Victoria refines controls on water allocation trade between valleys

Explanatory note (21 November 2012)

BACKGROUND

- When rules to manage trade into the Victorian Murray do not align well with how storages are managed and the spill rules on carryover, individuals can trade water in for personal benefit at the expense of future allocations to others.
- This is why trade suspensions were needed in the last two years.
- The new Murray spill rule is the key step to protect Victorian Murray entitlement holders, because:
  - It minimises the incentive to trade into the Victorian Murray for carryover.
  - It ensures that any water traded into the Victorian Murray for carryover will, along with all other carryover, always spill before inflows for new allocations.
- Nevertheless, there are still some residual risks, particularly when Victoria’s shares of Murray storages are full.
- In the interim, some trade limits have been put in place as an additional safeguard.
- In the longer term, tagged allocation trade could completely remove the opportunity for individuals to game the system. This would mean that water could still be traded into the Victorian Murray for use within the season, but can only be carried over in its source valley.

INTERIM CONTROLS ON TRADE

The Victorian Government has refined its controls on some of Victoria’s allocation trade to protect ongoing allocations to Victorian water entitlement holders.

The new controls apply to trades of water allocation –

- from the Goulburn, Campaspe or Loddon systems to either the Victorian River Murray system or to interstate; and
- from New South Wales to Victoria (from 10 January 2013).

The controls are necessary to prevent situations where, when a trade occurs, the increased obligation to deliver water to users is not accompanied by storages receiving a matching secure volume of water. If there is no matching volume of water, there is less water available for new allocations.

The revised Murray spill rule will reduce the occasions on which this problem arises, but it can still occur.

Trade from NSW

When water is traded in from NSW, Victoria takes on the commitment to supply that water, and NSW cedes us the water to supply it. However, if our share of Hume and Dartmouth is full, we are unable to store that additional resource. In this case, taking on the new commitment would undermine Victorian Murray resources.

To protect Victorian Murray allocations, trade from NSW will only be allowed when Victoria is confident it can store the extra water for the rest of the season. The Resource Manager will advise each month if trade needs to be restricted, and to what extent.
As a further safety net, a maximum of 200 GL of net trade into Victoria from NSW will be allowed during the season.

Trade from South Australia has no adverse impacts as it concurrently reduces the obligation to supply that water further downstream to SA.

**Trade from the Goulburn**

Trade out of the Goulburn, Campaspe and Loddon systems cannot impact in the current season, as the Murray can call on the water at any time. However, if the river operator does not call out that water in the current season, the debt owed to the Murray is at risk of being spilled from Eildon in the next season, eroding water available to the Murray.

A similar safety net has been imposed to limit water owed by the Goulburn to 200 GL. This is likely to only limit excessive trade out of the Goulburn in some wet years.

**How the controls will work**

**Trades from the Goulburn, Campaspe and Loddon systems**

The new controls apply to trades of water allocation from the Goulburn, Campaspe or Loddon systems to either the Victorian River Murray system or to interstate.

*These trades will not be permitted if the volume traded out, but not yet delivered to the Murray, exceeds 200 GL.*

This is a safety net, balancing the need for a reasonable volume of trade-out with control of the impact on Murray of an Eildon spill. The 200 GL level is more than the actual level on 16 November 2012 (of about 150 GL) but below the levels reached in the last two years (250 GL or more).

The status of trade against the limit is trackable through inter-valley trade accounts on the Victorian Water Register website. Some adjustments are being made to the layout to improve clarity.

**Trades from NSW to Victoria**

*The controls are in two parts:*

- *The trades will be subject to a spill-risk limit - they will not be permitted if Victoria’s share of Hume and Dartmouth has a risk of spill of 50% or more.*

- *Additionally, these trades will be limited to 200 GL annually, as a safety net.*

To provide notice to the market, this rule will not apply to trades up to 9 January 2013. G-MW will announce the available space for trade at each low-spill-risk declaration date (the 10th of each month). The water register website reports the space remaining as trades occur.

The status of trade against the annual limit is also trackable on the Victorian Water Register website.

**Longer term solutions**

The controls may eventually be replaced by other mechanisms, such as ensuring that traded allocation remains tagged to the State and the storage from which it originates. But these will take time to investigate and develop, and today’s controls provide certainty in the interim.
Questions and answers

Why are these controls necessary?
The controls are necessary to prevent situations where, when a trade occurs, the increased obligation to deliver water to users is not accompanied by storages receiving a matching secure volume of water. If there is no matching volume of water, there is less water available for new allocations.

How does trade from the Goulburn, Campaspe and Loddon affect Murray users?
When water trades out of the Goulburn (or Campaspe or Loddon) to Murray or to interstate, an account (called an Inter-Valley Trade (IVT) account) records the amount of water that is owed to the Murray to be eventually sent down the river to support the trade. If the water isn’t called by the river operator but carried over, then there is a risk that this debt to the Murray will be cancelled by spills from Eildon. If that occurs, there is less water available for Murray allocations in the following season.

How does trade from NSW affect Murray users?
When water trades from NSW to Victoria, an adjustment is made to the MDBA water accounts to move water from the NSW share of Hume and Dartmouth to Victoria’s share. If Victoria cannot store that water securely, the water ‘spills’ back to NSW or down the river. There would then be less water available for Murray entitlement holders.

Can I still use water from a tagged entitlement?
Yes. If you have tagged a water share from the Goulburn to the Murray, or tagged a NSW water access licence for use in Victoria, you can still use that water even if the interim controls are preventing allocation trade. This will of course not allow you to carry over this water in the Victorian Murray.

Why is there no limit on trade from SA?
The accounting for trade from SA is different than for trade from NSW, because SA does not have a specific share of Hume and Dartmouth storages. Trade from SA reduces the obligation to deliver water to SA, and this is matched by an increased obligation to deliver to the buyer in Victoria. Hence there is no net impact, and no need for trade limits.

Why is there no need for a spill risk limit on trades from the Goulburn?
The volume limit can adequately manage the impacts of trade from the Goulburn. This is because the Goulburn and Murray have the same carryover rules and similar risks of spill — there is no significant incentive for large volume late season trades from the Goulburn. Additionally, a spill risk limit would be ineffective here, because the impact doesn’t occur until the debt is carried over to the next season and also because it is influenced by decisions made by the Murray river operator as to how much Eildon water to call on.

For trades from Goulburn, how is the status of the 200 GL limit calculated?
The limit accounts for trade (in both directions — out to the Murray, and back in to the Goulburn), allocations to Goulburn entitlements historically traded out, usage under tagged Goulburn entitlements, and water called out by the river operator for delivery to the Murray. It includes trades directly down the Goulburn, and also the small volumes that occur via the Lower Broken Creek.
Where can I track the status of the limits?
The current limits and the detail of the calculations can be seen at http://waterregister.vic.gov.au/Public/Reports/InterValley.aspx

How is the NSW trade spill risk limit calculated?
This is calculated each month by G-MW as the resource manager for northern Victoria. Based on the airspace available in Victoria’s share of Hume and Dartmouth, an estimate is made of how much trade (and hence water transferred from NSW) could occur without increasing the chance of spill beyond 50%.

The calculation is done monthly because the actual volumes are calculated monthly and become available about 10 days into the following month, as part of the MDBA accounting process.

How is the status of the NSW annual volume limit calculated?
The limit accounts for net trade looking at both directions – from NSW to Victoria, and the reverse.

Why are these controls needed now?
The problems arise when storage levels are high, as they are now and have been for the last two or three years. The problems were managed by trade suspensions in April 2010 and March 2011. These new controls are better than ad-hoc suspensions because they provide more notice and certainty.

Does the new Murray spill rule help deal with these problems?
The Murray spill rule does prevent the problems in many cases. It reduces the incentive for trade from the Goulburn just to improve carryover outcomes. And, if there has not yet been a Murray low-spill-risk declaration, a spill of water supporting trade from NSW leads to a spill of spillable water in individual accounts, with no impact on the communal resource. But it does not eliminate all trade impacts.

What risks remain, even with a new Murray spill rule?
There are still residual risks to Murray coming from trade, due to large movements to the Murray from another valley increasing the likelihood of spills. The safety nets (water owed by the Goulburn limited to 200 GL, and trade from NSW also limited to 200 GL) and the NSW 50% spill-risk limit mitigate these residual risks.

Why does the NSW trade rule use 50% chance of spill while the carryover low-spill-risk declaration uses 10%?
The NSW trade rule allows a higher risk because the impact of a subsequent spill is normally on spillable water accounts (where spill is anticipated), and not on new season allocations for which the 10% low-spill-risk declaration is designed.

Why delay the start of the NSW rule until January 2103?
A delayed start avoids the risk that this rule would bring trade to a halt immediately, given the relatively high spill risk of storages this spring. This is not expected by the market, and it is better to give notice of the new rule. With normal seasonal conditions, there are likely to be trade opportunities when the rule commences.

Note that this is to allow proper notice to the market, and the limit will then be applicable in all months.
**Why not also delay the start of the Goulburn rule also?**
Based on the current situation, this rule would not cause an immediate stop to trade (there is trade opportunity of about 50 GL) and so immediate commencement does not create a big problem.

**If these are interim controls, what are the longer term plans?**
The controls may be eventually replaced by other mechanisms, such as ensuring that traded allocation remains tagged to the State and the storage from which it originates and is subject to the carryover rules of that storage. But these will take time to investigate and develop, and today’s controls provide certainty in the interim.

**Will these longer term plans support quick and easy allocation trading?**
Any longer term solution must still meet the needs of water users, including ensuring that trade can happen easily. Changes to trade mechanisms will only proceed if they can be implemented properly, and can support an effective and fair market. These interim limits are being brought in to ensure that the longer term solution is investigated thoroughly.