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Minister for Water, Property and Housing

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To whom it may concern,

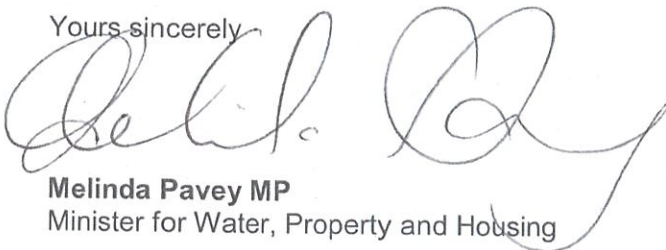
I am pleased to provide a response from the NSW Government to the Australian Competition and Consumer Commission's (ACCC) interim report as part of its inquiry into Murray-Darling Basin water markets.

NSW is a strong supporter of increasing the transparency and accountability of water trade across the Basin and welcomes the release of the ACCC's interim report.

The extensive interim report puts forward several options to improve water markets across the Basin and will require ongoing consideration from Government Departments.

The NSW Department of Planning, Industry and Environment – Water on behalf of the NSW Government looks forward to working through these options with the ACCC over the coming months to help inform the ACCC's final report and recommendations.

Yours sincerely



Melinda Pavey MP
Minister for Water, Property and Housing

27 AUG 2020

NSW Submission in response to the ACCC Inquiry into Murray Darling Basin Water Markets interim report

The NSW Government welcomes the interim report by the Australian Competition and Consumer Commission (ACCC) into Murray-Darling Basin water markets.

The NSW Government supports transparent and efficient operation of water markets and looks forward to engaging with the ACCC over the next few months on the specific issues raised in the interim report and the options put forward. NSW also looks forward to receipt of the ACCC's final report and recommendations on or after 30 November 2020.

Water markets provide substantial and important benefits

Water markets are a fundamentally important tool for irrigated agricultural producers in NSW and are an increasingly important tool for regional urban water suppliers, environmental water managers and investors. They are critical to driving improvements in productivity and efficiency in communities and the NSW economy.

NSW has a thriving trade market with more than 12,000 trades conducted in NSW in the last water year alone. Our market has grown significantly over time, enabled by a range of reforms implemented by NSW. These reforms, which have been undertaken with extensive stakeholder engagement, are designed to support a sustainable and efficient trade market whilst protecting the environment and other water users.

NSW water market objectives

NSW is committed to effective water management for all water users and the environment. As part of this, we support an open, fair, efficient and sustainable water market characterised by integrity, transparency and accountability. We are committed to ensuring our water markets facilitate economic and social benefits to people, businesses, communities and industries, whilst also ensuring protection of our physical river systems and the environment.

NSW is consequently committed to ensuring that any future reforms to the water market:

- Ensure protection of our physical river systems and the environment
- Maintain the key foundations of water management
- Recognise the value of water to the state's regional economies
- Support our water market objectives
- Do not erode previous hard-won reforms
- Include genuine engagement with stakeholders
- Address key issues for NSW, such as addressing increasing pressure on physical systems constraints like the Barmah Choke
- Provide sufficient economic, social and environmental benefits to water users, industry, communities or the environment to justify change
- Appropriately consider the interconnected nature of the water market and the potential for wide-ranging impacts.

NSW supports water market improvements

The Murray-Darling system is complex and requires significant coordination between jurisdictions to ensure water is managed effectively. The ACCC's interim report highlights opportunities to improve governance of the Murray-Darling Basin water market to ensure this precious resource is well managed, and to increase transparency to make it easier to access accurate and timely information to increase participation in the water market and improve confidence of market participants.

NSW is supportive of making improvements to achieve an open, fair, efficient and sustainable water market in line with our water market and reform objectives. Improvements in these areas can improve productivity and efficiency in the NSW economy and help ensure the resilience and sustainability of the irrigation sector and regional communities. NSW supports the ACCC's key recommendations of:

- **Addressing the transparency and conduct of market participants** by improving oversight and regulation of market participants, particularly intermediaries. This will address perceived or actual conflicts of interest.
- **Improving trade processes and market transparency** through harmonised and coordinated approaches to trade services, reporting and information, and through greater use of innovative technology and improving access to high quality, timely information. This will make information more readily available to improve knowledge and reduce uncertainty in decision-making. A consistent, basin-wide register of entitlements is one possible key step to improve trust in the market.
- **Improving the effectiveness and transparency of market governance** through improved regulation, consideration of the economic, social and environmental impacts of water trading, as well as consistent and coordinated approaches to rules, enforcement and compliance where possible across Basin states with proportionate and visible compliance and enforcement action.

The ACCC has also flagged broad and major reform options for **market architecture**. NSW supports a review of market architecture where critical to improving water markets in line with our water market objectives. However, effective water management for all water users, industry and the environment is our priority and any amendments made to improve water markets must not be achieved at the cost of good water management as a whole.

NSW is already making improvements to trade rules, information and transparency

NSW has been working to improve our water market and remove barriers to trade. We actively address trade rule issues on an ongoing basis to ensure compliance with the Murray-Darling Basin Plan and to address stakeholder concerns and improve outcomes for water users and the environment.

Transparency in the operation of water markets is critical to ensure trust and accountability for all market participants. We have improved transparency of our markets by:

- Publishing a trade price dashboard to provide up to date market information
- Collecting new information on our trade forms in relation to the purpose and price of trades
- Identifying broker and environmental trades
- Increasing scrutiny of \$0 trade price reporting
- Adding an environmental water portal to the public water register.

ACCC inquiry into Murray Darling Basin water markets

The NSW environmental water manager is a market participant and all appropriate arrangements are in place to meet the Basin Plan trade rules including a separation of roles within Government.

These initiatives are complemented by the Water Insights Portal, developed jointly with WaterNSW, which provides meaningful information and real-time data to support NSW water users.

Together, these resources play an important role in ensuring the NSW public has access to relevant information.

NSW is working with the Independent Expert Panel and other Basin Officials to establish a functional delivery framework for the River Murray

Physical constraints in the River Murray have market impacts in the southern connected system.

A key point highlighted by the ACCC analysis to date is that carryover and trade interact to allow concentration of water use in particular places such as the River Murray below the Barmah Choke.

Water trading in this region poses considerable challenges for river operators who have to deliver water far from water storages and rely on the physical capacity of the river networks transporting water. Running the rivers high for much of the year is damaging riverbanks and reducing channel capacity.

Developing market settings that enable water users to build in the cost and benefits of trade into decision-making will be critical to improving the efficiency of water market operation in this region.

NSW considers that the collaborative approach currently in place, that involves all Basin states working with independent expert advisers, provides a successful model for developing sustainable improvements in the complex southern connected system.

Recommendations for inclusion in final Water Markets Report

The NSW Government encourages the ACCC when preparing its final report to review existing regulations across jurisdictions to ensure any proposed Commonwealth regulation interacts with existing regulatory levers at state levels to reduce duplication and ensure that the implications of any recommendations are considered in the context of broader water management.

NSW also encourages the ACCC to articulate what Basin States are doing well and areas of improvement specific to each State. NSW, for example, leads the country on implementing the National Metering Standard and we have also already implemented a number of solutions suggested by the ACCC, such as collecting information on trade purpose and price.

Finally, the interim report raises many issues but does not include analysis of the extent or impact of each issue. Similarly, the sense of where to prioritise intervention has not been provided in the suggested reform options as analysis of the scale of benefits has not been provided. NSW encourages the ACCC to include this analysis to drive impactful reform.

Next steps

NSW looks forward to working with the ACCC and other Basin governments to explore further improvements to the water market.

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