

## NSW Draft response to Victorian proposal to amend trade rules in the Goulburn

(Please note that this document is structured in the format of the public consultation survey on the Victoria Government website)

### 1. Which trade rule option would you most support:

- Dynamic rule

### 2. Why did you choose this option?

*(Please note that this is NSW Government's preliminary response only, and we understand further discussion will be undertaken through various interjurisdictional working groups.)*

NSW requires that proposed changes by Victoria to its water management and trade framework do not adversely impact NSW rights to access its share of Murray resource when needed, nor create negative impacts to the NSW Murray and NSW tributaries, their efficient operations and regulated resource yields.

Selling water from the Goulburn to the Murray, but then limiting delivery to the Murray when needed/called, means that the demand created by the trade must be met, potentially unreasonably, by other parts of the system. This potentially affects others. Eliminating this potential impact would require Victoria to only allow trade from the Goulburn to the extent that the corresponding delivery can occur at any time, commensurate to the outstanding Goulburn IVT balance, to meet the requirements of the Murray.

Restricted water availability from the Goulburn during the peak irrigation season will also result in water users seeking to substitute supply from other parts of the Southern Connected System and in turn transfer environmental, delivery and spill risks to these systems.

Within this context and **based on our current understanding of each option**, we make the following initial comments.

#### **Previous: Rolling IVT limit of 200GL**

NSW recognises that the rolling IVT trade limit which was in place prior to October 2019 contributed to environmental damage in the Lower Goulburn and supports this review in order to improve environmental outcomes.

NSW also notes that the key driver of water trade in this region is the need to deliver water to the significant growth in horticulture that has been permitted in Victoria between Nyah and Mildura. Water use by LMW diverters increased from 196 GL in 2004-05 to 429 GL in 2017-18. The business model for many diverters now involves the purchase of allocations for their permanent plantings. Lower Murray diverters have been trading in up to 40 per cent of water use in some years.

#### **Existing option: Rolling IVT limit of 200GL and monthly delivery cap in Summer**

This option restricts delivery volumes without similarly restricting trade volumes. A large debt can be generated with limited delivery, which creates delivery shortfall risks and results in other parts of the River Murray System shouldering the burden of a debt owed by the Goulburn. Increased risk of erosion and spill are highly likely to occur in the River Murray and the Murrumbidgee if the Goulburn system is unable to meet its IVT delivery commitment.

### **Option 1: Annual cap**

NSW is supportive of exploring this option further, compared to the existing arrangement, as it would limit trade to a volume that can likely be delivered in a more sustainable manner. It would provide benefits of simplicity and transparency.

However, excluding the carryover IVT component from the annual cap risks the total IVT balance creeping up over successive years. Clarity is required on how this situation would be addressed and how the creep of the IVT balance over successive years would be limited and drawn down. It is conceivable that with an IVT balance that creeps up, the flow thresholds set to limit environmental damage may need to be exceeded, or other risk taken (e.g. increased risk of spill to Victorian resources in the Murray) to ensure the IVT balance can be delivered.

### **Option 2: Dynamic Rule**

NSW is supportive of exploring this option further, compared to the existing arrangement, as it would limit trade to a volume that can likely be delivered in a sustainable manner. It has the benefits of the annual cap whilst being more responsive to the conditions in the Murray system. It also incorporates the previous year's undelivered IVT and reduces the extent of large volumes of early trade, and therefore reduces the risk of the IVT commitment not being delivered to the Murray.

NSW prefers this option to the Annual Cap.

### **Option 3: Seasonally-based**

NSW is not supportive of this option in its current form due to its complexity and the potential of incentivising significant uptake of tagged trading to take advantage of the unlimited trade volumes. If tagged usage significantly increases, and IVT delivery from the Goulburn is then matched to meet the tagged demand in the Murray (lagged by a month), it may result in both systems running at higher volumes (possibly simultaneously during spring), therefore increasing the chances of spills and unregulated flows from natural tributary inflows. Changes to the rules should not incentivise inefficient use of water.

Tagged trade does not address the issue of the potential disconnect between the use of Goulburn account water in the Murray and the physical delivery of water from the Goulburn when the water is used in the Murray usage, to eliminate potential third-party impacts.

### **3. Are there any changes you would make to any of the options that would change your opinion of the options?**

Incorporating the unused component of last year's IVT in the calculation of the annual cap option may reduce the risk of the IVT balance creeping up. However, it still has the issue of larger volumes of trades permissible early in the year, which may be undeliverable efficiently.

### **4. Are there other possible trade rule options that should be explored?**

NSW recommends 'trade for immediate delivery and use'. The concept would match the ability to trade with the ability for the water to be delivered. Conceptually this may involve the MDBA forecasting their delivery requirements and spill risks at the start of each month for that month or for a set number of months into the future, and then an appropriate volume being made available for trade in that month or over several months. There would also need to be a requirement for the water to be used in the month it is traded. This would suit the growing number with on-site storage. The delivery of the IVT will occur based on the patterns assumed in the risk assessment carried out

by the MDBA. This would require further thought and analysis, but provides a better alignment of trade, deliverability and use in order to overcome potential impacts on other jurisdictions through deliverability and spill risks, as the trade limit would be responsive to demand for trade, overall water availability, and the capacity for the Murray system to manage tributary inflows and IVT delivery. This option, if found feasible, could be used in conjunction with Option 2, and allow higher volumes of trade during periods of low risk, assessed monthly, without incentivising the inefficient use of water.

5. To increase the volume of water that can be delivered from the Goulburn IVT account via irrigation infrastructure, do you support a fee-for-service model where additional trade may occur with an associated delivery charge?

N/A.

6. If so, how much would you be willing to pay?

N/A.

7. Are there other issues about how trade is managed, and water is delivered from the Goulburn IVT account that were not explored in this paper but should have been?

The report would benefit from consideration of the wider impacts of imposing trade restrictions on the Goulburn. These trade rule changes could affect the ability of MDBA to operate the River Murray efficiently and for the benefit of all joint venture partners and should be assessed in that context, not just in the context of impacts on Victoria. For example, IVT delivery demand was 433GL in 2018-19 which would be capped at 250GL under Option 1, leaving a demand shortfall of 180GL to be met elsewhere in the system. Stakeholders need to understand the potential implications for the whole Southern Connected system, such as:

- reduced access to water from the Goulburn
- increased water prices
- increased pressure on existing delivery constraints such as the Barmah Choke
- reduced ability to optimise river operation across the system
- increased losses and delivery costs through delivery from alternative systems
- increased risk of delivery shortfalls and crop losses

NSW understands that a Regulatory Impact Statement (RIS) is being prepared on the proposed changes to the operation of the Goulburn River. NSW proposes that the RIS also includes an examination of other potential “offsite” impacts, outside the Goulburn valley, as a result of greater pressure on the Murray and Murrumbidgee.

The report does not separate out the impact of including tagged trade within the rolling IVT limit, which was implemented in 2019. Prior to that, trade was effectively unlimited. It would be helpful to understand whether this action alone could improve future environmental outcomes.

The report uses 2019-20 conditions as the basis of the worked examples. This does not capture the full breadth of conditions that are likely to be experienced by the River Murray System, and therefore does not fully capture the expected behaviour of the options. In particular, more clarity is needed on how Victoria intends to facilitate the delivery of IVT volumes under various conditions.

As an example, approximately 200 – 250 GL of IVT callout is assumed from December to April. However, if conditions in the River Murray are average or wet, other tributary inflows may provide enough resource for the Murray to meet its demand, and therefore the IVT balance would not be

drawn down. In the subsequent year, legacy commitments may further increase the total IVT balance. In this scenario, in the second year, does Victoria intend on taking on an increased spill risk at Lake Victoria by allowing the drawdown of the IVT balance in early spring, or does Victoria intend on exceeding the flow thresholds set for the Goulburn (50 GL/month)?

It is also important to emphasise that rules that were implemented in December 2019 are not the 'base case'. The base case should be defined as the system prior to December 2019, where trade was effectively unlimited, given that tagged trade was not included in the IVT trade restrictions. Future impact assessments should consider the new operational rules in December 2019 as a scenario for assessment, in addition to the three proposed options, and compare each of these against a baseline of the system prior to December 2019.

Finally, it would be helpful to understand what other options are being considered, unrelated to the trade framework, to mitigate the impacts of increased irrigation development in the mid Murray that is drawing water from the Goulburn at unsustainable levels.

#### **8. And why are they important?**

As discussed in Item 7.