

Irrigators' Share Distribution

Water Trading Strategy – Stage 2

Public summary

Final

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Acknowledgement Of Traditional Owners

We pay our respects to Elders past and present, and acknowledge and recognise Traditional Owners' obligations, rights and responsibilities to use and care for their traditional lands and waters.

Introduction

The GMW Connections Project involved a \$2 billion investment in irrigation infrastructure modernisation in the Goulburn-Murray Irrigation District (GMID). On-ground modernisation works have now been effectively completed. The final water recovery has now been verified.

Since October 2021, 77 GL long-term annual average yield (LTAAY) in water shares and financial benefits have been successfully distributed to delivery share holders in the GMID, delivering on the Victorian Government's commitment to distributing the irrigators' share of the water recovery.

A significant water entitlement sale program was conducted in 2021-22 to fund financial benefits to landholders with less than 0.25 ML/d of delivery share. The program also included sale of a large volume of allocation held by GMW to maintain reliability in the Goulburn and Murray systems, known as the offset accounts.

Following final auditing of all water recovery achieved by the Connections Project, there is now an additional volume of water entitlements available for sale in 2022-23, equivalent to 681.6 ML LTAAY. The proceeds of this sale will be combined with the proceeds arising from the sale of the offset accounts allocations and provided as bill credits to all eligible delivery

share holders in the GMID¹, in proportion to the volume of delivery share held.

The same objectives that applied to Stage 1 will also apply to the Stage 2 ISD water trading strategy. The objectives are:

- Maximise returns to GMW customers within the program parameters and limits.
- Minimise potential market disruption/distortion whilst still selling the available water.
- Minimise administrative costs where possible.
- Provide suitable levels of accountability and transparency.
- Provide open opportunities for all interested parties to access ISD water trades and ensure GMID water users are aware of opportunities and not excluded from them.
- Comply with all relevant trading requirements (including Basin Plan requirements).

¹ Refers to all delivery share holders eligible to receive ISD benefits (i.e. either financial or water share benefits as assessed at the census data of 1 October 2021).

Water available for Irrigators' Share Distribution (ISD) Stage 2 water trading program

The Stage 2 water trading program consists of a mixture of High Reliability Water Shares (HRWS) and Low Reliability Water Shares (LRWS) spread across seven different trading zones. The current estimate of water entitlements that will form the portfolio available for sale through Stage 2 of the ISD water trading strategy is shown in Table 1. The allocations made against these entitlements will also be offered for sale, and the financial benefit provided to eligible delivery share holders.

Table 1: ISD Stage 2 water products

Trading Zone	1A	3	4A	5A	6	6B	7	
Description	Greater Goulburn	Lower Goulburn	Campaspe	Loddon	Vic Murray (above Barmah)	Lower Broken Creek	Vic Murray (below Barmah)	Total
HRWS (ML)	69.9	13.3	36.8	135.6	90	9.4	114.3	469.3
LRWS (ML)	115.2	0	0	0	187.7	1.4	190.8	495.1

Note: All volumes are subject to final confirmation

Water markets analysis

A detailed water market analysis has been undertaken. The relatively high levels of seasonal water availability already announced for 2022-23, combined with the potential for above average on farm rainfall, are expected to reduce prices that can be achieved for sale of allocations to some degree (compared to recent drier years), but are not expected to have a major impact on prices for sale of water shares. Other factors such as interest rates and commodity prices can influence entitlement prices over time.

The analysis indicates that given the relatively modest volumes of water shares and allocations available for Stage 2, there are no major concerns about being able to sell these water products at prices that reflect fair value.

Trading Strategy

A range of possible options were considered for approaching the market and were reviewed and assessed. Experience gained from the ISD Stage 1 water trading program was also used to inform the development of the trading strategy for Stage 2.

The development of the trading strategy had regard for the volumes of water products available. The market conditions experienced to date in 2022-23 and the potential market dynamics for the period until the Stage 2 water products can be offered to the market were also factored into considerations.

The water shares, together with their associated allocations, will be offered for sale through a single broker, via a public on-line auction. This approach aims to ensure that the parcels are marketed openly and sold transparently and competitively. The auction process will also include arrangements to ensure transparency of information around bids lodged and timelines for the auction, building on experience gained from the Stage 1 water trading program.

Since the volumes of water shares (and allocations) available for sale in each trading zone for Stage 2 are relatively small, they will be offered in the parcel sizes available, without being further subdivided. The sales program will commence as soon as possible

Governance

One of the objectives for this trading strategy is that actions will comply with all relevant trading requirements. The key instruments that apply to this strategy are:

- Basin Plan trading rules
- Victorian *Water Act 1989* (the Act)
- Victorian trading rules for declared water systems
- GMW Water Trading Operational Policy (September 2021)

The ISD is an important project, distributing valuable water entitlements, and strong governance and oversight arrangements have been established to guide overall project delivery. The development of the Stage 2 trading strategy has been monitored and the final approach has been endorsed by the Project Steering Group, which consists of executive officers from DELWP and GMW. The Irrigators' Share Stakeholder Advisory Group, which consists of representatives from the GMID Water Services Committees, was also consulted on the strategy objectives and general approach².

GMW already holds all the water products to be sold for the Stage 2 water trading program and is responsible for implementing the trading strategy. GMW will also be responsible for:

- Making disclosures required under the Basin Plan trading rules. These disclosure requirements apply where an approval authority such as GMW is also involved as a market participant. They cover:
 - Ensuring that purchasers receive written advice that GMW is the seller, prior to submitting the trade for approval.
 - Publishing the outcomes of any completed water trade that GMW is a party to on its website as soon as possible after the trade is approved.
- Continuing to maintain effective "Ethical Wall" arrangements that ensure there is clear separation of decision making and no inappropriate information sharing between staff in relation to:
 - Making of seasonal determinations.
 - Decisions to trade water products.
 - Approvals of trade applications.
 - Financial management and accounting for proceeds of the sales program.
 - Publishing a final public report on the program outcomes.

² Consultation with ISSAG was managed to ensure no market sensitive water trading information was released to the group before it was generally available to market participants.