

15 May 2020



Senior Policy Officer

Retail Entitlements & Markets, Water Resources, Water Resource Strategy

Victoria Department Environment, Land, Water & Planning

Email: [REDACTED]

Tel. (03) 5444 0112

admin@kilterrural.com

www.kilterrural.com

PO Box 85

Bendigo Central

Victoria 3552

ABN 64 111 305 349

Dear [REDACTED]

RE: Goulburn Murray Trade Rule Review

Summary

1. Strongly recommend Option 3 – Seasonally-based Rule as the preferred option for the following reasons:
 - Provides adequate control over Lower Goulburn River flow levels during high Summer Demand period
 - Offers maximum farm productivity potential during Winter/Spring Demand.
2. Kilter Rural would consider paying extra for Goulburn IVT access into Lower Murray if related to infrastructure upgrade.
3. The proposed Goulburn to Murray trade rule applicable during Summer Demand period should always be flexible to allow for seasonal adjustment based on:
 - Annual water allocation supply declaration variability
 - Real-time measured impacts on the environmental status of the Lower Goulburn River, and
 - Deliverability capacity into the Lower Murray.

Thank you for the opportunity to participate in the review into the Goulburn to Murray trade rule. We appreciate and understand the need to review the trade rule, given the change in trade dynamics between Goulburn and Lower Murray trading zones, particularly since 2017-18. As the asset manager of a large aggregation of irrigated farming land in the Torrumbarry Irrigation District ('TID'), we also appreciate the importance of Goulburn inter-valley trade ('IVT') into Lower Murray as an additional source of water allocation supply.

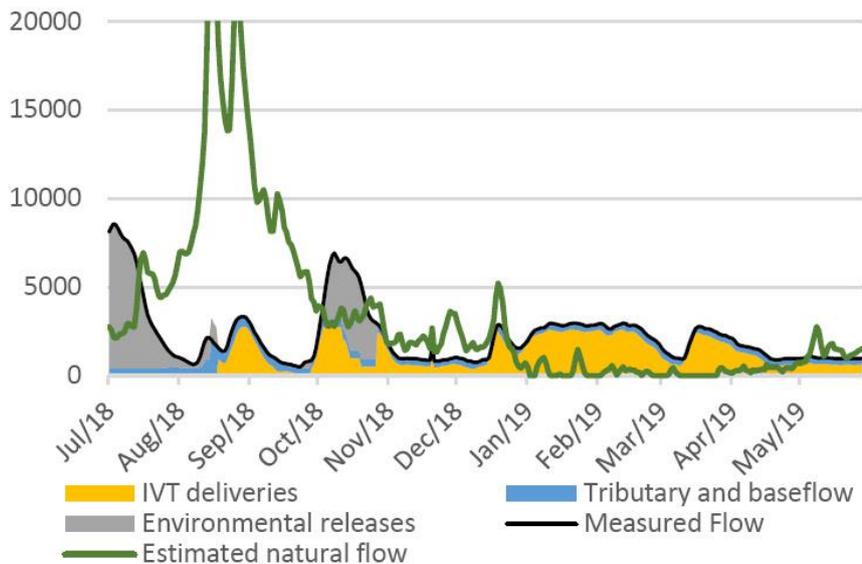
Internal Review of Proposed Options for Trade Rule Change

We have undertaken detailed review of the Goulburn Murray IVT trade rule change options as provided in the consultation process. Our option review has been premised on the importance of any change trade rule delivering the following two key outcomes, in order of priority:

1. A reduced flow regime for the Lower Goulburn River during the hotter months when there is an increased delivery demand in the Lower Murray ('Summer Demand') in order to protect the river's banks and vegetation; and
2. Maximise water risk management options for irrigators and support productivity through efficient water market trade operation when water deliveries would be in-line with natural river flow volumes and thus not increase the threat of environmental degradation ('Winter/Spring Demand').

Note: Summer Demand correlates to when higher IVT results in flow levels for the Lower Goulburn River being predominantly above the river's natural 'estimate'. High flows at this time, when hot conditions dry out riverbanks, renders them vulnerable to erosion. Winter/Spring Demand correlates to generally lower IVT demand due to rainfall supplementing supply and the cooler and wetter conditions allow for high flow levels to operate in the Lower Goulburn River without concern for environmental degradation. These respective river flow scenarios are illustrated in DELWP's Factsheet 4 - Delivery of water from the Goulburn IVT account (see Figure 1).

Figure 1: Lower Goulburn River Flow Rates (ML/Day) at McCoys Bridge for 2018-19



Internal Review Conclusion

Given these considerations, our review into the proposed options has determined that Option 3 – Seasonally-based rule is the standout preferred option. This option provides the mechanisms to best deliver on the two paramount outcome criteria. The rationale for selecting Option 3 as the preferred option include:

1. The demand to call on water from the Goulburn system during Summer Demand can be more effectively managed to limit flow levels for the Lower Goulburn River to an acceptable threshold level. This is primarily achieved by:
 - i) Summer Demand deliveries from Goulburn do not impact on the IVT balance and thus do not continually create additional trading opportunities which in turn results in additional deliveries during this period. Instead only back trade would enable additional IVT trading opportunities.
 - ii) The IVT balance is managed by applying a fixed IVT limit for deliveries during the Summer Demand period. However this fixed limit does not on IVT for delivery volumes in the Winter/Spring Demand period. This fixed Summer Demand limit is set such all Summer Demand IVT trade can be delivered while ensuring the desired flow level threshold for the Lower Goulburn River is not breached.
2. The Winter/Spring Demand option best supports farm productivity and promotes water market efficiency by:
 - i) Ensuring that the Winter/Spring Demand IVT only permits water trades for physical delivery and use on farm via the tagged sub-account mechanism, not trading between water accounts. This keeps the focus on actual farm productivity rather than generating any speculative trading opportunities arising from price differential between the two trading zones or building up liabilities for future deliveries.
 - ii) Unlike the other proposed options, Option 3 does not seek to impose a limit on the physical delivery of water to farm for use over the Winter/Spring period or have it constrained by MDBA operational directives. This outcome is logical as delivery demand over this period is typically much lower than Summer Demand and occurs when inflows into rivers and storages are at their peak. Hence physical delivery of water to satisfy these orders can be aided by natural flows and will not cause the Lower Goulburn River to operate at levels above its natural estimate.
3. The tagged sub-accounts mechanism required to facilitate this option is already in place and has been used as recently as December 2019.
4. Adopting any of the options other than Option 3 will result in the Lower Murray having significantly less access to Goulburn IVT during the Winter/Spring Demand period for no environmental or hydrological gain. This outcome will have economic consequences for water users in the Lower Murray and is contrary to the key principle of water migrating to highest value use which has underpinned water market reform in Australia.

Likely Unintended Consequences of Reduced Lower Murray Access to Goulburn IVT

We are of the firm opinion that Option 3 provides the best mitigation of the impacts on market forces of proposed regulatory change. Reducing Lower Murray access to Goulburn IVT is likely to have the following potentially significant consequences:

1. Reduced supply options for Lower Murray will result in even higher water prices

In times of relative water scarcity, such as has been experienced over the past two years, spot water allocation prices become more volatile and can spike to very high levels. Volatile and sudden high water prices place many irrigated farming operations at high risk of severe economic stress and/or failure. This particularly applies to irrigation enterprises which have less gross margin per ML than the high value perennial horticulture crop grown mostly in the VIC Sunraysia, NSW Riverina and SA Riverlands regions. The effects will not only be felt by irrigators, but also likely to have widespread impact on jobs and prosperity in affected regional communities, particularly upstream from Nyah to Barmah.

2. Increased water allocation price differential between Lower Murray and Goulburn

During 2019-20 this price differential consistently exceeded \$200 per ML. Restricting Goulburn IVT supply to Lower Murray will only serve to increase this differential. Whilst some Goulburn irrigators may not mind this return to local cheaper water access, many Goulburn irrigators seek to trade water allocation at some stage and prefer to access the best economic return possible. Similarly Lower Murray irrigators will be frustrated if they cannot access water allocation at lower prices from Goulburn and there are willing sellers and it is at a time when the delivery of water will not adversely impact the Lower Goulburn River.

3. Holders of Goulburn water entitlement may experience a very material drop in valuations

It is to be expected that holders of Goulburn water entitlement that do not farm in the Goulburn region, but who hold Goulburn water entitlement for tagged trading and supply risk management purposes, will seek to sell these entitlements as they are no longer of use to them. This would put significant downward pressure on Goulburn water entitlement prices. The majority of irrigators that hold Goulburn water entitlement will also use this asset as security for the debt funding facilities they have in place. A steep decline in these values could be expected to cause many loan covenant breaches putting the viability of many Goulburn farm businesses at risk.

Fee for Service Model for Additional Goulburn IVT Trade

One proposed model is a fee for service for additional IVT trade. On the basis that the fee was clearly for the benefit of developing or operating water delivery infrastructure for Summer Demand deliveries without risking environmental damage in the Lower Goulburn then we are certainly of the view that this should be explored.

We are also wary that this type of option has the potential to attract cynicism. Accordingly, absolute transparency would be necessary to avoid any potential perception that those with capacity to pay can buy IVT access at the expense of environmental sustainability.

Suggested Option Improvement

For all proposed options, the Goulburn to Murray trade rule applicable during Summer Demand period should always be flexible to allow for seasonal adjustment based on:

- i) Annual water allocation supply declaration variability
- ii) Real-time measured impacts on the environmental status of the Lower Goulburn River, and
- iii) Deliverability capacity into the Lower Murray.

Again we appreciate this opportunity to contribute and welcome the opportunity to discuss these issues further should you seek to follow up with us. I have also included our response to the online consultation survey for your reference.

Regards,

Matt Bryant

General Manager Water