

Learn more about what the committee has done and the distribution approach we are proposing

The committee's proposal

What has the committee proposed?

The committee is proposing a once-off distribution of water shares for those above a threshold level of delivery share. For those below the threshold the committee proposes that they receive financial benefits to the equivalent value of water shares.

The proposed threshold is a delivery share rate of 0.25 megalitres (ML) per day. At 0.25 delivery share rate it is anticipated a person will receive approximately 1 ML of high reliability water share and 0.5 ML of low reliability water share.

Water shares, and financial benefits, would be distributed to irrigators based on the rate of delivery share they hold.

Is this proposal the committee's recommendation?

No, the proposal is not the committee's recommendation to the Minister for Water. The committee is testing this proposal with delivery share holders from the Goulburn Murray Irrigation District (GMID) in line with the Minister's request for the committee to consult with the wider irrigation community. The feedback provided on this proposal will help the committee to finalise its position and recommend a distribution approach.

How did the committee arrive at this proposal?

The committee explored a range of options for distributing the irrigators share, including once-off and ongoing distribution of water, providing financial benefits, and combinations of different approaches. All options were compared against a base case of issuing water shares and tested against the committee's decision-making principles.

Who is eligible to receive a benefit?

All people who hold delivery share in the GMID will receive a benefit. This means all six of the gravity irrigation areas will benefit, so that those who pay to maintain the system receive their fair share.

The distribution will be based on a census of all delivery share on issue within the GMID. The **census date** will be set as close as possible to the date when water shares will be issued.

What will delivery share holders get?

This means that irrigators would receive approximately 4 ML HRWS and 1.8 ML LRWS for each ML/day of delivery share they hold, based on current estimates of water recovery.

For those under the threshold, a financial benefit is proposed that is equivalent in value to the amount of water share that would be issued against your delivery share.

It is essential to understand that these are estimates only, with the final volumes of water shares to be confirmed once water recovery is complete.

When will get our share?

The irrigators share will be made available once the Connections Project on-ground works are complete and the water recovery volumes have been confirmed. Water entitlements can only be created by converting water recovery which has been confirmed, to make sure that the integrity of all water entitlements – new and existing – is maintained. Recovery is currently confirmed through annual audits following the standards set out in the Victorian water savings protocol.

ISCC community consultation Q&As

The committee is calling for the irrigators share to be distributed as soon as possible within these constraints.

How does this support the GMID?

The committee recognises the importance of helping the GMID adapt to changing irrigator needs. Issuing water shares directly to delivery share holders gives irrigators the most ability to make the decisions that are right for their businesses. This means the water can stay with irrigators and can be managed to maximise productive water use.

Setting the delivery share minimum threshold, and providing financial benefits to those below it, means that all delivery share holders benefit regardless of size, so everyone gets their fair share.

The committee notes that the Victorian Government is putting measures in place to manage water trade in the Goulburn system in light of understanding of environmental tolerances. These measures, in combination with measures to drive down delivery costs and strengthen our competitive advantages, will provide advantages to irrigating in the GMID.

Details of the proposal

What will the irrigators share look like?

The irrigators share of water recovery will be up to 75 giga-litres (GL), long term annual average yield. This means that the amount available will vary from year to year, averaging out at around 75 GL. It will be made up of a mix of high-reliability water shares (HRWS) and low-reliability water shares (LRWS) from the Goulburn and Murray systems. The exact make-up of the irrigators' share will be determined at the end of the Connections Project, based on the final confirmed water recovery volumes.

The irrigators share equates to about 6 % of the average annual water use in the GMID. It represents around 3 % of the total HRWS and LRWS currently issued in the Victorian Murray and Goulburn systems.

What mix of water shares will I receive?

All those above the threshold will receive the same proportional mix of HRWS and LRWS, reflecting the final make-up of the irrigators share. The exact mix of water shares, and the precise volume that will be issued per ML/day of delivery share cannot be confirmed until all water recovery works have been completed, and the volume recovered has been confirmed.

Based on projections of water recovery, we **estimate** that irrigators would receive 4.0 ML of HRWS and 1.8 ML of LRWS for each 1 ML/day of delivery share. These numbers are preliminary appraisals only.

Those below the proposed 0.25 ML/day delivery share threshold would receive the market value of the corresponding volume of water shares. For example, we **estimate** that a person with 0.1 ML/day of delivery share would get a financial benefit to the value of 0.4 ML HRWS and 0.018 ML LRWS.

Why is there a mix of high-reliability water shares and low-reliability water shares?

The water shares making up the irrigators share will be converted from the water recovered through the Connections Project. Water recovered through works are converted to water shares following the processes set out in the Victorian water savings protocol. The protocol sets out how fixed and variable losses are converted into a mixture of high-reliability and low-reliability water shares.

How will the final product mix be calculated?

The water entitlements making up the irrigators share will be converted from the water recovered through the Connections Project. Works have been undertaken across the GMID, which will result in HRWS and LRWS water entitlements being created in Murray 6, Murray 7 and Goulburn 1A trading zones.

The Victorian water savings protocol sets out how fixed and variable losses are to be estimated. This mix then dictates the reliability of water entitlements that can be issued, with fixed recovery issued as high reliability and variable issued as a mix of high and low reliability. Water recovered through works is issued as water entitlements following the processes set out in the *Victorian Water Act 1989*.

Will the water shares be in my trading zone?

The committee considered it preferable to issue irrigators with water shares within their trading zone, rather than providing everyone with an equal mix of water shares from all three zones.

Work will need to be done to rebalance water shares in line with the spread of delivery shares, once the final product mix is known, so that irrigators receive HRWS and LRWS within the same trading zone as their delivery share.

Why would some delivery share holders get money?

The committee proposes that all holders of GMID delivery share benefit equally from the distribution of the irrigators share. This means that those who could not receive water or would receive small volumes that are difficult and expensive to trade would receive financial compensation.

The committee sought expert advice and analysis on how the amount of delivery share held impacted on the benefits received through issuing water shares:

- Water shares cannot be issued to people with delivery share of less than 0.05 ML/day as the volume is below the minimum that can be recorded in the Victorian Water Register.
- It is difficult to trade parcels of water shares below 1 ML of HRWS, and the fixed transactions costs are high compared to the value of the water.
- The costs involved in managing the water, including storage fees and transaction charges, erode the value of small parcels of the irrigators share.
- If recipients could not use the water themselves, this would also reduce the water available for productive use.

Providing a financial benefit to those with less than 0.5 ML/day of delivery share means that all delivery share holders get their fair stake of the benefits of the irrigators share.

How was the 0.25 ML/day delivery share threshold determined?

The committee considered a minimum viable water share package to be 1 ML of HRWS. This volume is large enough that the value of the water is not eroded through storage fees and transaction charges and is large enough to easily trade.

Based on the **estimated** product mix, and the amount of delivery share on issue, an irrigator would need to hold 0.25 ML/day of delivery share to receive 1 ML of HRWS. They would also receive 0.5 ML of LRWS based on the estimated product mix for the irrigators share.

Note that these numbers are best estimates based on water recovery to date and forward modelling. The exact distribution will be revised once the make-up of the irrigators share is finalised.

How will the financial benefits be calculated?

Financial benefits are proposed to be provided based on the actual value received from the sale of the proportion of HRWS and LRWS that would have theoretically been issued to individuals below 0.25 ML/day.

The volume of HRWS and LRWS across all recipients below the delivery share threshold would be pooled and sold to fund the financial benefits, after the related water shares are issued. Due to the need to pool the water for sale, recipients would get back a share of the averaged value of the pooled water shares.

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How would financial benefits be delivered?

The committee proposes that financial benefits are provided as credits on GMW bills. This approach is simple and straight-forward and has much lower implementation costs than alternatives such as providing payments by cheque or direct deposit.

As the water shares will need to be sold onto the market to generate the financial benefit, the bill credits would be processed after the water shares have been issued.

In some cases, the credit will be larger than the annual billing amount, meaning that recipients accounts will remain in credit over multiple billing cycles.

Next steps

How is the community being consulted?

People who hold delivery share in the GMID are being asked to provide feedback on the committee's proposal. Consultation is open from 20 April through until 1 June 2020.

Due to the restrictions in place for the COVID-19 pandemic, consultation is being undertaken online. A web portal has been set up at engage.vic.gov.au/irrigators-share. All information and activities are being coordinated through this central point.

Community members are encouraged to visit the web portal, read the fact sheet provided, participate in online presentations from the committee, and to complete a feedback form.

How will community feedback be used?

Submissions made via the Engage Victoria web portal will be collated and provided to the committee. Committee members will take these community views into consideration in presenting a recommended distribution mechanism to the Minister for Water. A summary of the community's feedback will be included in the committee's report to the Minister.

The committee will prepare a 'closing the loop' report for the community, summarising the feedback received and explaining how the feedback was used in forming the committee's recommendation to the Minister.

When will the committee make its recommendation to the Minister?

The consultation period closes on 1 June 2020. The committee will meet soon after to consider your feedback and develop its recommendation to the Minister for Water.

The Minister will consider the committee's recommendation in deciding on how the irrigators share will be distributed. The Minister has the final decision on how the benefits of the irrigators share will be distributed.

When will the distribution model be announced?

The Minister will announce the model for distributing the irrigators' share after she has received the committee's recommendation.

Implementing the proposal

What costs are involved?

The Victorian Government will meet the costs of verifying water recovery, issuing water shares and selling water to provide financial benefits for a once-off distribution model.

Recipients will be responsible for any costs associated with managing their water shares once they are issued. This includes costs of consolidating their new shares with existing water shares.

When will the irrigators share be distributed?

The committee is calling for the irrigators share to be distributed as soon as possible following the completion of Connections Project works.

The Department of Environment, Land, Water and Planning (DELWP) is currently working through approaches to make the irrigators' share available as soon as water recovery can be confirmed so that the product mix is known and the water shares can be issued without generating third party impacts. This means that existing water entitlements will remain protected.

The committee has called for the timing to be confirmed when the Minister announces the final distribution model.

Why can't you tell me exactly how much water I will get now?

Water recovered through Connections Projects works needs to be confirmed before it can be converted into entitlements. While some recovery has already been verified, the full final mix of entitlements can't be determined until all water recovery has been confirmed and reconciled following the completion of all on-ground works.

These processes are important to follow to make sure the water recovery has been achieved and to issue water shares while ensuring no risk of third party impacts.

What about interim distribution of water already saved?

The committee is calling for any water to be distributed to GMID delivery share holders as soon as it is available. DELWP is looking at how any interim water allocation could be provided to you, if it can be confirmed to ensure that there are no third party impacts.

Options include increasing the general allocation pool – meaning water would go to all entitlement holders, not just delivery share holders – and trading the allocation to provide financial benefits to delivery share holders.

How will the water shares be issued?

Is it proposed that the new water shares are issued as a new water entitlement entity (WEE) for each identified GMW customer, based on the delivery share held by that customer. This means that there will be one parcel of water shares issued to each customer, regardless of how many properties they have, based on their total amount of delivery share.

Irrigators will be notified of whether they will receive water shares - or a financial benefit - and the volume of water shares after the census date, once the water recovery and mix of entitlements has been confirmed.

Irrigators can then decide how to manage the new water shares, including which allocation bank account (ABA) they are held in, and whether or not they are merged with existing water shares. Irrigators are responsible for meeting the transaction costs for managing their part of the irrigators' share once it has been issued to them.

What happens if I have multiple allocation bank accounts?

The delivery share held will be assessed at the customer level, using GMW's single customer view process to collate all the accounts belonging to an individual customer. This means that the total amount of delivery share a customer holds will be captured, no matter how many accounts or properties it is spread over.

This is in line with the Connections Project Stage 1 objective that the Victorian Government will ensure that the benefits of the irrigators share are distributed fairly and equitably.

What if I want to reduce my delivery share?

You can reduce your delivery share at any time through payment of termination fees, or by trading them to a willing buyer. Talk to your GMW customer service manager about options to change your delivery share rate. The amount of the irrigators' share that you receive – either as water shares or as financial benefits – will be determined by the amount of delivery share you hold at the census date.

What if I want to increase my delivery share?

You can increase your delivery share at any time through purchase from a willing seller. Under the current embargo on delivery share, GMW will not issue new delivery share where a fair trade opportunity exists. This means that the total amount of delivery share on issue in the GMID will not significantly increase.

The embargo on the issue of new delivery share was put in place as a result of the Victorian Government's 2018 Delivery Share Review. The review sets out the conditions for delivery share trade, including exceptions for when GMW may issue new delivery share. To learn more, go to engage.vic.gov.au/delivery-share-review.

Are there any controls on the shares after I receive them?

The water shares issued as part of the irrigators share will be the same as existing water shares. Irrigators will be free to manage the water shares as best suits their business requirements, including trading allocation or selling their shares.

Under Commonwealth regulations it is not possible to put restrictions on water trade, or to create a new type of water share with specific controls.

Can people profiteer from the distribution of the irrigators share?

It is essential that there is a well-informed delivery share (sellers) market so individuals can make informed decisions on whether to hold or sell. This will mean delivery share prices adjust, removing any potential for profiteering.

As the issue of new delivery share is currently embargoed in the GMID, people can only increase their delivery share through trade with a willing seller. The market price of delivery share is expected to adjust, based on the proposed distribution model, so that sellers are accounting for the value of the water shares to be issued.

Note that purchasers of delivery share remain responsible for the associated infrastructure access fees and termination fees, contributing to the costs of GMID infrastructure. The consolidation and termination of delivery share may also improve signals for infrastructure management and rationalisation, which benefits the GMID as a whole.

Alternative approaches

What other approaches were considered?

The committee looked at a range of ways to distribute the benefits of the irrigators share, including:

- Once off distribution of water shares only
- Distribution of financial benefits only, both once-off and ongoing
- Ongoing water distribution through allocation-based models
- Combinations of once-off and ongoing, and water and financial approaches

The committee sought expert advice and analysis to understand the feasibility of different approaches, and to weigh up the benefits and detriments. This included exploring the legal and regulatory limitations, costs, administration needs and adaptability of the options, in line with the requirements of the committee's [terms of reference](#) and [decision-making principles](#).

Why isn't an allocation model proposed?

The committee looked closely at allocation-based models to understand the legal frameworks, governance requirements and costs involved. These investigations showed that the most cost-effective allocation-based model – costing recipients around \$30 per ML – was not consistent with Commonwealth regulations as set out in the Basin Plan Trading Rules.

Under Commonwealth regulations it is not possible to restrict the trade or transfer of water shares or allocations, meaning water cannot be locked in to the GMID or to delivery share. The Victorian Government is required to act in

accordance with all Commonwealth water regulations. This means that allocation-based models involving GMW or an independent entity holding the water shares and distributing allocations on the basis of delivery share are not legally permitted.

Compliant models would require developing new contract-based management systems, similar to those used by Murray Irrigation Limited. Setting up such a system for the whole GMID would require duplicating systems to manage water use and compliance requirements. The costs involved were assessed to be well in excess of the simplest cost-effective model. Due to the high costs, the need to develop new systems and the level of complexity involved, the committee did not support this approach.

An allocation-based model **could** be provided by using the irrigators share to top up the seasonal allocations for **all** entitlements. This would include the environment, non-water users, and people outside the GMID, not just holders of delivery share. The committee did not support this approach.

What are the relevant Commonwealth regulations?

The Commonwealth regulations preventing an annual allocation to delivery share holders are set out in the following Basin Plan Trading Rules:

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.

Under the Commonwealth Water Act, the Victorian Water Minister, water corporations and holders of water access must not act inconsistently with the Basin Plan, including the Trading Rules.

Why can't we change the Commonwealth regulations?

The Basin Plan Trading Rules can only be changed by the Federal Government. The Victorian Government would need to seek an amendment, or an exemption from the rules.

If an amendment or exemption was made to permit the restriction of allocation to delivery share holders, it would set a precedent for other exemptions to the trading rules. This would allow other groups to place limits on water trade. As the GMID is a net importer of water in many years, this could have significant negative implications on water availability and price.

Given the total volume of the irrigators share is around only 6% of the total annual GMID water use, an allocation model established to retain water within the GMID is not likely to be effective.

The committee views that the risks to broader water trade outweigh the potential benefits to the GMID provided by amending the Commonwealth regulations.

Why can you issue water shares to delivery share holders, but not an allocation?

Water shares can be issued on the basis of delivery share as long as no restrictions are placed on the trade or transfer of those water shares, once they have been issued. This means that recipients can sell their part of the irrigators' share or trade their allocation the same as all other water shares.

Further information

Why is there a delay between the end of the Connections Project and the distribution of shares?

On-ground works for the Connections Project are currently scheduled to conclude in October 2020. The final water recovery needs to be confirmed and converted into entitlements. Once the water recovery volumes are confirmed, entitlements will be issued that match the origin (Murray or Goulburn) and reliability (high or low) of the water recovered.

Water shares cannot be issued until this validation is complete.

What about the environment and the Melbourne urban retailers?

Water recovered through Stage 1 of the Connections Project will also be distributed to Melbourne urban retailers and has been issued to the environment. When the final entitlements are issued, the total volume of water issued to the environment, Melbourne retailers and irrigators will equate to up to 75 GL each of the long-term annual average (LTAA) water recovery.

Water shares were issued to the Victorian Environmental Water Holder in June 2019 as part of delivering on Victoria's commitments under the Murray Darling Basin Plan. A review clause was built in to the bulk entitlements that means the entitlement issued can be reviewed when the remaining Stage 1 savings are ready to be distributed and, if necessary, rebalanced.

Each receiving group uses water in different ways, so the final distribution will seek to match the needs of each beneficiary group. For instance, the irrigators and Melbourne retailers cannot make use of unregulated water, or water in the Campaspe and Loddon systems, while the environment can.

Are we getting the same types of shares as the entitlements issued to the environment and Melbourne retailers?

The water recovery will be divided equitably between the irrigators, the Melbourne retailers and the environment. While each share will have the same volume of water (long-term annual average), the product mix will be different.

This is because the water has been recovered from all across the GMID, and thus has different characteristics depending on the source.

Each receiving group uses water in different ways, so the final distribution will seek to match the needs of each beneficiary group. For instance, the irrigators and Melbourne retailers cannot make use of unregulated water, or water in the Campaspe and Loddon systems, while the environment can.

How does this relate to changes to the Goulburn to Murray trade rule?

In August 2019, the Minister for Water announced three key actions to reduce the risk to the lower Goulburn River and to get future market settings right for Goulburn to Murray trade. These were:

- an interim operational regime to achieve variable summer and early autumn flows in the lower Goulburn River (implemented from December 2019);
- bringing all trade under the same rules so that use from a tagged account is subject to the same 200 GL IVT limit as allocation trades (changes made on 12 December 2019); and
- DELWP beginning public consultation on changes to the Goulburn to Murray trade rule in early 2020.

These changes will increase limits on the trade of water out of the GMID and will apply to water shares issued in distributing the irrigators share.

To learn more about these changes, visit waterregister.vic.gov.au/water-trading/trading-rules/goulburn-to-murray-trade-review.

What are the impacts of COVID-19 (the coronavirus) on the irrigators share?

Due to the Victorian Government's physical distancing requirements currently in place, community consultation on the irrigators share is being carried out digitally.

Distribution of the irrigators share is linked with delivery of the Connections Project works. These works are over 90 % complete and are currently on track for completion in October 2020, on time and in budget.

Currently the Connections Project can continue on-site works due to the nature of the work (e.g. limited staff on site and ability to work with sufficient social distance between site workers). The Connections Project team has also put in additional safe-guarding strategies such as project staff working remotely where possible, additional hygiene strategies put in place and engagement with landowners via telephone and avoiding unnecessary human contact. Project delivery may be impacted if the Government implements further physical distancing restrictions, at which point we will advise you further.

About the committee

The Irrigators' Share Consultative Committee ISCC is made up of appointed members, who have decision-making responsibilities, and non-appointed members who provide information to the Committee and undertake work to support the Committee's tasks.

Appointed members represent the GMID irrigation community. They are:

- The ISCC Chair, Paul Weller
- Chairs of GMW's Water Services Committees (or their delegates)
- Representatives of the Victorian Farmers' Federation Water Council
- An independent expert, Graeme Turner, who provides subject-matter knowledge and checking of facts

The remaining ISCC membership is drawn from DELWP, GMW, and the Connections Project.

The Terms of Reference for the ISCC are available online at engage.vic.gov.au/irrigators-share.