ensure our customers and shareholders have input into the shape of the company as we structure for the future.

Customers would be familiar with the fact that the challenge for Murray Irrigation to achieve business sustainability needs to be addressed through three mechanisms: price, volume and cost.

Current cost of operations indicate focussing on price alone would lead to an increase of around 30 percent to reach breakeven cost recovery. Clearly this option is the least desirable, so Michael and his team have been working on a plan to look at all three levers and will have preliminary options ready to present to customers for consultation in November. It is vital that we involve our customers in the process of developing and refining these options, and potentially identifying new options, to ensure future price rises are controllable and costs are managed.

I am pleased to say the company is already taking steps to look at the issue of volume and will be meeting again with the Commonwealth Environmental Water Holder this week to look at options and opportunities.

Over the coming months, Murray Irrigation will open discussions with customers through various mechanisms such as the Landholder Associations, other small groups and one on one to look at both short and long term opportunities for the company.

Bruce Simpson
Chairman