

Recommendation to the Minister for Water

Mechanism for distributing the irrigators' share of water recovered through the Connections Project



ISCC

Irrigators' Share
Consultative Committee

VICTORIA
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Government

Acknowledgements

The Irrigators' Share Consultative Committee acknowledges the input provided by members of the irrigation community of the Goulburn-Murray Irrigation District. The feedback received through the consultation process has been used to refine the committee's proposal and develop our recommendation to the Minister for Water.

Author

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Photo credit

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Forward

The irrigators' share is the most significant distribution of water to irrigators take place in Victoria since 1964, following the enlargement of Lake Eildon. Up to 75 gigalitres (long term annual average yield) is set to be returned to the Goulburn-Murray Irrigation District (GMID) following the completion of modernisation works through the Connections Project. Given the volume of water to be distributed, and the value of that water under current water prices, recommending how this water is distributed is a serious task.

Over the term of its appointment, the Irrigators' Share Consultative Committee (ISCC) has given due consideration to the task that was set by the Minister for Water: to develop and recommend a model to distribute the irrigators' share of water recovered through stage 1 of the Connections Project. Since our first meeting in July 2019, the committee has sought out analysis and expertise to help us to work through a range of distribution approaches to understand what they would mean for irrigators and others who hold delivery share within the six irrigation areas making up the GMID.

The ISCC has brought together passionate and informed irrigators from across the GMID, with representatives from each of the six Water Services Committees as well as the Victorian Farmers' Federation. The committee has made use of expertise from the Department of Environment, Land, Water and Planning and from Goulburn-Murray Water, as well as seeking advice and analysis from independent experts.

We have held robust discussions and considered diverse perspectives, and not all committee decisions have been unanimous. Decisions have been made that reflect a majority view, with points where consensus was not achieved noted within this report.

Over the course of six meetings we formed a proposed distribution model, which we then took out to consultation to test with GMID delivery share holders. Over six weeks we heard from more than 200 delivery share holders who contributed their perspectives and positions. We appreciate the time people took to provide their feedback, which helped to inform our recommendation to the Minister.

In line with the clear support received through feedback, the ISCC recommends that the irrigators' share is distributed as a once-off event, with the benefits shared in proportion to the amount of delivery share held by each eligible recipient. The committee recommends that these benefits are provided as:

- water shares issued directly to those with at least 0.25 ML/day of delivery share; and
- financial benefits equivalent to the value of the water shares for those with less than 0.25 ML/day of delivery share.

The thinking behind this recommendation is summarised in this report and is captured in detail within the documents developed as the ISCC undertook its work. The committee recognises that our decisions have been made against a backdrop of broader community perspectives about water management within the GMID and across northern Victoria. These factors have been considered as much as possible within the terms of reference that have governed our work, and our commitment to advocating for the long-term future of the GMID.

Paul Weller

Chair, Irrigators' Share Consultative Committee

Background

The irrigators' share

The irrigators' share is up to 75 giga-litres (GL) of the confirmed volume of water recovered through Stage 1 of the Connections Project. This volume is expressed as long term annual average yield (LTAAY), which means that the amount available will vary from year to year, averaging out at 75 GL under historic inflows. It will be made up of a mix of high-reliability water shares (HRWS) and low-reliability water shares (LRWS), reflecting the combination of fixed and variable losses recovered through the modernisation works. The water shares will be from both the Murray and Goulburn systems, as water has been recovered from both systems from works undertaken in trading zones Murray 6, Murray 7 and Goulburn 1A/B.

The exact make-up of the irrigators' share will be determined at the end of the Connections Project, based on the final verified water recovery volumes and losses. The Victorian *Water Savings Protocol* provides assurances about water recovery prior to creating entitlements. It sets transparent and repeatable rules for how water recovery is to be estimated, audited, confirmed and converted into water entitlements. The *Water Savings Protocol* verifies that the water entitlements issued accurately reflect the amount and reliability of the losses recovered with a high level of confidence and transparency.

The ISCC has used indicative data on the likely mix of HRWS and LRWS and the trading zones the recovered water has been sourced from to inform its recommendation. This data has been provided by DELWP and was derived from the audited water recovery to date and project forecasts from remaining on ground works. It is important to note that the final verified make-up of the irrigators share will not exactly match the indicative data used to inform the ISCC's decisions.

The ISCC has no role in determining the make-up of the irrigators' share or the timing of distribution. DELWP is the agency responsible for managing these aspects as part of the Connections Project.

Convening the Irrigators' Share Consultative Committee

The Irrigators' Share Consultative Committee (ISCC) was announced by the Minister for Water on 31 May 2019 to provide her with a recommended approach for distributing the benefits of the irrigators' share of water savings from Stage 1 of the Connections Project.

The ISCC was convened in July 2019, with members appointed by the Minister and secretariat support provided by the Department of Environment, Land, Water and Planning (DELWP). Appointed members were to represent the groups they were nominated to stand for, as well as being active irrigators in the Goulburn Murray Irrigation District (GMID). The appointed members are:

- Independent Chair; Paul Weller
- Water Services Committee chairs, or their delegates, from each GMID gravity irrigation area
 - Shepparton; Craig Reynolds
 - Central Goulburn; Peter Hacon
 - Murray Valley; Jason Andrews
 - Rochester; Georgie Simms
 - Torrumbarry; Ann Hodge
 - Loddon Valley; John Nelson
- Water Council Chair from the Victorian Farmers Federation Water Council; Richard Anderson
- Water Policy Advisor from the Victorian Farmers Federation Water Council; Natalie Akers

The nine appointed members held decision-making authority and worked together to fulfil the ISCC's terms of reference. They were assisted in their work by non-appointed ISCC members, who were excluded from decision-making. The non-appointed members are representatives from DELWP, Goulburn-Murray Water (GMW) and the Connections Project, along with an independent expert, Graeme Turner, who attend meetings to present information requested by the ISCC Chair and to contribute to discussions.

Under the terms of their appointment, ISCC members were given the task of considering and assessing the range of possible mechanisms for distributing the benefits of the irrigators' share.

Specifically, the appointed ISCC members are responsible for:

1. Confirming the principles that must be adhered to in identifying, evaluating and recommending mechanisms for distributing the benefits of the irrigators' share.
2. Identifying the potential mechanisms for distribution, understanding the requirements to implement and administer the potential mechanisms, and evaluate the mechanism against the principles confirmed by the committee.
3. Ensuring consistency with the principles that underpin the Victorian water entitlement framework and adhering to all relevant legislative and legal requirements.
4. Advising the Department on strategies to engage and consult with the broader GMID irrigation community on the activities of the Committee and the distribution mechanisms under consideration.
5. Making a recommendation to the Minister on their preferred mechanism for distributing the benefits of the irrigators' share of water recovered through stage 1 of the Connections Project.

The ISCC's work provides detailed recommendations to support the implementation of the finding of the Victorian Government's 2018 review of delivery share that the benefits of modernisation be returned to irrigators on the basis of delivery share, and delivers on DELWP's commitment to *'establish a consultative committee involving GMW and their customers to develop an approach that supports the future of the GMID.'*

The terms of reference for the ISCC are presented in Appendix A.

Developing the recommendation

Since commencing its work in July 2019, the ISCC has met eight times to work through the tasks set out in its terms of reference. Meetings were run by the ISCC Chair, with papers prepared in advance of meeting dates to allow informed discussion. Further information on the committee's work process is set out in the section **"How the options were investigated."**

In its first meeting on 9 July 2019, the ISCC endorsed the principles that would inform the distribution approaches to be examined and the principles that would be applied to all decisions made by the committee:

1. The approach taken should support the long-term, collective future of the Goulburn-Murray Irrigation District.
2. The approach will balance fairness and efficiency, with emphasis on the simplicity of concept, implementation and ongoing operation.
3. Recommendations must be cost effective, both in the short and long terms, and not increase red tape.
4. The approach taken will maintain the integrity of existing water entitlements.

These principles informed all decisions made by the ISCC as committee members worked through the range of distribution models being considered.

In addition, the recommendations developed by the ISCC were required to align with legal and regulatory requirements informing Victoria's water market and entitlements framework, including the:

- Water Act 1989 (Victoria) and Victorian Trading Rules for Declared Water Systems
- Water Act 2007 (Commonwealth) and Commonwealth Trading Rules
- Competition and Consumer Act 2010 (Commonwealth)
- Murray Darling Basin Plan
- Australian Competition and Consumer Commission water market and water charge rules

- Conditions specified in the Environmental Entitlement issued to the Victorian Environmental Water Holder for water recovered through Stage 1 of the Connections Project, including the review clause to enable the rebalancing of entitlements to ensure equity with the shares issued to irrigators and the Melbourne urban retailers, if required.

The ISCC agreed to consider four general models for distributing the benefits of the irrigators' share, including combinations of different models into hybrid approaches. The four broad models considered were:

1. Permanent (once-off) transfer of water shares to delivery share holders
2. Annual distribution of allocation to delivery share holders
3. Permanent sale of water shares and transfer of financial benefits to delivery share holders
4. Annual sale of allocation and transfer of financial benefits to delivery share holders

The benefits, detriments and impediments associated with the four approaches were discussed over meetings 2 to 5, supported by detailed technical papers and presentations by non-appointed members and independent experts. This included exploring the legal and regulatory aspects and limitations, administrative complexity, costs and implementation considerations.

Committee members made requests of non-appointed members to prepare papers and presentations, providing data and analysis to the ISCC to make sure that decisions were made based on clear evidence. DELWP and GMW prepared materials for ISCC meetings with the support of independent experts who were engaged by DELWP. The use of external experts was made transparent to the ISCC, with the Chair able to request that specific experts attend ISCC meetings or provide information.

The options explored and the decisions reached are presented in detail in the report section "**How the options were investigated**".

The ISCC confirmed the proposal to be presented to the GMID irrigation community in meeting 6, as well as endorsing the engagement and consultation approach to be taken in light of the imposing of restrictions in response to the coronavirus pandemic. Consultation was held from 20 April to 1 June 2020, with feedback sought from all holders of delivery share within the six gravity irrigation areas.

Consultation focussed on providing information to the GMID irrigation community through a portal on Engage Victoria. The committee received 200 completed feedback surveys and two written submissions, which were combined with the feedback provided in the two virtual town hall events and used to inform and refine the ISCC's recommendation. The ISCC prepared a Closing the Loop report to share the feedback received with the GMID irrigation community.

The feedback received through the consultation phase was considered by the ISCC in meeting 7, in conjunction with additional analysis, to inform the ISCC's recommendation. An eighth and final meeting was held in July 2020 to review and endorse this report.

Recommended distribution approach

The ISCC has proceeded with the distribution model that was presented to the community for consultation, undertaking refinement of the details of the model in response to the feedback received:

The ISCC recommends a once-off distribution of the irrigators' share, in proportion to the amount of delivery share held, with the benefits provided as:

- Water shares issued directly to those with at least 0.25 ML/day of delivery share.
- Financial benefits equivalent to the value of the water shares for those with less than 0.25 ML/day of delivery share.

The ISCC recommends that distribution is undertaken as soon as it is possible to do so while ensuring that existing water entitlements remain fully protected.

The distribution is in line with the outcome of the 2018 delivery share review, ensuring that the benefits of modernisation and water recovery are returned to irrigators on the basis of delivery share.

Delivery share is defined by a volume of water to be delivered over a period of time. In the GMID, this delivery share rate is expressed in ML/day. This rate puts an obligation on GMW to maintain the gravity system infrastructure so that the capacity exists for water to be delivered to users in line with their delivery share holdings. Delivery share is the basis of GMW's infrastructure access fee (IAF), which forms the bulk of the fixed charges paid by water users with access to the GMID. The IAF funds the ongoing operation and maintenance of the GMID, including the modernised assets that were transferred to GMW through the Connections Project.

Consultation results showed clear support for this distribution approach, with 86% of respondents to the ISCC's feedback survey identifying one or more clear benefits and only 2% indicating they saw no merits (Figure 1).

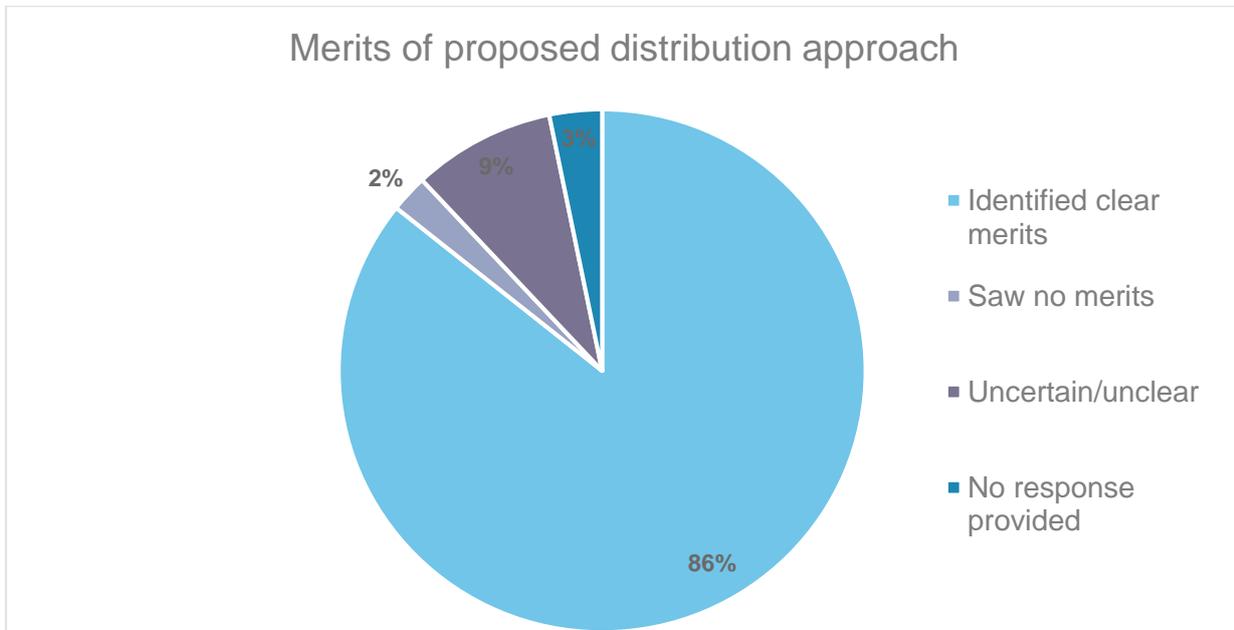


Figure 1: Percentage analysis of responses considering the merits of the ISCC's proposal show a clear majority of respondents saw benefits in the proposal.

Support for the proposal focussed around 5 key themes, presented in order of significance:

1. The approach is practical / fair / equitable / simple (38%).
2. The rewards reflect the contribution made toward the system (22%).

3. The approach enhances water security for delivery share holders (12%).
4. The proposal fulfils the original promises made by government (4%).
5. The fee relief (financial benefit) proposed would be valuable (4%).

In addition to the widespread recognition of benefits from the proposal, 43% of respondents saw no drawbacks to the proposal (Figure 2). The 44% who did report drawbacks raised a wide range of perspectives, the majority of which clustered into 5 common themes, presented in order:

1. An inability to link the benefits to land / prevent water leaving the GMID (11%).
2. Those below the threshold being provided an opportunity to choose receiving water or a financial benefit (7%).
3. Concern around the risk of terminations and / or increasing future costs (5%).
4. Requests for inclusion of the pumped districts and those who have historically made contributions to water recovery and infrastructure access fees (5%).
5. Concerns around the time required to receive the benefits (3%).

Note that drawbacks 1 and 3 relate to the overall concept of the distribution and the perceived opportunities and risks while the remaining topics relate to specific details of the model proposed. Discussion on how the ISCC has considered these identified drawbacks in finalising its recommendation is provided in the following sections.

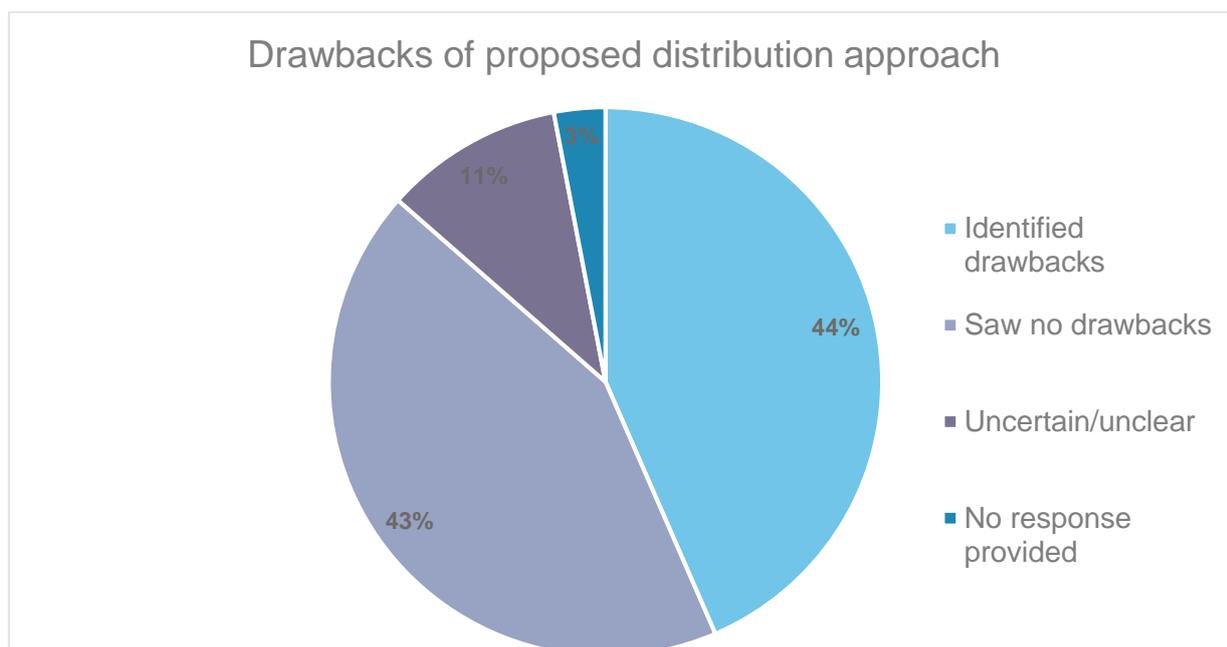


Figure 2: Percentage analysis of responses considering the drawbacks of the ISCC's proposal show numbers were evenly split between those who saw some drawbacks and those who saw none.

Defining eligible recipients

The ISCC recommends that the irrigators' share is distributed to all parties holding delivery share within the six irrigation areas of the GMID. This means that all delivery share holders are included, regardless of whether their specific channel has been modernised, how much water was recovered in their area, or how they use water. It also means that companies, syndicates and water corporations who hold delivery share and pay the standard infrastructure access fee (IAF) will be included in the distribution.

This is based on the principle that the costs of operating and maintaining the infrastructure are shared across all those who hold delivery share through payment of GMW's IAF. The IAF is charged on the basis of delivery share regardless of location in the gravity system, extent of modernisation works or specific water

use. As of 1 July 2020, IAF charges are evenly applied across all six gravity irrigation areas, meaning all holders of delivery share pay the same rate in proportion to the amount of delivery share they hold.

The ISCC considered the feedback from 5% of respondents querying the inclusion or exclusion of specific groups, applying the principle set out above to recommend that only those who hold delivery share from the six GMID gravity irrigation areas at the census date receive the benefits of the irrigators' share (Table 1).

Table 1: The ISCC refined the distribution details for the irrigators' share based on enquiries received through community feedback and resulting consideration of the principles for including or excluding specific groups.

Group	Status	Rationale
Pumped district irrigators (Nyah, Tresco and Woorinen irrigation districts)	Excluded	<p>Pumped district water users hold extraction share specific to their district, which is distinct from GMID delivery share. The Connections Project has not undertaken water recovery works within the pumped districts.</p> <p>Pumped district users do not contribute to the common IAF paid in the six GMID irrigation areas, and there is no cross-subsidy between the GMID and pumped districts.</p>
Parties with other delivery entitlements (the environment, water retailers)	Excluded	<p>Holders of other delivery entitlements, including supply-by agreements, do not pay the common IAF and/or are not subject to the same delivery rights as delivery share holders.</p>
Irrigators who had delivery share reduced or fully terminated as part of the Connections Project	Excluded	<p>Distribution is to be on delivery share held at a date to be set as part of implementation (the census date).</p> <p>Connections Agreements provided a range of benefits including waiving of termination fees for delivery share. This means that irrigators who agreed to move off the gravity system or retire delivery share as part of their Connections Agreements no longer pay the common IAF for the discontinued delivery share. If those landholders share still retain some delivery share, they will receive the benefits of the irrigators' share in proportion to the retained delivery share.</p>
Parties other than individual irrigators who hold delivery share	Included	<p>Syndicates, community groups, councils and other groups hold delivery share within the GMID.</p> <p>As they hold the same rights and pay the same common IAF, and are located within the six irrigation areas, they are to receive the same benefits as other delivery share holders.</p>
Delivery share holders on unmodernised channels and natural carriers within the GMID gravity system	Included	<p>The costs of the gravity system are shared across all delivery share holders, regardless of the specific costs in servicing each property.</p> <p>All delivery share holders contribute on the same basis to the costs and are to receive an equivalent share of the benefits.</p>

Issuing water shares

The ISCC recommends that the irrigators' share is distributed directly to recipients in the form of water shares, above a minimum threshold amount of delivery share. Water shares will be issued to individuals based on the delivery share data held in the Victorian Water Register at a set date (the census date), with the amount of water share issued to be proportional to the delivery share rate.

The ISCC was provided with indicative data to help them explore the distribution options and reach a recommendation on the best way to distribute the irrigators share. Based on the best available estimates, the committee developed this recommendation looking at an estimate of 4 ML of HRWS and 1.8 ML of LRWS per ML/day of delivery share. This is based on data provided to the committee by GMW indicating that there are 10,386 customers holding a combined delivery share total of 15,247 ML/day, as well as indicative data provided by DELWP on the make-up of the irrigators' share.

The ISCC understands that these figures were estimates, including projections of future water recovery, and will need to be confirmed before the census date. The number of delivery share holders and the total amount of delivery share on issue may also vary slightly from indicative figures before the census date. Final figures will require the completion of works and verification of the full water recovery.

Indicative volume of water shares to be distributed by delivery share:

1 ML/day of delivery share \approx 4.0 ML of HRWS + 1.8 ML of LRWS

The ISCC considers it fair to share the volume of water recovered across all six gravity areas in line with how the costs of the system are shared, based on the amount of delivery share held. This reflects how GMW's IAF is charged on the basis of delivery share. As well as acknowledging the shared contribution of all delivery share holders to the costs of operating the GMID, this approach recognises that the volumes recovered within each irrigation area are independent of the amount of delivery share held, the IAF charged, or the extent of works undertaken. Connections Project works were prioritised based on the most cost-effective actions to generate the water recovered.

To the extent that it is possible to do so, the ISCC recommends that water shares are issued from within the recipients trading zone, to ensure that people can readily access the water they receive and to avoid the need to trade water allocations between different zones. The ISCC understands that the volumes of water recovered in each trading zone will not be aligned with the amount of delivery share on issue in each trading zone, and that some rebalancing will need to occur in order to provide water shares in proportion to delivery share. Determining the appropriate strategy for rebalancing is beyond the scope of the ISCC and will be considered as part of implementation planning by DELWP and GMW.

The ISCC considers that the ability to access water without potential restrictions due to water market rules between trading zones is of primary importance. It is understood that differences in the market value of water shares in individual trading zones will mean that this approach may result in discrepancies between trading zones in the potential market value of the water shares. The ISCC considers providing water to irrigators that supports productive use to be the highest priority outcome from the distribution of the irrigators' share. This principle underpins the committee's recommendation to distribute water shares within the recipients trading zone, understanding that there are differences in the market value of water shares between trading zones.

Providing financial benefits

The ISCC recommends that those with delivery share below the threshold rate of 0.25 ML/day receive the equivalent financial value of the water shares that would be issued (both the HRWS and LWRW components), rather than the water share itself. This position is based on an assessment of the level at which the issuing of water shares ceases to be cost-effective for recipients.

Financial benefits to be provided to recipients below a delivery share threshold of 0.25 ML/day, consisting of the market value of the equivalent water shares proportional to their delivery share, provided as a credit on their GMW bill.

The committee proposes that the financial benefits will be generated through the sale of the volume of water shares that are proportional to the pooled total of delivery share of all recipients below the threshold level.

A trading strategy will be required in order to manage this trade, which will be approximately 2% of the final volumes of HRWS and LRWS making up the irrigators' share. Due to the requirement to trade water shares to raise the funds, those below the threshold will receive the financial benefit sometime after the receipt of water shares by those above the threshold.

“Credits on GMW bills satisfies the regional benefit criteria of the project and flows on to all customers.”

- Quote from feedback survey respondent

The value of the water shares sold will vary depending on which trading zone they are issued in and the market value of entitlements at the time of sale. The ISCC strongly debated the merits of returning the financial benefits based on the trading zone of the recipient, versus socialising the value to provide a uniform amount by delivery share held across all recipients below the threshold, regardless of the trading zone in which they are located.

The ISCC recommends that the financial benefits be shared by socialising the value of the water shares sold, in recognition that the IAF is applied consistently across all delivery share holders, sharing the system costs. That means all eligible delivery share holders will receive the same financial benefit proportionate to their delivery share, regardless of which water trading zone they are in. This decision was not unanimous within the ISCC.

This approach will mean that people in trading zones where water shares have a higher relative market value (i.e. Zone 7), those eligible to receive a financial benefit will receive a slightly lower benefit than the equivalent value of local water shares. In trading zones where water shares have a lower relative market value (i.e. Zone 1A,1B), people will receive a slightly higher benefit than the equivalent value of local water shares. The ISCC also acknowledges that the value provided by water shares is not limited to their market price.

The proposal to provide financial benefits below a set threshold received strong support (92% in favour) in consultation; 7% of respondents indicated that they would prefer the ability for those below the threshold to opt in to receiving water shares instead of receiving the monetary benefit.

The ISCC does not endorse an optional approach as doing so would:

- increase the complexity of implementation, raising the administrative costs and increasing the risks born by GMW and the individuals receiving benefit due to administrative error;
- extend the issue date by at least 6 to 8 weeks to allow time to notify recipients, accommodate responses and adjust entries on the Water Register accordingly; and
- require adjustment of the trading strategy required to raise the required funds, delaying the provision of financial benefits.

The ISCC considers that individuals who receive financial benefits could use this opportunity to purchase water shares on the market if that is their preference.

Method for distributing financial benefits

The ISCC recommends that financial benefits be provided in the form of credits on GMW bills. Based on GMW's 2020-2024 pricing structure, the financial benefit is anticipated to place a recipient into credit for one to three financial years, depending on their delivery share rate and water use.

Bill credits have previously been used by Victorian water corporations to distribute efficiency dividends and provide refunds.

Providing bill credits aligns with the ISCC's principles of simplicity, efficiency and cost-effectiveness. It builds on GMW's existing systems and customer data and complies with probity and risk management requirements. Establishing a direct-payment system adds further complexity, increasing the risk of errors, and potentially pushing out implementation time frames.

Direct payment involves the government collecting and holding personal banking information, which increases the complexity of managing probity effectively and increases the level of risk involved. Providing direct payments also increases the complexity and cost of implementation compared with providing bill credits, including managing issues of shared ownership, such as for syndicates.

Feedback showed that a third of respondents below the proposed delivery share threshold would prefer the option to receive a direct payment rather than a bill credit. In order to accommodate this, the ISCC

recommends that recipients are provided with the opportunity to convert their bill credit to a direct payment after the distribution has been completed. This would involve the recipient applying directly to GMW to convert the credit to a payment, following GMW's established processes.

Determining the threshold

The ISCC recommends that the threshold level for receiving water shares be set at a delivery share rate 0.25 ML/day. This threshold is based on the amount of delivery share required to receive 1 ML of HRWS, based on indicative data, which the committee considers to be the minimum viable water parcel to issue.

Viability of parcel size was assessed by examining the cost-effectiveness of the water share products to be distributed. The ISCC has based its assessment on the HRWS component, being the product with the higher value and greater market demand, to maximise the receipt of HRWS and thus the potential for productive water use. Analysis of the indicative data provided to the ISCC found that 0.25 ML/day results in the minimum financially viable volume of LRWS under current market conditions (see Figure 3). The committee acknowledges that this approach may result in LRWS parcels that are unable to be traded cost-effectively as a single parcel once broker fees are included, however the benefits of receiving at least 1 ML of HRWS offset this risk and protect the value provided to recipients.

The Victorian Water Register is unable to record parcels of water share less than 0.1 ML, which means that water shares cannot be issued to anyone with a delivery share rate below 0.05 ML/day (based on the indicative make-up of the irrigators share). The concept of providing financial benefits was developed to ensure that people with delivery share rates below 0.05 ML/day were not excluded from receiving the benefits of the irrigators' share. Further analysis was conducted to understand the transactions costs involved in managing water share parcels for delivery share rates below 1 ML/day to identify a threshold level where the value of water shares was not significantly eroded by the associated transaction costs.

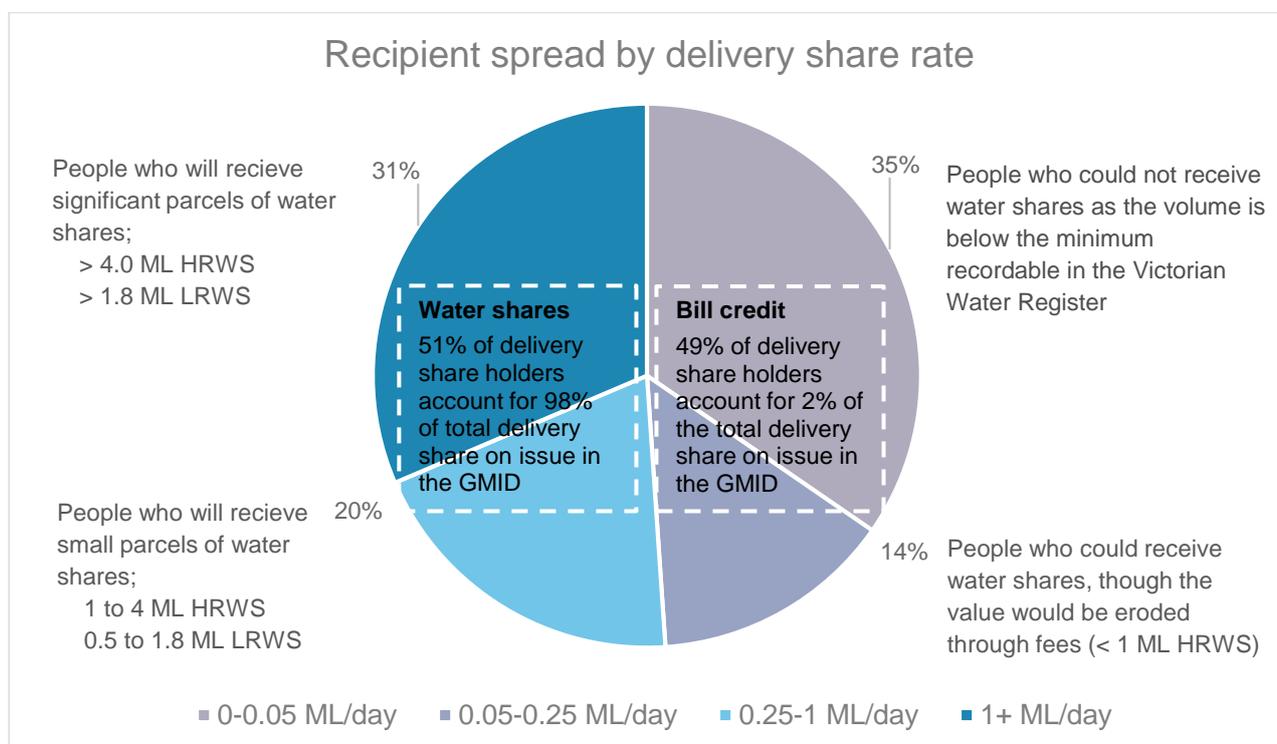


Figure 3: Breakdown of delivery share by rate (ML/day) showing how setting the threshold at 0.25 ML/day of delivery share will shape the distribution of water shares and financial benefits.

The analysis showed that issuing parcels with a minimum volume of 1 ML of HRWS was not significantly impacted by transaction costs. This volume is also enough to enable the water shares to be traded, reducing the risks of creating numerous small parcels of water that would not be used and could not be traded.

Approximately half of all GMID gravity delivery share holders fall below the 0.25 ML/day threshold, including domestic and stock users. This 49% of recipients account for only 2% of the total amount of delivery share on issue across the GMID gravity areas, meaning that water shares would be distributed for the other 98% of the delivery share on issue (Figure 3).

Figure 3 shows that of the approximately 10,000 GMW customers holding GMID delivery share, 35% have less than 0.05 ML/day and would not be able to be issued with water shares. An additional 14% hold between 0.05 and 0.25 ML/day and would receive greater value through a financial benefit than through receiving water shares.

The remaining 51% of customers hold sufficient delivery share (> 0.25 ML/day) to receive a cost-effective parcel of water shares, with a minimum of 1 ML HRWS. 31% of customers hold at least 1 ML/day of delivery share and would receive significant volumes of water shares.

Consultation found that 92% of recipients supported the threshold, including the majority of respondents with delivery share below the threshold rate.

Timing and process considerations

Final distribution

The ISCC recommends that the irrigators' share is distributed as soon as possible, while ensuring that existing entitlements are protected. This is in line with feedback received through consultation about the importance of providing certainty around the distribution timelines and getting water to irrigators as soon as possible to assist production. Respondents noted that timely access to water shares and financial benefits would assist irrigators to meet the challenges presented by the dry conditions in 2019-20 and the ongoing impacts of the coronavirus pandemic.

A fixed and publicly announced census date should be set for the extraction of data from the Water Register to identify eligible delivery share holders and confirm the amount of delivery share they hold. The ISCC anticipate that announcement of the distribution model and the census date will stimulate the market for delivery share as people seek opportunities to trade, affecting the market price for delivery share in response to the impending distribution. Individuals should be provided with the opportunity to check their information in the Victorian Water Register and to make any desired changes, including transferring, consolidating or trading delivery share.

In implementing the committee's proposed distribution approach, the ISCC recommends that:

- The census date be held as close as practicable to the date of issue of water shares.
- The census date be announced as early as possible.
- The timeframe for confirming and issuing the irrigators' share be announced as soon as possible.

Interim distribution

If it is feasible to provide an interim distribution of water ahead of final confirmation of the water recovered through the Connections Project, it is the ISCC's preference that this water is distributed via a split issue of the irrigators' share, distributing the confirmed portion of water shares to delivery share holders in line with the model recommended above.

In line with their expressed view that it is important to provide water to irrigators as soon as possible, the ISCC also discussed the possibility of an interim distribution of any available water recovered toward the irrigators' share. The options considered included:

- A split issue of the irrigators' share, distributing the confirmed portion of water shares to delivery share holders in line with the model recommended above, followed by a further distribution of the balance of the water shares once the final make-up of the irrigators' share is fully verified.

- An interim distribution of any available allocation from the irrigators' share water savings to GMID delivery share holders. The ISCC understands that this option would require a temporary exemption from some of the Basin Plan water trading rules, which is unlikely to be granted.
- Sale of any available allocation and distribution of financial benefits (as bill credits) to eligible delivery share holders.

The committee calls for further assessment by the Victorian Government to understand the feasibility of a split issue of water shares, including cost-effectiveness and implications for the timing and complexity of distribution.

The ISCC acknowledges that providing an interim distribution would create challenges in applying the delivery share threshold and for providing financial benefits to those below the threshold. The committee requests these considerations to be factored into decisions on the timing of distribution of the irrigators' share.

How the committee reached this recommendation

The ISCC began its work by examining the function of the committee and the outputs required, in light of what was understood at the time regarding the irrigators' share and the operational and functional environment that the committee would work within. The committee confirmed and endorsed its terms of reference and core principles, including reaching agreement that the ISCC would examine four broad approaches for distributing the benefits of the irrigators' share:

1. Permanent issue of water shares to delivery share holders
2. Annual distribution of allocation to delivery share holders
3. Permanent sale of water shares and distribution of financial benefits to delivery share holders
4. Annual sale of allocation and distribution of financial benefits to delivery share holders

These four approaches, including 'hybrid' combinations, were considered against a base case of issuing water shares to all delivery share holders with no set minimum (Table 2). Approaches that distribute water have been compared against options that provide direct financial benefits by providing the monetary value of the water to recipients, rather than the water itself. Models were classified as once-off or ongoing, depending on whether the benefits were distributed all at once or provided seasonally on a continuing basis.

- **Entitlement based models** involved a once-off distribution of water shares and/or monetary benefits, as per the base case, exploring the implications of adjustments from the base case to improve outcomes for irrigators, in line with the ISCC's principles.
- **Allocation based models** involved the ongoing, periodic distribution of water allocation and/or monetary benefits to irrigators, where the water entitlements making up the irrigators' share are centrally held and benefits are calculated and distributed seasonally, on the basis of delivery share.

Early in its investigations, the ISCC recognised that the value recipients may receive through the various distribution approaches changed depending on the amount of delivery share held. Analysis was done to assess the benefits and drawbacks for each approach for "small" versus "large" delivery share holders. A working definition of "small" was set at delivery share rates of 1 ML/day, based on initial assessments that indicated that below this rate size of the water parcels involved generated difficulties for distribution that did not occur for larger quantities of delivery share. This is due to restrictions on the minimum water share size recordable in the Victorian Water Register and for being able to apply seasonal determinations. There are also prohibitive relative costs involved in storing and trading very small water volumes.

As a result of this analysis, the ISCC explored models that differentiated how the benefits of the irrigators' share could be provided depending on the amount of delivery share held. More detailed analysis was then completed to refine the threshold amount of delivery share that could be used to determine how water shares or financial benefits could be feasibly implemented.

Table 2: The distribution models explored by the ISCC, including combinations that acknowledge the importance of the amount of delivery share held on the benefits received by individual irrigators

	Entitlement based options		Allocation based options		Monetary options	
	Base case entitlement distribution	'Improved' base case	Ongoing allocations for all	'Improved' ongoing allocations	Ongoing monetary benefit	Once-off monetary benefit
'Small' delivery share holding	Once off water shares	Once-off monetary	Ongoing allocations	Ongoing monetary	Ongoing monetary	Once-off monetary
'Large' delivery share holding	Once-off water shares	Once-off water shares	Ongoing allocations	Ongoing allocations	Ongoing monetary	Once-off monetary

How the options were investigated

The ISCC began its work with no established position. All options were given full consideration and were analysed objectively against the available information and the committee's core principles. The advantages and downsides of the approaches were weighed up as the committee members considered detailed information, including:

- The steps remaining to complete on-ground works (understanding that water recovered toward the irrigators' share is being used to underwrite the system while Stage 2 works are underway) and convert recovered water into entitlements that can be issued while ensuring existing entitlements remain fully protected.
- How delivery share is distributed across the GMID gravity irrigation areas, trading zones and different types of water users (see Appendix B for details).
- The complexity and costs involved in implementing different approaches, including governance and administrative requirements.
- The Victorian and Commonwealth legal and regulatory frameworks that apply to water markets and water entitlements in northern Victoria, and how they relate to the distribution options.

The ISCC received information in the form of papers and presentations provided by DELWP, GMW and independent experts. Data was sourced from the Victorian Water Register and GMW customer data and analysed to understand the implications for the distribution approaches under consideration.

Implementation considerations, such as governance requirements, up front and ongoing costs and legal obligations were assessed at a feasibility level to support the comparison of options. More detailed assessments were carried out for the remaining options as some were eliminated.

Exclusion of allocation-based approaches

Initial assessments regarding ongoing allocation-based models were viewed positively by the committee because it was seen to ensure that the irrigators' share water entitlements would remain within the GMID. This approach was initially favoured by a majority of the ISCC as it provided an ongoing benefit for people holding delivery share and encouraged productive use of the water. The committee discussed that these models could ensure that the water recovered through the Connections Project would be retained within the GMID and water allocations would be made available to recipients regardless of water market dynamics.

The ISCC considered different approaches for implementing an allocation-based model. This included looking at the feasibility and cost of forming an independent entity to hold the water shares and manage the seasonal distribution of water allocations, as well as options based on GMW holding water entitlements on behalf of delivery share holders.

Following detailed investigation, the ISCC does not recommend an allocation-based approach due to the following significant challenges in proceeding with an allocation model:

- Incompatibility with Commonwealth legislation
 - The ongoing distribution of water under an allocation model necessarily requires the transfer of allocation from a central entitlement to individual allocation accounts (ABAs).
 - DELWP has received legal advice from the Victorian Government Solicitor's Office that these transfers of allocation are considered water trades under the Commonwealth Water Act (2007), regardless of whether they involve a payment (or not) or are made available to the market.
 - All water trades undertaken within the Murray Darling Basin must comply with Basin Plan trade rules, which require that trade must be open and non-discriminatory. The Minister, Victorian Government, GMW and holders of water access rights must act in accordance with these trading rules.
 - Basin Plan trade rules allow for restrictions on water trade under specific circumstances and prohibit limiting trades to classes of people i.e. allocation trading cannot be limited only to people who own delivery shares in the GMID.

Further information on the application of the Basin Plan trading rules is provided in Appendix C.

- Complex governance requirements that incur high costs, eroding the value of the water to delivery share holders.

Ongoing distribution models require a governance structure to oversee the administration and management of a valuable portfolio of water entitlements. As the current value of the irrigators' share is approximately \$300 million, a high level of oversight and accountability would be required.

Ongoing distribution models would require multiple water distributions a year, in line with existing seasonal determination and allocation processes, incurring administrative costs at each instance, contributing to high overall administration costs.

Funds would be needed to cover headworks charges as well as the governance and transaction costs associated with ongoing distribution, requiring a trading strategy to be developed and managed, including risks of poor returns in certain years.

- Estimates of the implementation costs involved are in the order of \$1.2 to \$2.5 million dollars a year, regardless of the governance model selected (GMW management or an independent entity).

Determining the delivery share threshold

The smallest water share volume the Victorian water register can record is 0.1 ML. According to the indicative data provided to the committee, this corresponds to a delivery share rate of 0.05 ML/day, below which recipients could not be issued with water shares due to this water register minimum. Given this practical limitation, the ISCC considers that those with very small delivery share holdings will need to be given monetary distributions rather than water to ensure they can receive their share of the benefits.

Further analysis was undertaken to understand how the value of the irrigators' share would be affected by the distribution approach taken and the amount of delivery share held by individuals. This analysis was used to set the minimum delivery share threshold recommended by the ISCC.

The three approaches considered for determining the threshold were:

- **Water register minimum recordable value:** this is the minimum water share volume that can be recorded in the Victorian Water Register and for being able to apply seasonal determinations, which is 0.1 ML, and increases in increments of 0.1 ML.
- **Financially viable minimum delivery share:** the point at which the administrative costs of managing the water exceed the value of the water shares issued, which would leave recipients worse off financially after selling or consolidating the water shares.
- **Deemed domestic and stock customers:** exclusion of properties where all water use is deemed domestic and stock, to reduce the risk of very small parcels of water shares being issued that cannot be used due to water use being "fixed" through deeming, meaning recipients would need to pay storage fees for water they cannot access.

The ISCC concluded that a minimum water parcel size be used to inform the threshold, based on financial viability. Committee members considered 1 ML of HRWS to be the minimum amount that could readily be traded, and also be valuable for productive use, with the benefits of receiving water not outweighed by the costs involved in administering that water.

Using the indicative information on the potential make-up of the irrigators' share, 1 ML of HRWS was found to correspond to 0.25 ML/day of delivery share, which has been recommended at the threshold for providing water shares. Those with delivery share below this rate will receive monetary benefits as bill credits. This threshold also offers a LRWS parcel where the value is expected to be equal to or greater than the costs to trade the water shares should the recipient choose to do so.

More detail on the assessments undertaken in provided in Appendix D.

Community consultation

In April 2020 the ISCC released its proposal for distributing the irrigators' share for consultation with GMID delivery share holders over a 6-week period. The proposal put forward to the community was:

- A once-off issue of water shares to those with delivery share above the threshold of 0.25 ML/day, which, based on indicative figures, will provide 4 ML HRWS and 1.8 ML LRWS per ML/day of delivery share.
- A once-off issue of financial benefits to those with delivery share below a threshold of 0.25 ML/day.
Provision of financial benefits as credits on GMW bills.

Consultation featured:

- A fact sheet outlining the proposal
- A Q&A document providing detail on the proposal
- Information provided on the web portal
- An online feedback survey (also available to be completed offline)
- Two Virtual Town Hall live events, held on 29 April and 14 May, with recordings posted to the web portal

Consultation took place using digital formats as a result of restrictions introduced to manage the coronavirus pandemic. To help inform the community about the consultation opportunity, the ISCC arranged for two text messages to delivery share holders to be sent by GMW on the committee's behalf. The committee also took out two advertisements in the Country News.

Community members were encouraged to have their say on the proposal by completing an electronic feedback survey on the ISCC's page on the Engage Victoria portal. People were also encouraged to attend two virtual town hall meetings held as live events using Microsoft Teams. Both events included open question and answer sessions.

Over 4000 people visited the Engage Victoria portal over the consultation period, with 200 feedback surveys completed. More than 100 people attended a virtual town hall meeting, with almost 100 more viewing the video recordings of the events.

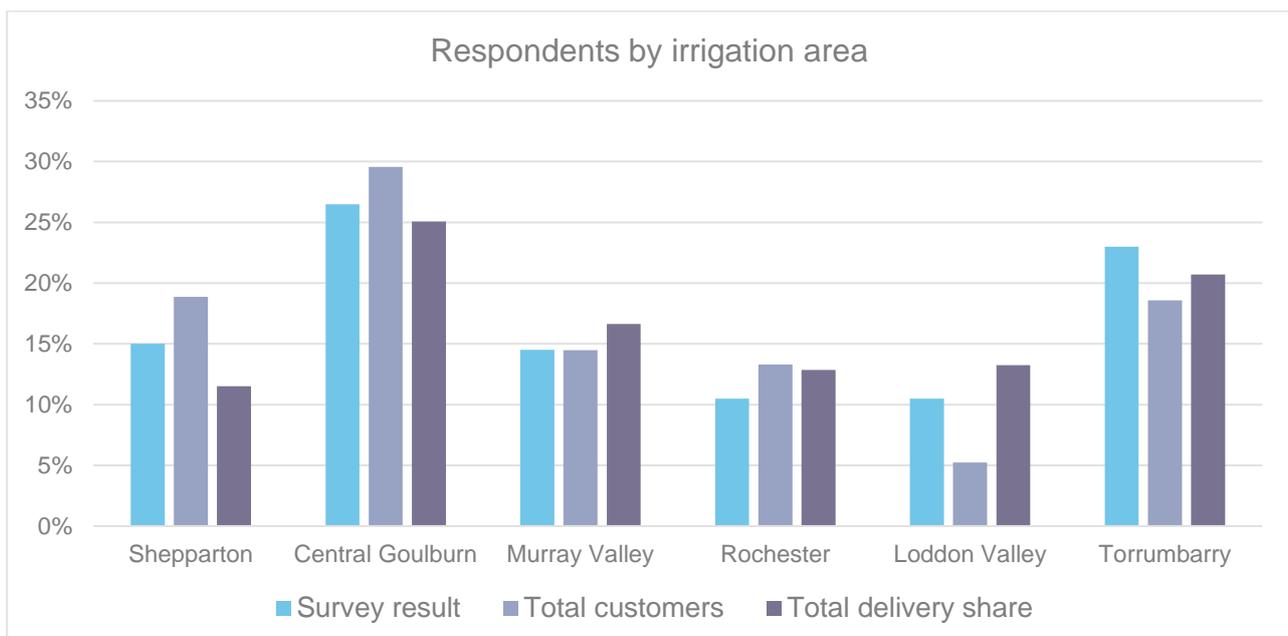


Figure 4: Survey respondent self-reported irrigation area (blue), compared against GMW records for customer distribution (grey) and delivery share distribution (purple) across the six GMID gravity irrigation areas.

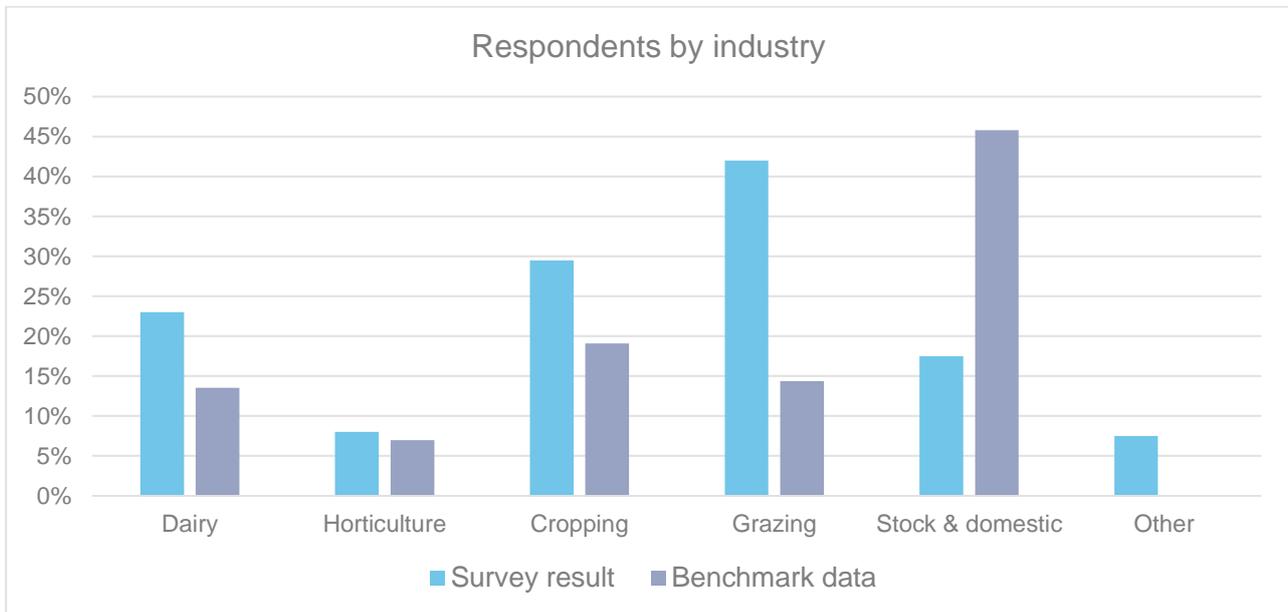


Figure 5: Survey respondent self-reported industry (blue) compared against benchmark data (grey) taken from Agriculture Victoria’s Regional Irrigated Land and Water Use Mapping data for 2019. It is important to note that the benchmark data does not precisely map to the number of GMID delivery share holders nor to the industry category options provided in the survey.

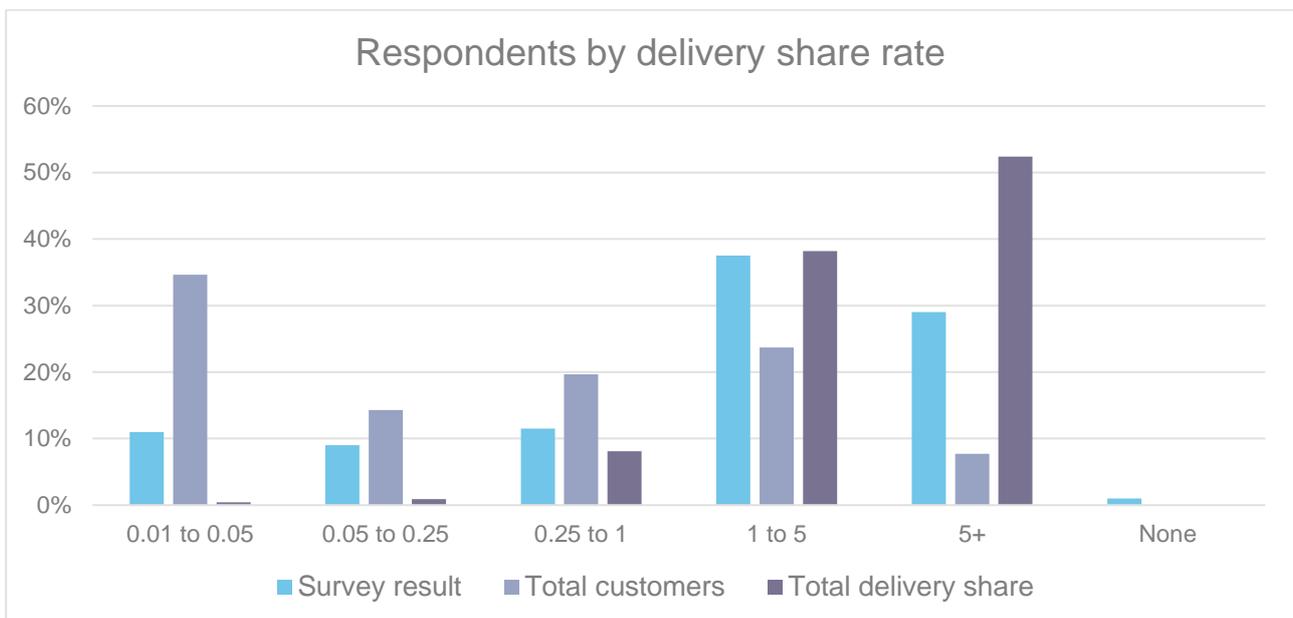


Figure 6: Survey respondent self-reported delivery share rate (blue), compared against GMW records for customer distribution (grey) and delivery share distribution (purple) across the six GMID gravity irrigation areas.

The survey included demographic questions to assess the representativeness of the sample, as well as to allow analysis by respondent characteristics (irrigation area, industry, and delivery share rate). Analysis of this data shows that responses generally reflected the spatial distribution of customers (Figure 4). Sampling by industry (Figure 5) was broadly representative, noting that definitions of industries were not provided and that the categories used in the benchmarking data source were not an exact match to the survey categories.

In terms of amount of delivery share held (Figure 6), those with lower rates of delivery share were under-represented compared to benchmark data. Those with delivery share rates of 1 ML/day or greater were well-represented. In order to increase the representation of those with delivery share rates below the proposed 0.25 ML/day threshold, GMW customer service staff undertook 68 phone calls to randomly selected

customers in this category to promote the consultation and direct them to the Engage Victoria portal, including directly assisting 22 customers to complete a feedback survey.

Decisions made by the committee

Over the course of seven meetings between July 2019 and June 2020, the ISCC worked through the major decisions that have shaped this recommendation:

- I. The irrigators' share is to be distributed based on delivery share, with distribution to be fair and equitable, within practical bounds.
- II. The benefits are to be distributed to all holders of delivery share (no minimum amount), across all six gravity irrigation areas.
- III. That the water making up the irrigators' share is protected, and cannot be accessed by the Minister, the Victorian Government or GMW to be used for other purposes.
- IV. That the costs of the distribution model do not significantly increase the costs to recipients, noting that the Government cannot contribute to any ongoing costs associated with the distribution model.
- V. Provision of water is preferable to provision of financial benefits, except where the costs associated with holding and trading water significantly erode the benefits of receiving water.
- VI. As much as is practicable, water should be distributed to delivery share holders within their local trading zones, with mechanisms in place to address imbalances between recovered volume and total delivery share within each trading zone.
- VII. That the way benefits are provided should be split, with water shares issued to those with delivery share equivalent to the receipt of 1 ML HRWS or greater, and financial benefits provided to those below this threshold.
- VIII. That the financial benefits are determined in common, rather than by the trading zone of the recipient, to reduce the complexity of the trading strategy required and in recognition of the common infrastructure access being charged regardless of trading zone.
- IX. It is preferable that financial benefits are issued as credits on GMW bills, reducing the administrative costs and complexity of implementation, with the ability for recipients to apply to GMW to transfer the credit to a direct payment after the distribution is complete.
- X. The scope of distribution is to be based on the principle that all those who hold delivery share within the GMID gravity irrigation areas and pay the common infrastructure access fee share in the benefits.
- XI. That distribution be based on delivery share held at the census date, with the census date announced as early as is practicable and set as close as is feasible to the issue date, to minimise changes in delivery share arrangements in the interim period.
- XII. If any water is able to be made available prior to the final issuing of water shares, the preference is for distribution via a split issue of water shares.
- XIII. That DELWP take responsibility for addressing feedback received through the consultation phase that falls outside of the ISCC's terms of reference.
- XIV. That the ISCC recommend that its report to the Minister for Water (this report) be publicly released.

Implementing the committee's recommendation

The ISCC has completed its task of recommending a distribution mechanism for the irrigators' share. The committee understands that detailed planning for how this recommendation will be implemented is being carried out by DELWP, giving due consideration to the timelines, project management requirements and governance arrangements required to distribute this high-value water asset.

Regarding implementation, the ISCC calls for:

1. Water to be made available to irrigators as soon as it is possible to do so without impacting on the integrity of existing entitlements; and
2. The Minister to announce the census and issue dates as early as is practicable.

This provides GMID delivery share holders with the certainty that they have requested and allows the opportunity for individuals to make informed decisions regarding the management of their delivery share and water register accounts.

Additionally, the ISCC requests that the following risks and opportunities are given due consideration within the implementation strategy:

- That principles for the rebalancing of water shares and the trading strategy are clearly set as part of implementation, giving due regard to how to maximise value to irrigators and to the volume of water made available for sale or use within the GMID.
- That opportunities are examined to encourage the recovery of debts to GMW through setting conditions on the issuing of water shares and/or the conversion of bill credits to payments for debtors.
- That effective and transparent strategies are developed and put in place to manage terminations of delivery share in ways that support the long-term future of the GMID.

Proposed role of the ISCC

The current terms of reference for the committee do not consider the involvement of the committee in the implementation of the final distribution model.

The ISCC recommends that the Minister retain the committee under new terms of reference to provide support for the implementation phase of distributing the irrigators' share. The committee requests the opportunity to participate in the implementation phase as an advisory body, building on its existing knowledge and understanding to work with the project manager to:

- Provide input into how the ISCC's principles be considered in implementation decisions
- Support communication and engagement efforts with GMID delivery share holders
- Assist in communication and engagement around the final distribution model
- Provide feedback on implementation decisions from an irrigator perspective

Appendices

Appendix A ISCC terms of reference

The full terms of reference were issued to ISCC members as part of their appointment to the committee. The functions of the committee, as set out within the terms of reference, are provided below:

1. The committee will develop and recommend a model to distribute the irrigators' share of water recovered through stage 1 of the Connections Project, in line with the delivery share review finding that the benefits of water recovery be distributed on the basis of delivery shares.

Specifically, the committee will be responsible for:

- Confirming the principles that must be adhered to in identifying, evaluating and recommending mechanisms for distributing the benefits of the irrigators' share.
- Identifying the potential mechanisms for distribution, understanding the requirements to implement and administer the potential mechanisms, and evaluate the mechanisms against the confirmed principles.
- Advising on interim distribution approaches should any water from the irrigators' share become available prior to confirmation of the enduring distribution mechanism.
- Ensuring consistency with the principles that underpin the Victorian water entitlement framework and adhering to all relevant regulatory and legal requirements. The committee will make a recommendation to the Department on their preferred mechanism

Additionally, the committee will advise the Department on strategies to engage and consult with the broader GMID irrigation community on the activities of the committee and the distribution mechanism(s) being considered.

2. Scope of distribution

The irrigators' share will be distributed across the six gravity irrigation areas of the Goulburn Murray Irrigation District, in recognition of the investment contribution made by each area and the location of water recovered. This acknowledges how the Connections Project has evolved, with water recovered from all six districts, and complements previous infrastructure modernisation in the GMID.

3. Water to be distributed

The committee consider the water known as the irrigators' share, one-third of the long-term average annual yield (LTAAY) of water recovered through Stage 1 of the Connections Project. No other water savings will be considered as part of the core work of the committee, however the model recommended for the irrigators' share may serve as a model for any other recovered water to be distributed to irrigators.

Appendix B Delivery share and water savings

The following data is provided to illustrate the distribution of delivery share across the six gravity areas of the GMID, and how that distribution relates to the location of water recovery through the Connections Project. This information assisted the ISCC in reaching its recommendation.

Delivery share is not distributed evenly across customers, and customers are not distributed evenly across irrigation areas (Table B1 and Figure B1). Sorting customers by the delivery share they hold shows that:

- Over half of GMW's customers in the GMID gravity areas (57.1%) hold delivery share at or below 0.50 ML/Day.
- Less than 5% of customers hold delivery share at or above 7 ML/day, which accounts for around 40% of the total delivery share rate issued.
- 70% of customers hold less than 1 ML/d of delivery share, and in total these customers hold only 10% of the overall delivery share on issue.
- The 30% of customers with more than 1 ML/d of delivery share hold the other 90% of delivery shares.

Table B1: Delivery share and customer distribution for the six GMID gravity areas, for customers with delivery share ≤ 0.05 ML/day.

Area	DS volume (≤ 0.05)	Property count	Customer count	% total delivery share	% total customers
Central Goulburn	17.26	1,003	1,029	0.45	33.52
Loddon Valley	2.16	125	127	0.11	23.39
Murray Valley	9.19	516	524	0.36	34.86
Rochester	9.35	571	589	0.48	42.65
Shepparton	13.06	744	769	0.74	39.23
Torrumbarry	12.36	638	653	0.57	33.85
TOTAL	63.38	3,597	3,691	0.42	35.54

Table B2: Data for small delivery share (≤ 0.25 ML/day) for the whole GMID.

DS range ≤ 0.25	Customer count	Delivery share volume	Estimated water volume from irrigators' share (ML)
0.00 - 0.00	131	0.00	0
0.00 - 0.05	3466	63.38	312
0.05 - 0.10	583	45.55	244
0.10 - 0.15	356	45.51	224
0.15 - 0.20	273	49.16	242
0.20 - 0.25	272	61.59	303
TOTAL	5081	235.18	1305

Accounts with a delivery share rate of 0.05 ML/day or smaller are mainly domestic and stock customers. Making up around 36% of the customer base, domestic and stock users hold only 0.42% of the delivery share on issue.

A detailed breakdown of the location, delivery share, customers and water use for small customers – those holding delivery share of 0.25 or less - was requested to understand the extent of small customers and assess the implications on distribution of the irrigators' share (Table B2).

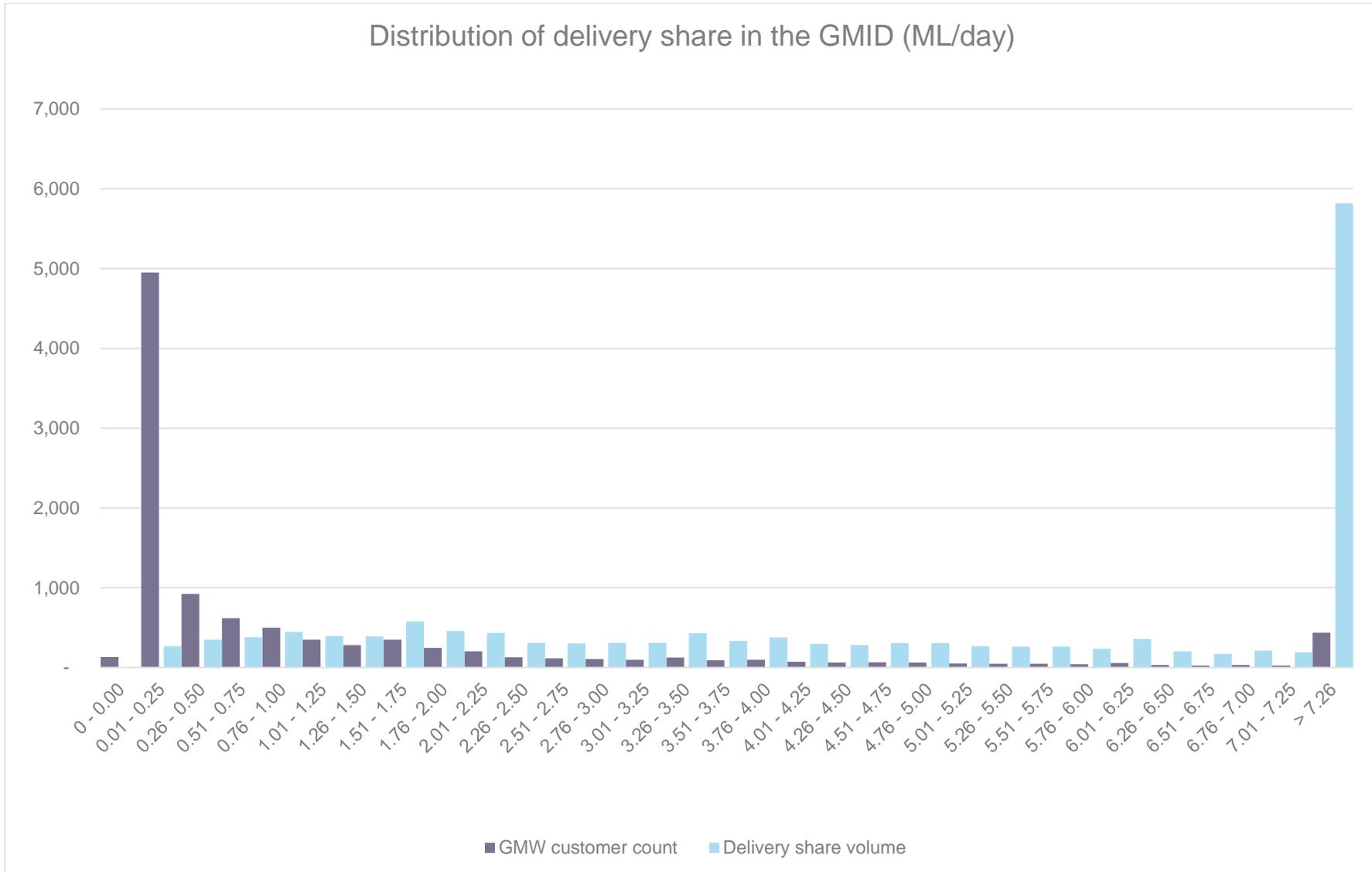


Figure B1: Distribution of delivery share by customer, from 0.00 to ≥ 7.25 ML/day, highlighting that many customers hold small amounts of delivery share, while a small number of large customers account of the majority of delivery share on issue.

The ISCC understands that the irrigators' share will be a mixture of high reliability and low reliability entitlements, based on the different types of water savings measures implemented through the Connections Project.

Whilst the exact volumes of various entitlements that will make up the irrigators' share will not be fully confirmed until the final Connections Project water savings have been verified, the committee notes that:

- The final volume of entitlements will be higher than a total of 75 GL - including both high and low reliability water shares -, in order to generate a long-term average water volume of 75 GL (LTAAY).
- Water shares will be distributed across the three trading zones in the GMID (Trading Zones, 1A/B, 6 and 7).
- Savings have been achieved based on the available opportunities for cost-effective water savings, so they are not evenly spread across the system and they do not align with the amount of delivery share held within each trading zone (Figure B2).

The committee notes that implementation of its recommendation will require a strategy to rebalance the mix of entitlements to ensure that delivery share holders receive water shares from within their trading zone in proportion to their delivery share volumes.

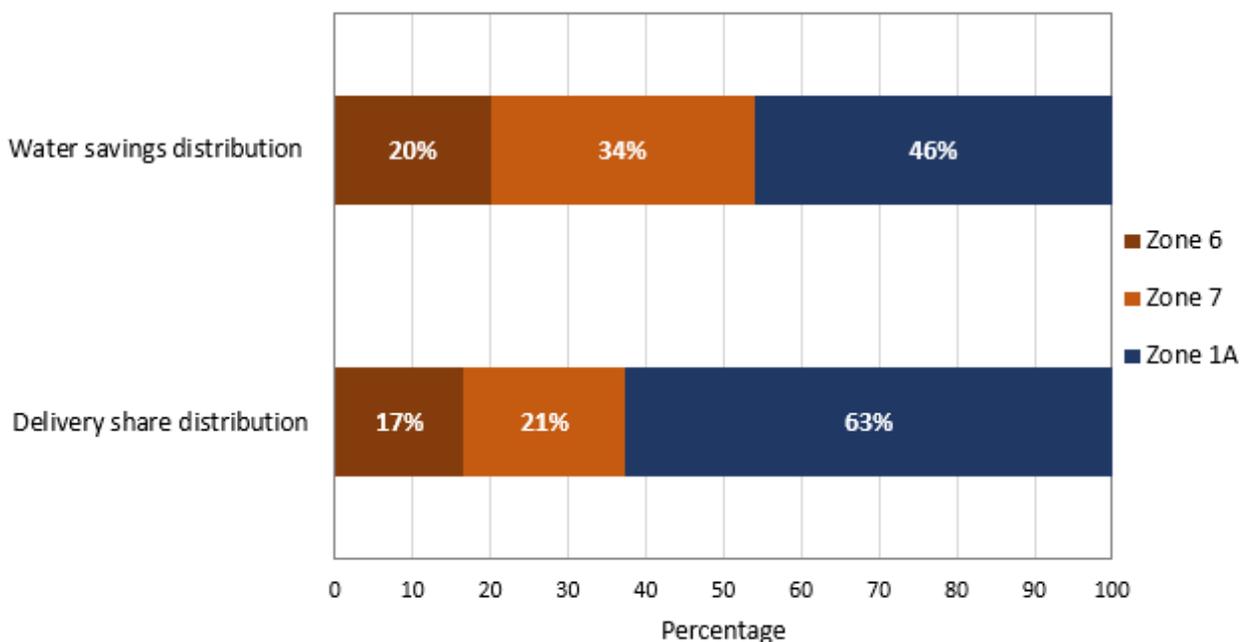


Figure B2: Estimated comparison of the distribution of water savings making up the irrigators' share with the actual distribution of delivery share across trading zones within the GMID.

Appendix C Basin Plan trading rules

The following information is provided to explain how the Basin Plan trading rules apply to the transfer of water allocations under the ongoing distribution models considered by the ISCC. The Basin Plan trading rules set out how water markets and water trade are to be consistently regulated across the Murray Darling Basin. They are established under the *Commonwealth Water Act 2007*. This information assisted the ISCC in reaching its recommendation.

The Basin Plan trading rules allow for specific restrictions on trade due to physical connectivity issues or where trade may harm the environment. The trading rules **do not** allow for the restriction of trade to a specific group of people, or according to water delivery rights.

The relevant water trading rules in the *Basin Plan 2012* are:

12.07 Class of persons

A person may trade a water access right free of any restriction on the trade that relates to the person being, or not being, a member of a particular class of persons.

12.15 Trade must not be made conditional on water delivery right

A person may trade a water access right or an irrigation right free of any condition that would require the person to hold, buy, sell, obtain, accept, terminate, or vary the volume or unit share of, a water delivery right.

Any arrangements for restricting the assignment of water allocation from a centrally held entitlement to GMID irrigators by delivery shares would be inconsistent with the Basin Plan trading rules.

Under Commonwealth legislation, the assignment of allocation changes the ownership of that allocation and is defined as a trade of a water access right, regardless of the absence of payment. Attempting to limit distribution only to holders of delivery share would restrict the purchase of the water access right, and makes trade conditional on a water delivery right, neither of which are permitted under Basin Plan trading rules.

Under the *Commonwealth Water Act 2007*, the Victorian Government, rural water corporations and holders of water access rights must act in accordance with the Basin Plan. This means that all Victorian parties must comply with Commonwealth legislation, including Basin Plan trading rules, in addition to complying with any State legislation or regulations. State legislation or regulations cannot be inconsistent with Commonwealth legislation. The advice received demonstrated that all three allocation-based distribution models that were considered by the ISCC would be inconsistent with the Commonwealth legislation:

- Water share held by an independent entity
- Water share held by GMW
- Bulk entitlement held by GMW

Appendix D Refining the delivery share threshold

Detailed analysis was requested by the ISCC to understand how the distribution approaches considered would be experienced depending on the amount of delivery share a recipient holds. The following analyses helped the committee to reach its recommendation to set a delivery share threshold of 0.25 ML/day (anticipated to be equivalent to receiving 1 ML HRWS and 0.5 ML LRWS under the indicative data provided to the committee), below which financial benefits are preferable to issuing water shares.

A number of issues interact to determine a cost-effective delivery share threshold for water-based benefits. The committee requested analysis of the following three approaches for defining distribution threshold options to nominate threshold delivery share amounts:

5. **Water Register minimum recordable volume**

The Water Register is only able to record water share volumes increments of 0.1 ML. Based on the indicative volumes of HRWS and LRWS that might make up the final irrigators' share, the minimum feasible delivery share holdings for water based benefits would approximate:

- For receiving **HRWS: 0.025 ML/d** minimum delivery share.
- For receiving **LRWS: 0.05 ML/d** minimum delivery share

6. **Financially viable minimum delivery share**

Papers presented to meetings 3 and 4 of the ISCC provided information on the delivery share thresholds for a financially viable parcel of water shares. The following key points are considered in defining financial viability:

- The issue of new water shares to each individual beneficiary will create a new, separate water entitlement (WEE) recorded in the register and will attract ongoing Entitlement Storage Fees.
- Small water share parcels (0.1 ML) are of low practical use and difficult to trade, creating a risk of "stranding" water which would be unavailable for consumptive use.
- To avoid issues with small parcels, recipients would need to consolidate the small share with an existing water share or sell it, both of these actions involve costs.
- If these costs exceed the value of the water share issued, the recipient will be worse off financially after they have sold or consolidated the water share.

Sellers of a water share incur water share transfer approval fees. If a seller needs to use the services of a broker to find a suitable buyer, they will also incur extra charges. Similarly, buyers of small parcels will need to consolidate them with their existing holdings, which incurs a \$169 fee. The full cost assessment under a worst-case scenario is presented in table D1. The cost of issuing the water shares are not included in the table, as these costs are to be covered within government.

7. **Deemed domestic and stock customers**

There was some concern that customers who had all their usage deemed under domestic and stock arrangements may be issued with very small water shares that they could not practically use (as their use is "fixed" though deemed) and they would be required to pay Entitlement Storage Fees on a parcel of water shares that offered them no practical value.

While there are a large number of service points where usage is deemed (e.g. domestic use for a residence), a large percentage of these are on properties with other metered service points for irrigation, etc. Where usage is fully deemed, it is considered that small parcels are unlikely to be a problem as they are expected to be issued as separate parcels, which are recordable and greater than the financially viable threshold. Many small domestic and stock users will receive monetary benefits, and larger deemed use customers will receive a valuable parcel of water shares that they can hold, sell or otherwise gain value from.

This area will require further analysis and detailed planning as part of the implementation process.

Table D1: Cost assessment to determine financially viable threshold of delivery share to protect the benefits to recipients of the irrigators' share.

Item	HRWS transfer	LRWS transfer
Fees & Charges for sale of water shares		
Water register fee	\$201	\$201
Commission/minimum broker charge	\$500	\$500
Total	\$701	\$701
Value of water shares*	\$3350	\$470
Minimum marketable parcel size (ML)	0.2	1.5
Delivery share holding for minimum marketable parcel (ML/d)	0.05	0.81
DS holding for min marketable parcel (ML/d) if no broker fee	0.01	0.25

* Worst case, based on median 2018/19 price in Zone 1A

Based on these analyses, the committee considers 0.25 ML/day of delivery share to be an effective threshold due to:

- Being the breakeven point for generating a financially viable water share package of LRWS (note that this does not take broker fees into account in determining water trade costs).
- Being the delivery share volume required to receive 1 ML of HRWS, considered the minimum volume required to encourage productive use.