

Water Trading Strategy
Public Summary
2021

Irrigators'
Share
Distribution



Contents

1.	Background	3
2.	Water available for ISD financial benefit	4
3.	Water market analysis.....	4
4.	Trading Strategy.....	4
5.	Governance	5

Produced for GMW by Aither and DG Consulting.

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.

Background

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. This means the final water recovery can now be verified and distributed.

The water recovered through the Connections Project is being shared between GMID irrigators, Melbourne's retail water corporations and the environment, with 77 GL long-term annual average yield to be returned to irrigators. In 2019, the Minister for Water established a representative group of irrigators to look at how the irrigators' share of this water recovery could be provided back to GMID irrigators. This group, the Irrigators' Share Consultative Committee (ISCC), recommended that delivery share holders in the GMID receive a once off distribution of water shares in proportion to their delivery share holdings.

The ISCC found that it was not feasible or cost effective to issue water shares to holders of small amounts of delivery share, so landholders with less than 0.25 ML/d of delivery share will receive a financial benefit instead of a water share. This benefit will be equivalent to the value of the water shares they would have been entitled to receive and will be provided as a credit on their Goulburn-Murray Water (GMW) bills.

In order to fund the financial benefit component of the Irrigators' Share Distribution (ISD) Project, GMW will sell the overall volumes of high and low reliability water shares that would have been issued to the holders of delivery shares of less than 0.25 ML/d, together with any allocations credited to these water shares. A detailed water trading strategy has been developed to guide the sale of these entitlements.

The objectives established for the ISD water trading strategy are:

- Maximise returns to GMW customers within the program and time parameters.
- Minimise potential market disruption/distortion whilst still selling the available water.
- Minimise administrative costs where possible.
- Ensure 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).

The implementation of this trading strategy can commence once the water shares are issued (which will occur by October 31, 2021), so is planned to run between November 2021 and April 2022 to enable the administration of the rebates to occur as part of GMW fixed charges accounts which will be issued in July 2022.

Water available for ISD financial benefit

The current estimated volumes of water products that will form the portfolio available for sale to fund benefits for delivery share holders below the 0.25 ML/d thresholds are:

- **High Reliability Water Shares**

A total of approximately 1220 ML of HRWS will be available for sale. Around two thirds of this volume will be Zone 1A entitlements. There will also be a small volume of Zone 1B water shares available, whilst the balance will be made up of a mixture of Zone 6 and Zone 7 water shares.

- **Low Reliability Water Shares**

Around 690 ML of LRWS will be available for sale. The make-up of this parcel is similar to the HRWS, with around two thirds consisting of Zone 1A LRWS, and the balance made up of Zones 1B, 6 and 7 LRWS.

- **Allocation**

These water shares will also receive allocations from 1 July 2021 up to the time they are sold. All the available allocation will also be sold, and the financial benefit provided to delivery share holders below the threshold.

These volumes are the current estimates, however final volumes will be confirmed after the census date of October 1.

Additional allocation may become available from the Goulburn and Murray offset accounts, which have been used to maintain system reliability as water shares were issued to the Commonwealth during Stage 2 works of the Connections Project. The available volume will be confirmed with the completion of the final audit of the Connections Project in late 2021. Following the audit and consideration of all Government commitments this allocation will be sold on the open allocation market from early 2022.

Water market analysis

A detailed water market analysis has been undertaken. The relatively positive levels of seasonal water availability forecast for 2021-22 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. The analysis indicates that there is likely to be sufficient market liquidity to readily accommodate all entitlements and allocation volumes that need to be sold.

Trading Strategy

A range of possible options were considered for approaching the market and were assessed against a set of guiding criteria. Given the different volumes of water shares and allocation that will be available under the program, different approaches will be utilised to achieve the strategy objectives. The proposed approaches are:

- **Water shares** – water entitlements will be sold via a public on-line auction. Note that all water shares will be sold “dry”, with allocations sold separately.
- **Allocations** - multiple brokers will be engaged to seek offers for a range of parcel sizes. The allocation sales will occur from November 2021 to April 2022

Parcel sizes will be determined closer to the time of sale and will be designed to maximise returns for ISD beneficiaries, while also providing opportunities for a range of participants to purchase water products.

Governance

One of the objectives for the 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*
- Victorian trading rules for declared water systems
- GMW water trading operational policies

The ISD is a major undertaking, distributing valuable water entitlements, and strong governance and oversight arrangements have been established to guide the program. The development of the trading strategy has been monitored and the final approach has been endorsed by the Project Steering Group, which consists of senior officers from DELWP and GMW. The Irrigators' Share Stakeholder Advisory Group, which consists of representative from the GMID water Services Committees, has also been consulted and has provided input to the development of the strategy objectives and general approach¹.

¹ 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.

GMW will hold the water to be sold for financial benefits 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 are aware 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.

Contacts

For help and support, you can contact GMW by:

- Emailing the project team ISDProject@gmwater.com.au
- Phoning the GMW Customer Experience Team on 1800 013 357
- Or visiting a customer service centre

For more information, visit the Irrigators' Share Distribution website:

<https://www.g-mwater.com.au/policy-and-projects/irrigators-share-distribution-project>

