

Lack of Allocation from Goulburn System Low Reliability Water Shares

Introduction

This document explains my concerns relating to Low Reliability Water Shares (LRWS). It provides background information and allocation rule changes that have led to the current situation where LRWS are not receiving the allocations that irrigation farmers were told they would receive prior to unbundling water entitlements.

Background

Prior to unbundling water entitlements in 2007 the entitlement was known as Water Right. This entitlement ran with land ownership and had two components. Firstly the volume of water right had high reliability and could be expected most years. Secondly depending on resource availability and once provision had been made for water right the following season, sales were allocated to the holders of water right. Significant sales allocation was available most years often up to 100% of water right. The long term average of sales was determined by GMW to be 60%.

At unbundling Water Right was converted into separate products of High Reliability Water Shares (HRWS) and LRWS that could be independently traded. Conversion Rules dictated the percentage of Water Right converted to water shares. Water Right was converted on a 1:1 basis to HRWS and for Goulburn System Irrigation Areas, Water Right was converted to LRWS at 48%. (That is 48ML LRWS for every 100ML of Water Right. This was calculated as in the long term average access of 60% less 20% to the environment, being 48%.)

Prior to unbundling it was made clear to customers at customer information presentations that reliability of allocations post unbundling would be about the same. This was evidenced graphically at numerous presentations. It was made clear that allocations on LRWS would have about the same if not improved reliability as sales allocation.

Changes to Allocations

A significant drought gripped the Murray Goulburn System from 2005 until about 2012. Storage levels dropped and allocations were low on HRWS, with no Sales or LRWS allocations possible for some years.

Some irrigators called for some surety of supply for the start of dry seasons and when paying high prices for allocation on the trading market, did not want unused allocation being forfeited and returned to the communal pool for redistribution.

In response the Minister provided for any unused allocation to be carried over to the next season as an advance on the irrigators allocation. This was an encumbrance on the water share and reduced the potential allocation from water shares by the volume carried over. Only a limited portion of water share could be carried over in this way. Any additional unused volumes were returned to the communal pool.

Some irrigators obtained separate Allocation Bank Accounts (ABAs) to only encumber LRWS. A further rule change occurred to encumber the LRWS first and thereby remove the incentive to have separate ABAs for HRWS and LRWS. In this way there was minor effect only on allocations and little incentive to hoard allocation. The principle remained that any carried over water was an encumbrance and allocations were limited to water shares held.

Lower Murray irrigators did not receive LRWS and felt hard done by with the advanced allocation rules because they did have the LRWS to encumber. This was the opportunity for the Minister to point out to those irrigators the advantage of purchasing LRWS. At the time they were inexpensive and would have provided allocations after drought conditions had passed.

The Minister then introduced the Spillable Water Account. This is where unused storage space is utilised for customers whose carried over volumes plus new seasonal allocations have pushed the total volume in the ABA above 100% of associated water shares. These volumes are quarantined until there is a low risk of spill. Should natural inflows fill the storage, water in the spill account is lost as new inflows push it out of storage. Users of Spill pay a fee for using the storage capacity and take a risk of losing the allocation.

Providing for carryover without encumbering water shares and the Spillable Water Account have changed the nature of allocations. At the end of each financial year there a significant amount of water trading to secure entitlements for the following season and avoid losing allocations. This results in very little water returning to the communal pool and thereby significantly reduces initial allocations. It seems to be a vicious circle resulting in farmers needing to trade rather than receive allocation on their LRWS.

Post Drought Allocations

Most customers thought that after the drought when seasons improved and Goulburn storages filled that there would surely be allocations on LRWS. This did not happen which surprised most customers. These customers were struggling with the complexities surrounding unbundling and trying to survive on the land. The average farmer did not understand the new system and after the drought did not question lack of allocations.

There have been three years since the drought where all Goulburn System storages have effectively been full and still no LRWS allocations.

Historically when Lake Eildon and Waranga Basin are full in Spring there was always 100% of Water Right and 100% percent Sales. Even though the allocation also relied upon additional inflows during the Summer months these could be relied upon based upon historical minimum flows.

Based upon the volume of water in storage, Goulburn System irrigators should have received either full or partial LRWS allocation in most seasons since 2012. The only logical reason can be that the Minister's rule changes with respect to carryover and introduction of the Spillable Water Account have created this situation.

In an effort to limit carryover a maximum has been set that limits carryover to water shares linked to an ABA. This has still not resulted in LRWS allocations.

Effects on Irrigators

Due to not receiving allocations because of the Minister's rule changes, in the Goulburn System LRWS are now only used to protect carryover allocations from going into the Spillable Water Account and thereby not being available until a low risk of spill has been declared.

Holders of LRWS receive payments to provide carryover protection to those wishing to carryover large volumes and these are sometimes speculators. Carryover protection is conducted by transfer between ABAs prior to the end of the financial year and then trade back again in the new year.

If carryover was:

- eliminated; or
- limited to a percentage of water shares like advanced allocation; or
- the 100 percent bought into play (This is the rule that would put all non trade volumes that exceed 100% of water share associated with an ABA back into the communal pool for re-allocation.),

there would be allocations on LRWS on a regular basis. The incentive to carryover would likely only exist where a dry season appeared imminent and storage volumes were low. Significant unused volumes would be returned to the communal pool resulting in much improved initial allocations and allocations on LRWS would be more probable. In years of good resource availability, any carryover volumes would then only effect the rate of allocations not the final volume allocated.

The current rules have far reaching effects. The lack of LRWS allocation is an obvious disincentive to irrigate due to the cost of purchasing allocation.

It is also responsible for the low price of LRWS. Reinstating reliability of LRWS would result in significantly increased demand and prices for LRWS.

Summary

The changes to carryover rules in the Goulburn System together with the Spillable Water Account have effectively reduced LRWS to be only good for carryover protection. The rules have changed the product dramatically from that delivered at unbundling without any compensation for the loss of reliability.

A number of landowners sold HRWS and purchased LRWS based upon presentations by GMW on the understanding of the post unbundling reliability of LRWS. I am one of those people. I have not received allocations on my LRWS since I purchased them shortly after unbundling. I have therefore incurred significant losses directly through the value of allocations and also through lost opportunity to irrigate.

The drought may have required special provisions to assist customers, but the basis for retention of the rules put in place during the drought is not sound based upon the effect it has had on LRWS allocations.

I call on the Minister for Water to engage on this matter. I have discussed my concerns with a number of farmers and have always received support for a return to no or limited carryover and return of allocations for LRWS.

Prepared by

David Morrison

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