

Gwydir Valley Irrigators Association Inc.

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Public submission to the ACCC's Water Trading Rules issues paper by the *Gwydir Valley Irrigators Association*

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Introduction: The Gwydir Valley Irrigators Association (GVIA) represents the interests of irrigation entitlement holders in the Gwydir Valley of North-West, NSW. GVIA is a voluntary organisation with an active financial membership that exceeds 90% of the irrigation entitlement in the Gwydir Valley.

GVIA is a member of both the NSW Irrigators Council and the National Irrigators Council, and while very supportive of these organisations, it does reserve the right to hold and pursue views that may be contrary to these peak organisations.

General Comments: GVIA is very concerned about how water trading rules may not be uniformly applied across the Murray-Darling Basin due to the transitional arrangements included in the Commonwealth Water Act, which will allow the application of the rules only when the transitional water sharing plans expire. GVIA understands those plans identified in the Water Act schedule expire at various times from 2012 through to 2017, with uncertainty surrounding the expiration of Victorian plans.

GVIA believe it should be a priority of the Australian Government to ensure the uniform application of this water trading rules.

GVIA notes that NSW Irrigators Council will be making an extensive submission to this issue, and therefore GVIA only intends to make comments on issues that are of particular interest to it.

Specific Comments and Responses

Review of the Basin (Pg 19): GVIA notes that that the Basin Plan can be reviewed following a request by the Minister or all of the Basin States, but a review cannot occur within the first five years of the plan. While this obviously has advantages in terms of the overall basin plan, giving stakeholders a degree of surety, GVIA has some reservation if this means water trading rules cannot be reviewed during the first five years.

Given water trading is a developing market it appears somewhat dangerous to lock rules in for five-years, when it maybe discovered that some of the rules are inappropriate. GVIA believes there should be some mechanism for the ongoing review of trading rules, while protecting against frivolous or ill-thought amendments.

Question 5-B: In general GVIA can see no justification in restricting the ownership of water access rights by any particular individual. GVIA is not an expert of Australia's Foreign Investment Review Board requirements, but it might be appropriate for foreign investments in water to be treated consistently with other foreign investments in Australian assets.

Question 6-A: In the Gwydir Valley there is some limitations on the permanent linking of entitlements to works approvals on specific streams, due to perceived delivery constraints. It is also possible for temporary trades to be disallowed on the basis of insufficient delivery capacity on a particular stream or reach.

The introduction of a tradeable extraction component defining either a daily extraction limit or an extraction time would assist with the efficient trade of water. Currently existing Gwydir General Security licences have a simple extraction component that states the water is available at any time, and any rate, however, DWE will not permit additional licence to be linked to Work Approvals on certain streams because if all work approval holders took their

water at the same time at the maximum rate, the demand would exceed the delivery capacity of the stream.

Question 6-D: This question highlights significant differences between the southern and northern parts of the Basin. Carry-over as such does not exist in the Northern NSW regulated valleys where Continuous Accounting operates.

Under a Continuous Accounting system once water is credited to an entitlement's account (subject to maximum account limits) that water belongs to the account holder. There is no discrimination between water used in the year it was credited, and water held over for future use or trade.

GVIA strongly argues that once water is in an account it should be regarded as the property of the account holder, and there should be non-discriminatory trade rules that are applied on the basis of use or trade history.

GVIA believes the same principle should apply in the Southern Basin, and Continuous Account water should in fact be the highest priority account water.

Question 6-E: GVIA supports the retention of the socialisation of delivery losses within the valley.

Should intra-valley or intra-state trades be allowed there may be some argument for the introduction of a conveyance loss adjustment in those circumstances where significant additional losses can be identified.

GVIA believes this would be particularly applicable on unregulated systems, or where long distances of conveyance are required: eg: Trades down the length of the Darling system.

Question 6-H: There does need to be the development of the concept of "shepherding" to aid in the temporary and permanent trade of water along unregulated systems. Under present circumstances water passing down stream due to trade on an unregulated system can actually trigger extraction conditions for downstream entitlement holders.

Question 6-I: As stated earlier there may be justification for a conveyance loss allowance where additional delivery losses can be clearly identified and quantified. For practicality, the loss allowances could be determined on a zone basis.

Question 6-J: Refer to answer 6-H.

Question 6-L: Given the relatively limited amount of knowledge surrounding the hydrological interconnectivity between various groundwater and surface water systems GVIA would totally oppose permanent trade between the two types at this stage. In some circumstances it may be possible to have temporary trade where groundwater is pumped into a surface water system and then extracted again, or vice-a-versa, however, it would be necessary to take into account a range of environmental issues, and factors such as loss allowances.

Question 6-M: In a closed system like the Gwydir the key issue is not the water access right, but the water works or use approvals. A Gwydir regulated river WAL is not location specific. However, as discussed previously there is currently some limitations on linking additional access licences to works approvals (Please refer back to answer 6-A).

Question 6-N: No. In essence NSW DWE's tries to make an assessment to ensure water traded from one part of an unregulated system to another does not have any third party impacts. However, this is very inexact and the reality is that trades of unregulated water from one stream to another within an unregulated system does have both positive and negative third party impacts, even if the total water extracted from the system remains unchanged.

Question 6-O: The problem with groundwater trades is that it is impossible to prevent third party impacts. The impacts are often not apparent as an impact on total volume extracted (although this can occur), but on daily extraction yield and energy costs.

The problem is determining what is an acceptable level of impact, and in managing the cumulative impacts. For instance, while one trade may lead to standing water level reduction of 1 metre, and it might be deemed acceptable, the next trade in that vicinity might lead to a further reduction of .5 metres. Its impact is half the impact of the first trade, but the total impact is now 1.5m and that may be considered an unacceptable impact. Should that trade be denied? Or should the first trade accept some of the consequence?

Question 6-P: Each aquifer or zone should be assessed for potential levels of third party impacts based on average level of annual trade. Should an aquifer/zone be assessed has having a low risk of third party impact no or minimal assessment of annual trades should be required. High level of risk should lead to a greater level of assessment.

Risk assessments should also be done for permanent trades and appropriate management tools could include net cumulative limits on permanent trades into a certain aquifer or zone, maximum additional drawdown limits, multi-level hydrological assessment requirements.

The key is to determine a risk management approach and ensure it is well communicated to stakeholders and regularly reported on.

Question 6-Q: GVIA does not fundamentally oppose trade outside the MDBA, but the water would need to be physically extracted from the MDBA. GVIA would be very concerned about any trade proposal which sought to effect the trade by offsetting an MDBA licence against a licence outside the MDBA, or vice-a-versa.

Question 7-A: While once accepted practice, GVIA now opposes any conversion in the class of water for example regulated General to regulated High Security. Any such conversion requires the development of an "exchange rate" and this rate will never be perfect and will result in third party impacts.

Licence holders have a number of other options to adjust their security including the sale of one class and its replacement through purchase of another class, the effective use of continuous accounting to manage their own security, or adjusting the risk profile of their water requirements.

Continuous accounting makes this easier than "carry-over" provisions and southern systems should actively investigate the management advantages of continuous accounting.

Question 7-D: This is a difficult issue, but it would appear that unless sophisticated rules were put in place, stock and domestic licences should be tied to land, and not be able to be traded separately. The reason for this is some properties could sell off their stock and domestic licences, and simply replace their water requirements by utilising their riparian rights, leading to a net increase in water extractions.

In some cases where additional S&D, or indeed town water supply water was required, the demand should be met through the purchase of other classes of water such as high security or general security in NSW.

Question 7-E: Any water entitlements purchased for the environment should retain exactly the same characteristics that it held immediately prior to the purchase.

Question 7-E: In general whether a water use approval is held or not should be irrelevant to the trade. However, obviously a use approval would be required before the water was used, but that approval may be held by a separate person to the entitlement holder.

Question 7-J: As we have moved more and more to a market based system, it is important that the process continues.

Questions 10-A -F: In a closed system like the Gwydir these are not issues.

Question 10G: In some instances State Water require an updated meter reading to be done prior to approving a temporary trade. This clearly takes time. It should be the sellers responsibility to ensure he/she has the water in account to cover the trade. If there is not enough water it should clearly be the sellers legal responsibility. For example, when selling shares on the stock market, it is the sellers responsibility to know the shares are available to be sold.

Question 11-A: Temporary trade market information is available relatively easily and timely on a variety of commercial internet based trading platforms. Permanent water trading information is only available publicly when it appears on the relevant State's water register. In NSW this appears to occur many months after the trade has been effected.

Questions 11B- H: While there are a whole range of water types and products out there, the range is not that bewildering that the complexities cannot be mastered by a prudent investor. There would be some advantage in having a central information depository, such as a website.

Questions 11- I-K: The timely and accurate reporting of sales information is absolutely critical. Permanent sales should be reported on the signing of the sale contract, not on registration which is a slow process.

Question 11-M: GVIA strongly believes that allocation announcements deserve the same level of discipline as the Reserve Banks interest rate announcements. Allocation announcements should be made publicly available on a set date and time. Any amendment to the set date or time should be publicly announced before hand.

Question 11-N: Water Authorities should take the lead of the Northern NSW authorities and only ever allocate water that has entered the dam. Any forecast of possible future allocations should be done with an extreme level of caution, and should probably be taken with the same level of faith applied to a long-range weather forecast (not much).

Question 11-O: Available water determinations in the Gwydir Valley are done in a very transparent nature, this does not apply to the southern connected system.

Question 11-P & Q: GVIA believes the use of continuous accounting virtually eliminates the risk of a type of event described in your case study. However, if a trading policy change is

absolutely necessary, it should be widely communicated well in advanced, to all stakeholders equally.

Questions 11 R & S: The registers in use in NSW are only partly successful. The main concerns is the lack of timeliness in providing market information and the lack of ownership detail.

GVIA would like to address one issue not raised in the discussion paper. In the Gwydir Valley it is only possible to temporary trade water into an account up to its account limit. In the Gwydir the general security account limit is 150% of the entitlement.

Therefore, a water user requires a significant investment in entitlement to operate in the temporary market. For example, an irrigator may wish to hold either no permanent water entitlement or only a small amount, and utilise temporary trade to meet his requirement.

However, if he only held a 10 unit share access licence, he would be limited to a maximum single trade of 15 megalitres (150%).

The restriction is in place to ensure total water in accounts cannot exceed dam capacity, however, as the dam is mostly less than full, it does hamper free trade.

There is the need for the development of innovative rules and products that protect the integrity of the dam storage capability and available water determination process, while ensuring maximum opportunity for trade and flexible business resource structures.

GVIA wishes to thank the ACCC for the opportunity to respond to this issue paper, and would be more than happy to discuss any of the matters raised with the ACCC if required.

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