



# Water trading in the MID

Information booklet

May 2010



DEPARTMENT OF  
PRIMARY INDUSTRIES

farm  
services

#### Authors:

Maria Rose, Department of Primary Industries, Maffra  
Yvette Schoo, Southern Rural Water, Maffra  
Sarah M Killury, Department of Primary Industries, Maffra  
Jason McAinch, Department of Primary Industries, Maffra

## Acknowledgements

The authors wish to acknowledge the valuable assistance of:

- All Macalister and East Gippsland (MEG)<sup>1</sup> committee members with special mention to Brad Missen (Chairperson), Jeannette Howie and Neil Baker who provided additional input outside the scheduled MEG committee meeting times.
- Jack Winterbottom, Gavan Lamb, Colin Waters and Sue Keirnan Department of Primary Industries (DPI)
- Bryce Morden, West Gippsland Catchment Management Authority (WGCMA)
- Ken Bates, Clinton Rodda, Gavin Prior and Sue Jordan, Southern Rural Water (SRW)
- Graeme Anderson, Chairperson of the Macalister Customer Consultative Committee (MCCC) to SRW.
- Members of the Water Trading Impact Group who provided feedback on the final draft
- SRW for supplying images for use in this document including the front cover.

If you would like to receive this information/publication in an accessible format (such as large print or audio) please call the Customer Service Centre on 136 186, TTY 1800 122 969, or email [customer.service@dpi.vic.gov.au](mailto:customer.service@dpi.vic.gov.au).

Published by the Department of Primary Industries, May 2010

© The State of Victoria 2010.

This publication is copyright. No part may be reproduced by any process except in accordance with the provisions of the *Copyright Act 1968*.

Authorised by the Department of Primary Industries  
1 Spring Street, Melbourne 3000.

ISBN: 978-1-74264-110-2 (print)  
ISBN: 978-1-74264-111-9 (online)

#### Disclaimer

This publication may be of assistance to you but the State of Victoria and its employees do not guarantee that the publication is without flaw of any kind or is wholly appropriate for your particular purposes and therefore disclaims all liability for any error, loss or other consequence which may arise from you relying on any information in this publication.

This booklet is for general everyday water transactions. However there are many other applications and processes that can be completed upon discussions with SRW staff.

**For more information about DPI go to [www.dpi.vic.gov.au](http://www.dpi.vic.gov.au) or phone the Customer Service Centre on 136 186.**

---

<sup>1</sup> The MEG Committee consists of MID irrigators and service providers and is an advisory committee linked to DPI.

# Contents

<b>1</b>	<b>Common terms and abbreviations</b>	<b>2</b>
<b>2</b>	<b>Introduction</b>	<b>3</b>
<b>3</b>	<b>Frequently asked questions</b>	<b>4</b>
<b>4</b>	<b>Unbundling in the MID</b>	<b>9</b>
4.1	Brief history of the unbundling process	9
4.2	Water Share	9
4.3	Delivery Share	10
4.4	Water Use Licence	11
4.5	Allocation Bank Account	11
<b>5</b>	<b>MID annual system fill and spill</b>	<b>12</b>
5.1	Seasonal allocations in the MID	12
<b>6</b>	<b>Water Trading</b>	<b>14</b>
6.1	Why trade water?	14
	Decision tree for buying water	15
	Decision tree for selling water	16
6.2	Types of Water Trade	17
6.2.1	What is an Allocation Trade?	17
6.2.2	What is a Water Share Transfer?	18
6.2.3	What is a Limited Term Transfer?	20
6.3	Associated non-water trade transactions	22
6.3.1	What is a Delivery Share?	22
6.4	Trading Operation Rules in the MID	23
6.4.1	MID Trading Zone Rules	23
6.4.2	Water Share ownership in the MID regarding Holding Limit	25
6.5	Assistance from solicitors and water brokers	25
6.6	Considerations when conducting a water trade in the MID	26
6.7	Doing a Water Budget	27
6.8	Useful websites and information sources	28

# 1 Common terms and abbreviations

The following table lists all the terms which have associated abbreviations which have been used in this information booklet.

<b>Actual term</b>	<b>Abbreviation</b>
Allocation Bank Account	ABA
Annual Use Limit	AUL
Dairy Extension Centre (previously Target 10)	DEC
Delivery Share Entity (Delivery Share)	DSE
Department of Primary Industries	DPI
High Reliability Water Share	HRWS
Limited Term Transfer	LTT
Low Reliability Water Share	LRWS
Macalister and East Gippsland	MEG
Macalister Consultative Committee	MCCC
Macalister Consultative Group on Irrigation Reform	MCGIR
Macalister Irrigation District	MID
Megalitres	ML
Megalitres per day	ML/day
Mid Thomson	42B
Non Water User	NWU
Northern Macalister	41A
Seasonal Annual Use Limit	SAUL
Southern Rural Water	SRW
Southern Thomson/Macalister	41B
Stock and Domestic	D & S
Water Entitlement Entity (Water Share)	WEE
Water Share Transfer	WET
Water Use Licence	WUL
Water Use Objectives	WUO
West Gippsland Catchment Management Authority	WGCM

# 2 Introduction

Department of Primary Industries (DPI) staff, with input from Southern Rural Water (SRW) staff, facilitated the production of this booklet *Water Trading in the Macalister Irrigation District (MID)*.<sup>2</sup> This booklet aims to assist irrigators and service providers from the MID to make better decisions about water trading in the context of the unbundling of water rights from land.

The Macalister and East Gippsland (MEG) committee members made the initial request for such a booklet in response to concerns expressed by a number of MID irrigators soon after the introduction of unbundling.

Facilitated by DPI staff, the MEG committee essentially consists of half farmers and half service providers and meets six to eight times annually. Its main charter is in an advisory and interactive capacity to the Dairy Extension Centre (DEC)<sup>3</sup> to share and develop ideas on relevant extension activities for dairy farmers.



<sup>2</sup> Irrigators from the Latrobe and Avon Rivers are not part of the MID.

<sup>3</sup> The DEC used to be known as Target 10, which is part of DPI.

# 3 Frequently asked questions

Frequently Asked Questions (FAQs) aims to provide a short answer and an introduction to the key terms. For additional information refer to the section reference in bold text at the end of each question.

## Q1. What is a water share?

A water share is an entitlement to an ongoing share of water available from a particular supply source, referred to as a **Water Entitlement Entity (WEE)**. In the MID, the supply source of water shares is Lake Glenmaggie and the Thomson River. A WEE is linked to an **Allocation Bank Account (ABA)** and has associated tariff charges. Water shares are classified as either **High Reliability Water Share (HRWS)** or **Low Reliability Water Share (LRWS)** [**Refer to section 4.2**].

## Q2. What are HRWS and LRWS?

Water shares are classified as either **High Reliability Water Share (HRWS)** or **Low Reliability Water Share (LRWS)**. On conversion (July 1, 2008), HRWS was the equivalent to the old water right plus any **Stock and Domestic (D & S)**. LRWS was calculated at 50% of the old water right and therefore replaced what were previously 'sales'. Both HRWS and LRWS are allocated on actual available water in Lake Glenmaggie and therefore maximum volumes (100% HRWS and 100% LRWS) are not always guaranteed [**Refer to section 4.2.1 and 4.2.2**].

## Q3. How are HRWS and LRWS linked?

LRWS is only made available once 100% of HRWS has been fully allocated. Although most of the HRWS allocations occur during the spill period (July 1 to December 15) there is no guarantee of allocation against LRWS [**Refer to section 4.2.2.1**].

## Q4. What is an 'Allocation Bank Account' (ABA)?

An ABA is where transactions are made throughout an irrigation season. Transactions can include; Seasonal Allocations that are deposited, usage that is deducted and Allocation Trades that are credited or debited. All transactions are reflected in the Water Usage Statement. An Allocation Bank Account is owned by either the legal owner of the water shares or the holder of a Limited Term Transfer [**Refer to section 4.5**].

## Q5. What is the benefit of having more than one ABA?

Irrigators who own more than one property may wish to have multiple ABAs to keep water use details of each property separate. This may be useful where there is a share farmer on one or more of their properties. That way only allocation designated to that property can be used [**Refer to section 4.5**].

## Q6. Can ABAs be linked?

ABAs cannot be linked to each other in any way shape or form [**Refer to section 4.5**].

## Q7. What is water allocation?

Water allocation is a percentage of actual available water in a given water system (Lake Glenmaggie in the case of the MID), in any irrigation season. One or more allocations can be made each season – these are known as 'seasonal allocations'. In the MID, allocation increases are reviewed fortnightly by Southern Rural Water (SRW) and are credited to the ABA. Allocation can only be traded during the designated irrigation season [**Refer to section 5.1**].

## Q8. What are the consistent guidelines/rules of seasonal allocations in the MID?

Lake Glenmaggie is operated as an annual storage with three phases being filling, spilling and emptying. Each season the starting allocation will be announced on July 1, and will be reviewed each fortnight during the season. If the weir spills prior to December 15, allocation will not exceed 90%. After December 15 allocations are then assessed on the available water for remainder of the irrigation season [**Refer to sections 5.1.1, 5.1.2 and 5.1.3**].

## Q9. What is spill entitlement and how is it allocated?

Spill entitlement is issued once Glenmaggie Weir overflows during the set 'spill period' of July 1 to December 15. This can occur numerous times. Each time the weir stops spilling, all usage for that spill event will be credited as 'usable allocation' on the Water Usage Statement. In the MID, the maximum spill volume that can be credited in any one season is 62,000 ML. If the weir overflows after December 15, seasonal allocation will be increased depending on the amount of water available [**Refer to sections 5.1.1 and 5.1.2.1**].

**Q10. Is spill allocation tradable?**

Irrigators cannot buy or sell spill allocation as it is a credit for the water actually used through a wheel or pump during the spill period. However this situation then makes 'previously used seasonal allocation' again available for usage and or trade [Refer to section 5.1.2.1].

**Q11. What is a 'Water Use Licence' (WUL)?**

A WUL allows an irrigator to use water for irrigation on an allocated property. The WUL includes a maximum usable volume know as an **Annual Use Limit (AUL)** [Refer to section 4.4].

**Q12. What is an Annual Use Limit (AUL)?**

An annual use limit is the maximum volume of irrigation water (based on megalitres per hectare) that can be applied to a given property covered by a WUL. In the MID, the annual use limit (in MLs) was set on July 1, 2008 to reflect past practice on each property as; the higher of either (i) 1.68 x water right plus any D & S allowance or (ii)'history of use'. AUL balances appear on the Water Usage Statement [Refer to section 4.4.1].

**Q13. Why would irrigators need to increase their Annual Use Limit (AUL) and how do they do this?**

Irrigators may need to increase their AUL on a given property due to a change in farm practices. An application to vary AULs in the MID will need to be filled out and lodged to Southern Rural Water (SRW) for assessment by West Gippsland Catchment Management Authority (WGCMA). Irrigators can ask for an increase in their AUL more than once and the application process has no closing date [Refer to section 4.4.1.1].

**Q14. What do irrigators need to consider when applying for an increase in their AUL?**

When applying to change an AUL, consideration must be given to the **Water Use Objectives (WUO)** which aim to minimise the impacts of water use on other persons and the environment within the MID. Applicants will need to demonstrate that they have infrastructure and management systems in place to address the WUO [Refer to section 4.4.1.1].

**Q15. How are rules for AULs treated in drought times?**

Under certain drought conditions, a **Seasonal Annual Use Limit (SAUL)** will be declared, increasing all AULs in the MID by 11%. This is based on the district 'evapotranspiration' rate as assessed by the WGCMA. The SAUL will revert back to a normal AUL at the end of each season [Refer to section 4.4.1.2].

**Q16. What is Delivery Share?**

Delivery Share, also known as **Delivery Share Entity (DSE)** is the entitlement to have water delivered to land via the channel system in an irrigation district. It is expressed as a megalitre per day rate (ML/day). When a delivery system is congested it provides a share of the available water flow. The delivery share is linked to land and stays with the property if the water share is separately traded. The volume of Delivery Share is calculated by multiplying the Delivery Share rate by 270 days. Irrigators can find their Delivery Share rate on their Water Usage Statement or the back of their bill [Refer to section 4.3].

**Q17. What is the key critical issue for irrigators to be aware of about delivery share and water share in the context of property sales?**

In a legal sense the delivery share is associated with land and the water share is associated with a person. Upon the sale of water share alone, delivery share will remain the legal asset of the owner of the land. Since **Water Use Licence (WUL)** is also linked to land, when an entire WUL is sold, Delivery Share is automatically transferred even if no Water Share transactions were included [Refer to section 4.3].

**Q18. What is Casual Use?**

Casual use is where irrigators have exceeded their allocated volume of Delivery Share. This may become an important consideration when increasing their AUL to more than their allocated Delivery Share volume. Casual use fees are much higher [Refer to section 4.3].

**Q19. Do irrigators have to have Delivery Share to irrigate from the channel system?**

Yes, it is advisable for irrigators to have a volume of Delivery Share adequate for their required usage from the channel system to avoid incurring additional tariff charges for 'casual use'. This additional tariff is subject to an increase each financial year [Refer to section 6.3.1].

**Q20. What is the benefit of linking multiple water shares and water use licences to one ABA?**

Linking multiple water shares and water use licences to one ABA allows more flexibility with water allocation. This reduces the need to transfer allocation between ABAs (and associated application fees) [Refer to section 4.5].

**Q21. What types of transactions are available?**

Unbundling resulted in four main forms of trade within irrigation districts of Victoria:

- Allocation Trade                      previously called temporary transfer
- Water Share Transfer                previously called permanent trade
- Limited Term Transfer                new option available since unbundling
- Delivery Share Transfer              new option available since unbundling

[Refer to sections 6.2.1, 6.2.2, 6.2.3 and 6.3.1].

**Q22. What is an Allocation Trade?**

An allocation trade mostly involves transferring allocated water from one irrigator's ABA to another. It can also involve trade within an irrigator's own ABAs. These trades are only for one season and involve the transfer of actual usable megalitres of water. Any allocation remaining at the end of the season does not carry over into subsequent seasons [Refer to section 6.2.1].

**Q23. What is a Water Share Transfer?**

A Transfer of Water Share involves selling or buying all or part of a Water Share. High Reliability and Low Reliability Water Shares are separate entities therefore they can be traded as such. This gives the new owner the right to all future allocations available from that water entitlement. [Refer to section 6.2.2].

**Q24. What is a Limited Term Transfer (LTT)?**

A Limited Term Transfer is the leasing of Water Share to another person for a set period of time. Beginning at any time in an irrigation season, the transfer period of the Water Share, which may include high and low reliability water shares, can be from 1 to 20 years. The transfer does not change the legal ownership. The lessee is known as the holder of the LTT and only the lessee can surrender or cancel before the expiry date [Refer to section 6.2.3].

**Q25. What is a Delivery Share Transfer?**

A Delivery Share Transfer is the permanent transfer of all or part of a Delivery Share rate. Restrictions apply where a Delivery Share can be traded within the district, as it directly relates to the capacity of each of the irrigation channel systems in the district [Refer to section 6.3.1].

**Q26. Do irrigators have to buy (or sell) a Delivery Share when they buy (or sell) water shares?**

No, however it is advised that they do purchase an adequate Delivery Share so as to avoid casual use charges. It is also advised that if they do not sell Delivery Share with HRWS, they will continue to be charged Delivery Share Infrastructure Fee regardless of whether they use allocation or not. If irrigators wish to surrender their Delivery Share a termination fee of 10 times the annual Delivery Share fee will apply [Refer to section 6.2.2.1].

**Q27. How can irrigators acquire more water shares?**

Currently there are two main options. The first is through Transfer of Water Shares by purchasing volume from another irrigator in the MID. The second is by Limited Term Transfer under lease agreement from another irrigator in the MID. The third option is to make a purchase at a Water Auction (when available) [Refer to sections 6.2.2 and 6.2.3].

**Q29. Is there a limit on the amount of Water Shares and Allocation an irrigator can own?**

An irrigator's Holding Limit is twice the Annual Use Limit. The Holding Limit limits an irrigator to the volume of Water Shares and Allocation that can be held [Refer to section 6.4.2].

**Q30. Can a person own Water Share without owning land or a Water Use Licence?**

Yes, a person can own Water Shares as a **Non Water User (NWU)**. There is no volume restriction on how many Water Shares that may be owned without an association to land [Refer to section 6.4.2].

**Q31. Do irrigators need to hold Delivery Share if retaining only LRWS?**

No, but if they own LRWS only and plan to irrigate, Delivery Share is still required to access an irrigation delivery channel. Therefore, it is advised that irrigators retain adequate delivery share if they are planning to use irrigation water otherwise casual use fees may be incurred [Refer to sections 6.3.1.1].



**Q32. Is there a better time in the MID irrigation season to buy or sell HRWS and LRWS?**

In the MID, trading Water Share is dependent on market demand. When purchasing Water Shares, irrigators will receive all future allocations. If they are buying Water Shares in a current irrigation season, they may also need to come to an agreement with the seller on conditions of trading water allocation [Refer to sections 6.2 through to 6.6, and 6.8].

**Q33. Can irrigators trade HRWS and LRWS separately?**

They are always traded separately as they are individual entities. The buyer will not automatically receive LRWS when buying HRWS and vice versa. Irrigators can buy or sell only HRWS or only LRWS [Refer to sections 6.2 and 6.3].

**Q34. When buying Water Shares, do irrigators automatically receive allocation?**

The recorded owner at the time of the allocation remains the owner of all previous allocation. Only when the new ownership of the Water Shares has been recorded at the Water Registrar will the buyer (new owner) receive future allocation. Therefore, if the buyer wishes to irrigate prior to receiving future allocations (because the owner may not currently have enough available allocation), an Allocation Trade will be needed [Refer to section 6.2].

**Q35. When can irrigators buy additional LRWS in the MID?**

There is no restriction when they can purchase LRWS. Irrigators should take into account that they will not be guaranteed associated allocations in any one season. This is because LRWS is not allocated until 100% of HRWS is allocated [Refer to section 4.2].

**Q36. Can channel irrigators trade with river irrigators and vice versa and when?**

Channel irrigators can trade allocation with river irrigators and vice versa, at any time prior and during the channel irrigation season. Once the channel system closes, (generally May 15), the remaining allocation can be traded to river diverters until notification from SRW advising of the closing date for allocation trades is received [Refer to section 5.1].

**Q37. Do irrigators pay for allocated water that they don't use?**

The water usage tariff is only charged if they use the water through their service outlet (wheel/pump) [Refer to section 6.2.1].



**Q38. What are the current restrictions with Water Share Transfers or Allocation Trades within the MID?**

Currently there are restrictions on transferring water shares to Different Trading Zones in the MID. Essentially these are trading between the Northern and Southern Districts and trading from either of these two districts to the Thomson River. In the case of Allocation Trades, trading above the siphon is restricted and further restrictions in a Declared Drought Season exist for all Allocation Trades. It is advised that irrigators discuss particular details around water trading restrictions with SRW [Refer to section 6.4].

**Q39. Once irrigators are in the process of a Water Share Transfer transaction, what are the timing aspects they need to be aware of regarding water ordering for future irrigations?**

If the buyer wishes to irrigate prior to the finalisation of the transaction, a Notice of Acquisition/Disposition must be lodged with SRW. That way SRW can action the land transfer. An Allocation Trade may also be required to ensure irrigation water is available [Refer to section 6.2.2].

**Q40. If buying or selling Water Shares or Allocation, is it better for irrigators to use a water broker than organise it themselves?**

Irrigators can adequately carry out Allocation Trades and associated terms themselves. The use of a water broker or organising it themselves depends on what time they are prepared to put in and weighing it up with what money they are willing to pay to minimise their role. In the case of Water Share Transfers, it is strongly advised that a qualified solicitor be involved [Refer to section 6.5].

**Q41. What forms do irrigators need to fill out in a trade transaction?**

There are set forms and associated charges for each of the four trade transactions:

- Allocation Trade: Form 39 [refer to section 6.2.1.3]
- Transfer of Water Share: Form 1 [refer to section 6.2.2.3]
- Limited Term Transfer: Form 10 [refer to section 6.2.3.3]
- Delivery Share Transfer: Form 36 [refer to section 6.3.1.3]

As every farming situation is different, irrigators should contact SRW for assistance. SRW can also let irrigators know what the up to date fees will be.

**Q42. How do irrigators access information about the current market price of water?**

The Water Register has up to date “declared” trade prices on its website [www.waterregister.vic.gov.au](http://www.waterregister.vic.gov.au) Other options include speaking to water brokers, adverts in the media and discussion with fellow irrigators or farm advisers to get a feel for local water trading prices in the MID [refer to sections 6.5 and 6.8].

**Q43. What is a water budget and what are the benefits of doing one?**

A water budget provides irrigators with an estimate on how much water is needed in a given irrigation season or part of a season. It can be a useful guide on whether there is a need to buy an additional Allocation or Water Share, and whether there is a surplus to sell. It can also assist in assessing the need to improve irrigation practice [Refer to section 6.8].

# 4 Unbundling in the MID

## 4.1 Brief history of the unbundling process

In 2004, the Victorian Government announced a long-term plan for water use called *Our Water, Our Future*. Unbundling was part of the Victorian Government's commitment to the National Water Initiative to improve how Australia measures, plans for, prices and trades water. Unbundling is the term given to the process, which resulted in the permanent legal separation of water from land.

The legal separation of water from land resulted in the new entities, Water Share, Delivery Share and Water Use Licence.

The diagram below illustrates how the new entities from unbundling link together. Detailed descriptions of these entities are provided in sections 4.2 to 4.6 and section 5, (refer also to SRW's fact sheet: Unbundling Macalister Irrigation District).

Unbundling occurred in the Macalister district on July 1, 2008. Over the 18 months prior to unbundling, SRW set up the Macalister Consultative Group on Irrigation Reform

(MCGIR) consisting of SRW appointed irrigators. The task of the group was to assist in developing localised rules for unbundling in the MID.

## 4.2 Water Share

A Water Share is an entitlement to an ongoing share of water available from a particular supply source. It is also referred to as a Water Entitlement Entity (WEE). A WEE has an associated tariff charge. Water shares are linked to an Allocation Bank Account (ABA) where allocations are deposited.

In the MID, the supply source of Water Shares is Lake Glenmaggie and the Thomson River. Water Shares are classified as either High Reliability Water Share (HRWS) or Low Reliability Water Share (LRWS).

Both HRWS and LRWS are allocated on actual available water in Lake Glenmaggie. They are expressed as a percentage and are allocated up to a maximum of 100% HRWS and 100% LRWS. In any one season these maximums are not always guaranteed.

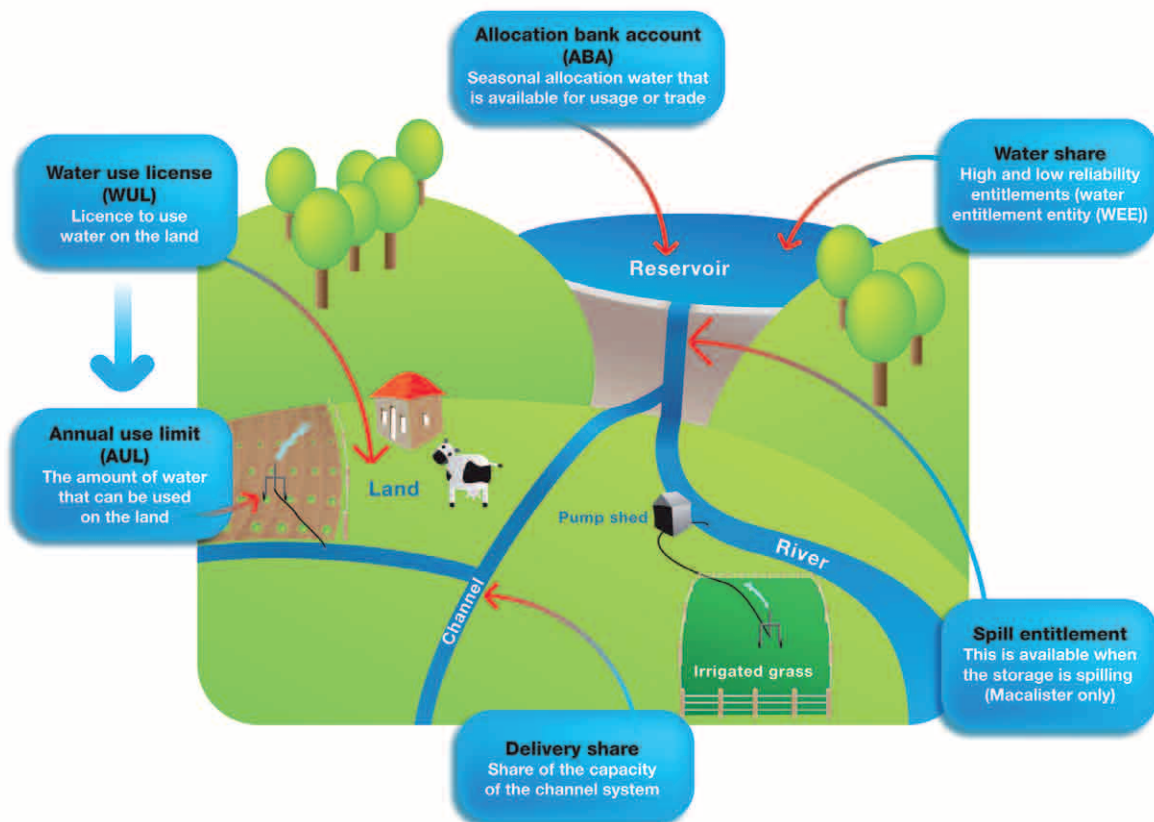


Illustration of water being unbundled into separate entities and how they are linked (Source: SRW information sheet on [www.srw.com.au](http://www.srw.com.au)).

As a separate entity, a Water Share is an asset that can be mortgaged, giving irrigators the ability to leverage assets. Irrigators can transfer (sell) a Water Share with the option of leasing it back. Having Water Shares separate from land, contributes to giving irrigators more flexibility in water ownership - trading and leasing water shares (refer to section 6).

Water Shares can be held without being associated with land and there are currently no restrictions on the amount of Water Shares held.

### 4.2.1 High Reliability Water Share

On conversion (July 1, 2008), HRWS were assigned to be the equivalent of the old Water Right plus any Stock and Domestic (D&S).

**For example**, prior to unbundling an irrigator who had 100 megalitres (ML) of Water Right or River Diversion Licence and 10 ML of D&S entitlement, now has 110 ML of High Reliability Water Shares in the unbundled world.

### 4.2.2 Low Reliability Water Share

Low Reliability Water Share (LRWS) has replaced what was previously known as 'Sales Water' and has become a separate tradable entitlement. When unbundling occurred, LRWS was calculated at 50% of the old Water Right only.

**Continuing with the example** of a farm with a 100 ML water right and 10 ML of D&S (before unbundling), this irrigator now has the assets of 110 ML of HRWS and now 50 ML of LRWS (50% of 100ML of water right).

#### 4.2.2.1 The link between High- and Low-Reliability Water Share

LRWS only becomes available once full allocation (100%) of HRWS occurs.

It is possible, depending on seasonal conditions and catchment usage that on December 16 (1 day after the spill period<sup>4</sup>) irrigators could actually have a High Reliability allocation of 100% and an allocation against Low Reliability. With additional rainfall, inflows and harvesting, allocation of LRWS may increase to the maximum of 100%, over the course of the season.

<sup>4</sup> The spill period end date of December 15 each season is fixed. It cannot be changed without Ministerial approval.

## 4.3 Delivery Share

A Delivery Share Entity (DSE), also known as Delivery Share, provides an entitlement to have water delivered to land via the channel system in an irrigation district.

The Delivery Share is linked to land and stays with the property even if the Water Share is traded away. An irrigator may trade, part or all of their delivery share; either within their own channel system or to another channel system in the district that has spare capacity.

Based on discussion and agreement amongst relevant stakeholders in the MID, at Unbundling, the Delivery Share was calculated by multiplying your HRWS by 0.0115

The maximum volume that can be delivered to a property prior to incurring casual use fees is the irrigator's Delivery Share Rate multiplied by 270 days.

**For example**, a Delivery Rate of 1.50 ML/day X 270 days = 405 ML available to use before incurring the higher rate of casual use fees.

Delivery Share attracts an infrastructure fee that must be paid annually. This compulsory fee reflects the costs of operating, maintaining, renewing and upgrading the delivery systems (consisting of channels, pipelines and regulators that SRW uses to distribute water to farms).

The infrastructure fee is calculated by multiplying the Delivery Share rate (ML/day) by the current Delivery Share charge (\$) [Refer to SRW for current fee structure].

This means, if irrigators sell Water Share but do not sell associated Delivery Share, they will continue to be charged for the entire volume of delivery share annually, even though they no longer own the water. In this situation, it is only when they surrender associated Delivery Share (in part or full) that they are no longer required to pay this ongoing associated infrastructure fee.

The termination fee is currently charged at the rate of 10 times the annual Delivery Share Infrastructure Fee.

When selling or terminating Delivery Share, irrigators should be aware that if they want to continue using water, it is advisable to retain a volume of Delivery Share adequate for their required usage so as to avoid incurring additional tariff charges for casual use.

**River diverters** do not have a Delivery Share as they take the water directly from the river and not via a channel system. Therefore, they are not charged Delivery Share infrastructure costs to maintain the channel system. Instead of a Delivery Share, river diverters have an Extraction Share, which carries no additional fee.

## 4.4 Water Use Licence

A Water-Use Licence allows an irrigator to use water for irrigation on an allocated property (parcel(s) of land). The Water-Use Licence includes a maximum usable volume known as an annual use limit (AUL). An irrigator cannot use more than the AUL in any one season.

### 4.4.1 Annual Use Limit

An annual use limit is the maximum volume of irrigation water that can be applied to a given property and is intended to protect productive irrigation and dry farm lands.

In the MID, the annual use limit (in MLs) was set on July 1, 2008 to reflect the higher of either:

1.68 x water right plus any D&S allowance

OR

‘History of use’

The maximum amount of water used on a given property in the previous 10 years.

#### 4.4.1.1 Increasing AUL on a given property

Irrigators may need to increase their AUL on a given property due to certain changed circumstances. To vary AULs in the MID, irrigators will need to fill out an application form and lodge it with SRW for assessment by the WGCMA. The AULs are assessed and calculated at a ML per hectare (ML/ha) rate.

When applying to change an AUL, consideration must be given to the applicant’s capacity to achieve Water Use Objectives (WUO); aiming to minimise the impacts of water use on other irrigators and the environment within the MID. Applicants will need to demonstrate that they have infrastructure and management systems in place to address the WUO. Infrastructure may include closed drainage systems with reuse dams and suitable flow onto bay times on heavy soils or spray or drip irrigation on lighter soils. Management systems include, scheduling irrigations to meet crop water demand, maintaining irrigation infrastructure and keeping reuse dams as empty as possible.



Irrigators can ask for an increase in their AUL more than once and the application process has no closing date. Each time an application to vary AUL is submitted, a set fee applies. This fee is subject to review annually.

#### 4.4.1.2 Seasonal adjustments to Annual Use Limits (SAUL)

In a year with exceptionally high ‘evapotranspiration’ rates, SRW with written agreement from the WGCMA may declare a seasonal increase to all AULs across the MID. This increase will automatically be removed at the end of the season.

## 4.5 Allocation Bank Account

An Allocation Bank Account is where transactions are made throughout an irrigation season. Transactions can include:

- Seasonal Allocations issued by SRW that are deposited,
- Usage that is deducted; and
- Allocation Trades that are credited or debited.

All transactions are recorded in a Water Usage Statement and in an Allocation Bank Account Statement. An Allocation Bank Account is owned by either the legal owner of the Water Shares or the holder of a Limited Term Transfer.

Irrigators who own more than one property may wish to have multiple ABAs, to keep water use details of each property separate. This may be useful where there is a share farmer on one or more of their properties. That way only allocation designated to that property can be used. ABAs cannot be linked to each other. Additionally, current trading rules in the MID irrigation zones restrict the amalgamation of multiple ABAs.

# 5 MID annual system fill and spill

The MID Irrigation System is managed by SRW. The MID's main water supply is Lake Glenmaggie; operated as an annual storage with three phases being 'filling', 'spilling' and 'emptying'. Therefore, management and supply of irrigation water in the MID focuses on a seasonal allocation (water allocation) approach. Lake Glenmaggie has a fill period in winter and early spring (which it does in most years) and emptying period during late spring, summer and autumn.

## 5.1 Seasonal allocations in the MID

A seasonal allocation is a percentage of the Water Share volume that is actually available to Water Share holders in a given water system (Lake Glenmaggie in the case of the MID), during a given irrigation season. In the MID seasonal water allocations are announced by SRW.

As a general rule the MID channel irrigation season begins on August 15 and ends on May 15. The irrigation season for river diverters begins on July 1 and finishes on June 30. Closure of the channel irrigation season allows for maintenance to take place at a time that least interferes with the supply and demand of irrigation water. In special circumstances, early starts and late finishes to the channel system are arranged. This is dependant on wide scale demand, adequate supply and favourable weather conditions.

An opening allocation is announced on July 1 each year. Allocations are reviewed every fortnight and when increased, additional allocation is credited to the ABA. These allocations are known as 'Seasonal Allocations'. Allocation can be traded amongst channel irrigators and river diverters from July 1 (as soon as the starting allocation is announced), but can only be used by river diverters and channel irrigators within their designated irrigation seasons.

SRW customers can receive updates of Seasonal Allocations via SMS, fax or email (contact your SRW planner) and are also accessible on the SRW website. Seasonal allocation increase announcements are updated in the local paper.

### 5.1.1 The Filling phase of Lake Glenmaggie

The filling phase starts at the beginning of the irrigation season, which is July 1. The filling phase is also the time when SRW makes considerations about applying the Maximum Efficiency Rule. If Lake Glenmaggie is very low (as in drought years) a lower limit may be set by SRW, triggering the Maximum Efficiency Rule to be applied to conserve water.

#### 5.1.1.1 Maximum Efficiency Rule

In very dry seasons, the Maximum Efficiency Rule is applied by SRW to help secure water supplies by keeping losses to a minimum during the filling and emptying periods. Planners from SRW will schedule water deliveries to maximise efficiency and to conserve the volume of water in storage. It may mean a small change to an irrigator's requested water order day or time of delivery.

In seasons of low allocation, irrigation rosters may also be introduced to maximise efficiency so that channel and operating losses are reduced. For example, a channel system may operate for a week and be closed for a week. Customers will be notified well in advance if channel rosters are to be introduced.

### 5.1.2 Spilling phase of Lake Glenmaggie

The spilling phase begins once Lake Glenmaggie has filled (usually about September or October) and ends on December 15 each season. During this time, a maximum allocation of 90% is applied, due to the following:

- The storage volume of Lake Glenmaggie has reduced by 10% since it began operating and is now 177,640ML, and
- The harvest rights available on the Thomson River after December 15.

SRW can only include water that they have the right to take from the Thomson River after December 15 each year. SRW must be confident that it can deliver any seasonal allocations made. As an example, even if Lake Glenmaggie finishes spilling as early as October 20 the announced allocation cannot exceed 90% of HRWS until December 15. Allocations after December 15 are totally dependent on the volume of water both physically present and previously allocated (but unused) earlier in the given season.



#### 5.1.2.1 Spill entitlement

Once Lake Glenmaggie spills, all water previously used by irrigators from the start of the season, is called Spill Entitlement (previously known as Off-Quota). As a result, those volumes that had been used to date in a given season are credited back as “usable allocation”.

For example, at the time of a spill, an individual irrigator with an allocated amount of 90 ML, had used 10 ML; leaving a balance of 80 ML for future use in that season. After this spill event, the 10 ML previously used by this irrigator became Spill Entitlement; resulting in a credit of 10 ML of allocation. The ‘new balance’ for this season in the ABA for this irrigator therefore increased to 90 ML, which was the irrigators 90% HRWS allocation amount. In others words, this irrigator was credited the amount used up until the spill period. As a further example, had this irrigator used 20 ML at the time of spill, they would have been credited 20 ML.

Credits of Spill Entitlement are only given to the irrigators that have actually used water through an irrigation outlet of SRW. The process of crediting irrigator’s usage in the MID during the Spill Period will continue until the maximum communal volume of Spill Entitlement (being 62,000 ML) is reached. If the crediting of usage as part of spill entitlement for all MID irrigators exceeds 62,000 ML, additional water used by irrigators will be deducted from their seasonal allocations. If Lake Glenmaggie doesn’t spill and therefore there is ‘no spill entitlement’ (as happened in 2006/07), any water used by irrigators will continue to

be deducted from their seasonal allocation. To receive spill entitlement, irrigation water orders must have already been both placed and completed, prior to the conclusion of a spill event.

#### 5.1.3 Emptying Phase of Lake Glenmaggie

The Emptying Phase starts after December 15. This is when SRW begins to draw down on the water held in Lake Glenmaggie. Depending on inflows into the lake, during the emptying phase, SRW can announce further allocation increase of HRWS and once HRWS reaches 100%, allocation against LRWS (previously referred to as sales water) may start to occur.

##### 5.1.3.1 Thomson Reservoir Drought Reserve

If Lake Glenmaggie has not spilt, to bring the seasonal allocation up to 100% of HRWS an additional allocation on December 15 from the Thomson Drought Reserve can occur. This can happen despite actual ordering of the water not occurring until later in the season. If in the meantime, there are inflows to Lake Glenmaggie, these would be used instead. If Lake Glenmaggie has spilt prior to December 15, the Thomson Drought Reserve is not included in the allocation.

In seasons of severe drought, when allocation on October 1 is below 50%, there are modifications to these rules. At such time, available volume in the Thomson Drought Reserve is included in calculating future allocation.

# 6 Water Trading

## 6.1 Why trade water?

Water Trading involves the buying and selling of water, either permanently or temporarily. Water Trading in the MID occurs as water entitlement is fully allocated and therefore no new entitlements are available.

Someone considering purchasing water would do so for two key reasons:

- Not having an adequate volume for their required irrigation practices, such as during a dry spell or when existing allocation is not enough. In this case, there are three options to purchase additional volumes of water; Allocation Trade, Water Share Transfer, and Limited Term Transfer.
- Wishing to purchase additional Water Share entitlement for investment purposes. In this case the water purchased is not required to be associated to land; therefore it is held by what is termed a **Non Water User (NWU)**.

Reasons to sell water are based on individual circumstances. These may include; the offsetting of water charges and provision of additional income. In many cases, irrigators do not sell water because they are not aware of the financial benefits and/or are concerned that they may not have enough to last in a given irrigation season.

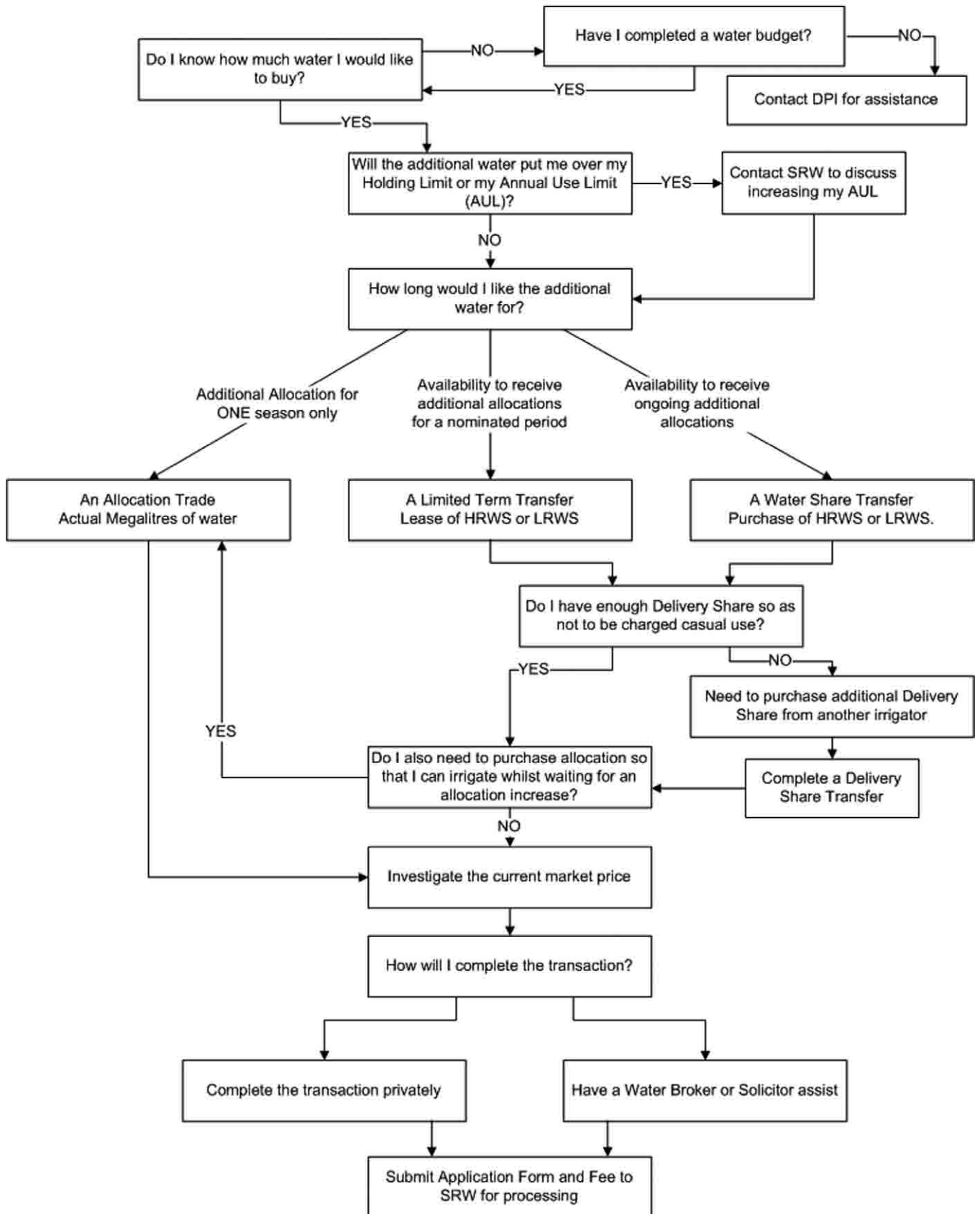
One additional benefit for irrigators in the MID is that they can trade with either other channels irrigators or with river diverters within the district. In the latter situation, if a channel irrigator at the end of a given irrigation season has surplus water then it can be traded with a river irrigator who is able to use it for a longer irrigation season.

In the following two pages, separate 'decision tree' diagrams for 'a buyer' and 'a seller' to consider as part of a water trade transaction, are presented. Following these diagrams, sections 6.2 to 6.7 contain relevant detailed information (including real life examples) related to the various steps included in both of these diagrams. The information in sections 6.2 to 6.7 highlight what you need to know to make the most informed decisions about buying and selling 'water'.

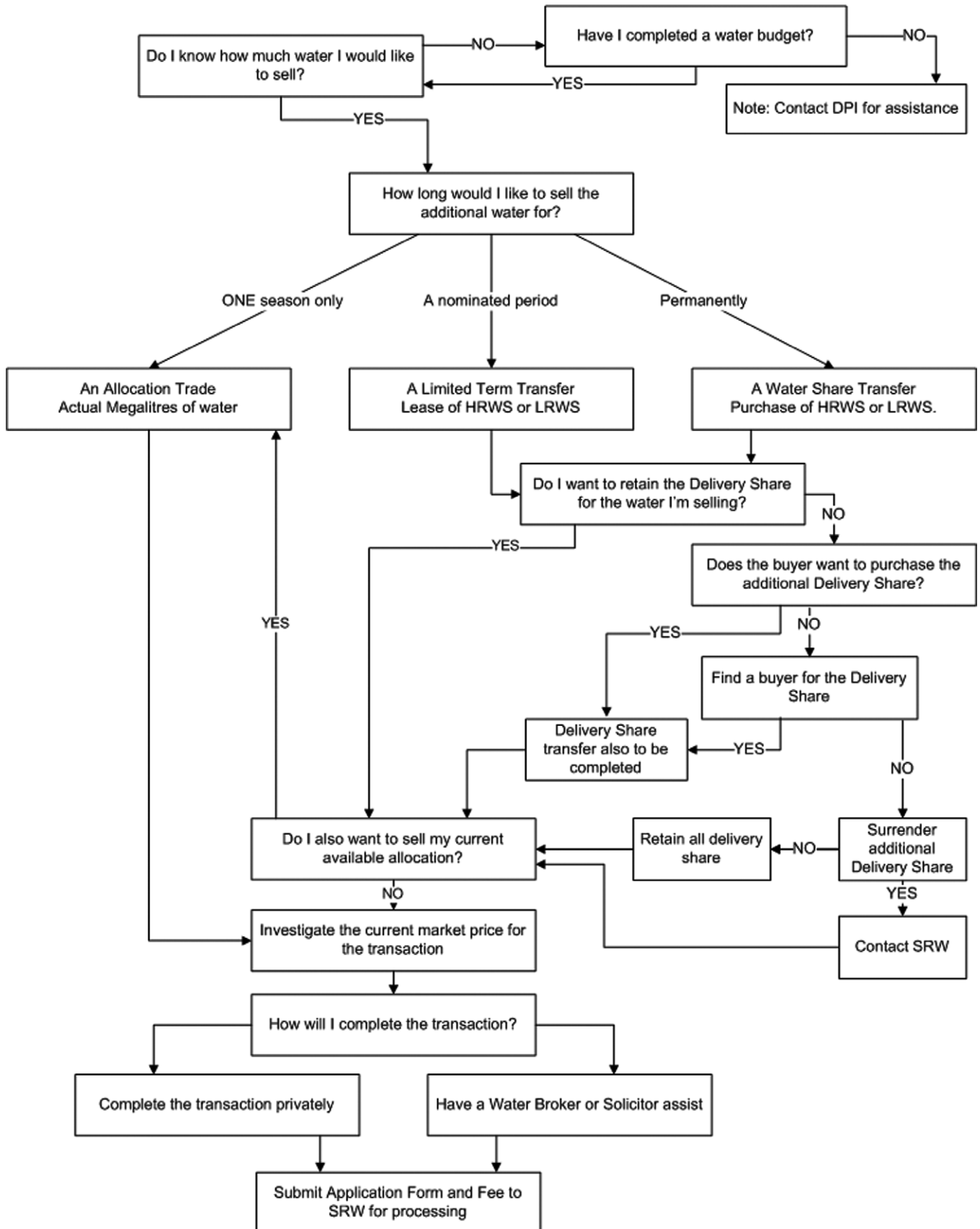




# Decision Tree for Buying Water



# Decision Tree for Selling Water



## 6.2 Types of Water Trade

There are currently three main ways that water can be transacted in Victoria:

- Allocation Trade            previously called temporary transfer
- Water Share Transfer      previously called permanent trade
- Limited Term Transfer      new option available post unbundling

It is important to note that in the MID there is a fundamental difference between an Allocation Trade and the two Transfers. An Allocation Trade is applied within one season and water must be used by the close of that season, the water is an actual guaranteed volume. However, in the case of both a Water Share Transfer and a Limited Term Transfer, although they are ongoing, the receipt of actual water is dependent on 'future' allocations.

In all three ways of transacting water (Allocation Trade, Water Share Transfer and Limited Term Transfer) a specific form is required to be filled out and associated fees paid. Guidelines for carrying out relevant procedures for all three appear below.

### 6.2.1 What is an Allocation Trade?

An Allocation Trade involves trading water between a buyer's ABA and a seller's ABA. These trades are only for one season and finish each year, usually May 15 for channel irrigators and on June 30 for river diverters. They involve a trade of actual useable water in ML.

When an Allocation Trade is made, only the ownership of that allocation actually changes. If buying allocation, the Annual Use Limit and Delivery Share on the property needs to be considered. This is to avoid incurring unnecessary additional casual use fees. Water must be used by the end of that season in which the trade occurred. Usage tariffs are charged on water that is physically taken through an outlet (metered outlets) or ordered against an outlet (unmetered outlets). Any remaining allocation in your ABA will not incur a usage charge. Any remaining water after that declared date will be returned to the communal pool for allocation in the following season.

An Allocation Trade can be used to acquire additional useable water perhaps in a dry season or during a time when intensive watering is required (e.g. growing a crop).

### 6.2.1.1 Things to consider about an Allocation Trade

Irrigators should consider conducting an Allocation Trade in addition to a Water Share Transfer or Limited Term Transfer, as allocation is not automatically received. This is because the recorded owner at the time of the allocation remains the owner of all previous allocations. Only when the new ownership of the Water Shares has been recorded at the Water Registrar will the new owner receive future allocation. Therefore if the buyer wishes to irrigate prior to receiving future allocations, an Allocation Trade will be needed if they don't currently have enough available allocation.

### 6.2.1.2 Lessons from real-life examples of an Allocation Trade

#### Example

Alistair Tardy had been irrigating consistently during the season but noticed when he attempted to place his next water order, that he didn't have enough allocation for this irrigation due in three days time. He looked in the paper and found an additional volume of allocation at the right price that day, so he decided to purchase it. As the completion of this Allocation Trade did not take place until a week later than expected due the seller having to leave the MID temporarily for personal reasons, Alistair did not receive the water in time to irrigate when he needed. Even though he attempted to purchase Water Allocation from another irrigator, because it was at the last minute, he still missed his planned irrigation by four days of high evapo-transpiration rates. As a result, his pasture quality suffered and his milk production dropped noticeably.

#### Lesson

To avoid reduced pasture quality and quantity and potential loss of milk income it is important to complete an Allocation Trade in a timeframe allowing for unforeseen contingencies. This is required so that irrigators are not relying on last minute attempts that can interrupt their ongoing irrigation schedule. It is wise to allow at least eight working days for the processing of an Allocation Trade application. Once this application for allocation is finalised, orders for water can be placed, keeping in mind the required advance notice to SRW as part of normal irrigation water ordering procedures.



### 6.2.1.3 Forms and procedures for conducting an Allocation Trade

When making an Allocation Trade, a Form 39 is required to be submitted to SRW. Each Form 39 is uniquely numbered and requires the details of the water being traded (volume, total trade value), as well as the details of the ABA from which the water is being traded, and the details, including the name of one of the holders, of the ABA the allocation is being traded into. A new Form 39 must be submitted for every separate transaction.

Each Form 39 must be signed by **all** the owners (sellers) of the allocation, or a third party authorised to act on behalf of the owners. In the case of the buyers, each Form 39 needs to be signed by one legal owner or one third party authorised agent.

This process can be initiated by either the buyer or the seller. Usually, three business days are required for processing an Allocation Trade. However, extra time may be necessary to ensure that accurate metre readings are entered into SRW's Water Planning System and this may require a metre reading to be carried out by SRW staff. As it gets closer to the end of the season, meter readings are more likely to be needed to reflect actual usage. To be on the safe side, irrigators are advised to allow eight working days in their associated irrigation planning and management.

Allocation Trade forms can be downloaded from the Victorian Water Register website ([www.waterregister.vic.gov.au](http://www.waterregister.vic.gov.au)) or from the SRW office located at Johnson Street, Maffra. The latest up-to-date application fees that need to be paid as part of lodgement of each Form 39, are listed on the Victorian Water Register website or available through SRW personnel.

## 6.2.2 What is a Water Share Transfer?

A Water Share Transfer is a permanent transfer of entitlement to an ongoing share of water available from a particular supply source. This could mean that irrigators can buy or sell, all or part of a Water Share and can include transfers of High- and/or Low- Reliability Water Shares, individually and in combination. It is not until a Water Share Transfer is recorded with the Water Registrar that the new owner is given the right to all future allocations available from that Water Entitlement.

### 6.2.2.1 Things to consider about a Water Share Transfer

When selling a mortgaged Water Share, the mortgagee is required to discharge any mortgage from the Water Share being transferred, before the new owner can take possession. It is also important to remember that when selling part of your HRWS volume, there will be no variation to the amount of Delivery Share that you hold. If selling Delivery Share additionally to the Water Share you are required to complete a Delivery Share Transfer application (refer to section 6.3.1).

If a buyer involved in a Water Share Transfer requires water for irrigation after settlement but prior to recording of their new ownership, the buyer needs to complete an Allocation Trade with either the seller or independently with another irrigator. This will ensure that even if the Water Shares are not recorded in time, irrigation can go ahead as planned.

If the seller does not make the Allocation Trade to the buyer, the seller will hold the allocated amount in their ABA. The seller can use the allocation on one or more of their properties or sell the allocation separately to other irrigators.

In some situations when an irrigator sells Water Share, that Water Share may already be held by another irrigator in the form of a Limited Term Transfer. In this case the Limited Term Transfer will remain in place until such time as the expiry date is reached or surrendered by the Limited Term Transfer holder, whichever occurs first. Although the legal owner of the Water Share will be transferred to the buyer, the buyer is unable to use the Water Share until that time.

### 6.2.2.2 Lessons from real examples of a Water Share Transfer

#### Example 1

Glenda Brown sold her property of 45 hectares (inclusive of delivery share) and entire water share holding of 100 ML HRWS and 50 ML LRWS to Jack Daniels. The settlement date was August 10.

An allocation announcement of 60% had been made by SRW on August 1. Jack assumed that because he purchased 100 ML of HRWS, he should have access to 60 ML of allocation for irrigation at the start of the season on August 15. Although settlement had taken place, the water shares had not yet been recorded at the Water Registrar. Therefore Jack was **unable** to place an order to irrigate as soon as planned because there was **no available water allocated** in his Allocation Bank Account (ABA). Any previous allocations had been issued to the previous owner

#### Lesson

If a buyer requires water for irrigation after settlement but prior to recording of new ownership of water shares, the buyer needs to complete an allocation trade with either the seller or independently with another irrigator. This will ensure that even if the water shares are not recorded in time, irrigation can go ahead as planned.

#### Example 2

Glenda Brown wishes to sell all her LRWS on December 14. As this is prior to the date of a final spill (being December 15), no allocation had been made against LRWS. Jack Daniels purchased the 50 ML LRWS as a Water Share Transfer, but without purchasing Delivery Share or HRWS.

#### Scenario 1

SRW announced the increase from 90 to 100% HRWS and 10% LRWS on December 16. Glenda has therefore been allocated all her HRWS (100 ML), but will not be allocated any more water for the season. As Jack only purchased LRWS, he is only allocated 10% LRWS (10% of 50 ML LRWS = 5 ML) into his ABA, and can receive any further increases to LRWS until the end of the irrigation season. For following irrigation seasons he will have to wait until after December 15 for the possibility of receiving allocations of LRWS.

#### Scenario 2

On December 16, SRW make an allocation announcement of 95% HRWS only - therefore 0% LRWS is made. Glenda receives 95% of her 100 ML HRWS and can still be allocated the remaining 5 ML if a further (5%) allocation is made for the season. Jack Daniels did not receive any allocation at this time and must wait until LRWSs are allocated.

#### Lesson

As December 15 is the end of the potential spilling period, it is a critical date to consider in a range of irrigation and water budgeting decisions. For those who hold only LRWS the allocation of LRWS is not guaranteed in any given season. Prior to December 15 and also in some dry seasons where LRWS are not allocated at all, irrigators will need to purchase allocation in order to irrigate until a LRWS Allocation is announced.

### 6.2.2.3 Forms and procedures for conducting a Water Share Transfer

Either the buyer or the seller can submit a Form 1 to SRW personnel to complete a Water Share Transfer. 'Form 1' is uniquely numbered and requires the details of the Water Shares being traded (volume, total trade value, including the name and signatures of **all** owners along with any WULs being sold). The buyer is required to provide signatures and their ABA if applicable; otherwise a new ABA will be issued automatically. All relevant buyers and sellers are required to sign the pre-filled form and lodge it to the Water Registrar's office within 60-days of approval by SRW. Prior to recording, written discharge is required from any mortgagees no longer connected to these Water Shares. If the application expires or is not completed correctly within 60 days from approval, it will automatically be rejected and a new application will need to be lodged, including payment of all associated fees again. Usually 10 working days is required for processing of a Water Share Transfer. However, extra time may be necessary to ensure that all required information is provided and specific documents (such as Company Extracts) are submitted.

Once the application is submitted, it is then to be approved by SRW personnel, pending final recording in the Water Register. Once approved, SRW personnel send a pre-filled form (representing a contract) to the buyer (or the requesting lodging party) and explanatory notification to all parties involved (buyer(s), seller(s) and/or lodging party). All parties then need to sign all pre-filled forms.

The buyer, or in some cases this might be the seller, the solicitor or mortgagee, then must send all signed pre-filled forms and the appropriate recording fee to Water Register personnel. The latest up-to-date application fees regarding the lodgement and recording of Form 1 are listed on the Victorian Water Register website, or available through SRW personnel. Form 1 used in a Water Share Transfer can be downloaded from the Victorian Water Register Website ([www.waterregister.vic.gov.au](http://www.waterregister.vic.gov.au)) or from the SRW office located at Johnson Street Maffra.

### 6.2.3 What is a Limited Term Transfer?

A Limited Term Transfer (LTT) is in effect a lease or a loan of a Water Share to another irrigator. The transfer period can be from 1 to 20 years, during which time the legal ownership of the associated Water Share does not change. The lessee of the LTT is known as the 'holder'.

As the name suggests, the shares are in effect 'transferred' to the holder of the LTT and for the transfer term, the holder receives all allocations. At the end of the agreed term (at midnight on a determined date), the Water Shares revert to the legal owner. A LTT can include High- and / or Low- Reliability Water Shares.

A LTT must be approved by SRW to ensure that it complies with trading rules. Also it must be registered in the Water Register so that future allocations can be automatically credited to the ABA of the holder of the LTT for the agreed term. When the LTT reaches the expiry date, associated arrangements are cancelled and the Water Share returns to the owner who once again receives all allocations against the Water Share, from that time onwards.

The holder of the LTT is the only person who can surrender or cancel the LTT before the actual expiry date. Any allocations received by the holder during the term of the transfer (even if it is only one day before the expiry date) remain the property of the holder but can be traded at an agreed value via an Allocation Trade.

#### 6.2.3.1 Things to consider about a Limited Term Transfer

All allocations are available to the irrigator who is the holder of the LTT. When making an LTT, the transfer of allocation does not happen automatically at either the beginning or the end of the contract. Completing an Allocation Trade allows irrigations to continue uninterrupted pending future allocations. As such, completing an Allocation Trade is advised in both instances for the lessee (buyer) at the beginning of the term and for the lessor (seller) at the end of the term. Consideration

should also be made as to volumes available as part of the Allocation Trade for both the buyer and seller alike.

It is also extremely important to remember that **only** the holder of the LTT can surrender the relevant Water Shares at **anytime prior to the expiry date**.

In some situations when an irrigator holds an LTT on a Water Share, that Water Share can still be sold to another irrigator during the duration of the LTT. In this case the LTT will remain in place until such time as the expiry date is reached or the LTT is surrendered by the LTT holder, whichever occurs first. Although the Water Share will be transferred, the new legal owner will not receive allocations during the lease term until such time that the LTT has either expired or been surrendered.

#### 6.2.3.2 Lessons from real life examples of Limited Term Transfers

##### Example

Fred Flood is leasing his Water Shares of 200 ML HRWS and 100 ML LRWS to Dylan Daze for two years as an LTT. They were required to complete two LTT application forms (one for HRWSs and one for the LRWSs). Both transfers began on December 24, 2012 to conclude on December 24, 2014.

- At the start date of the lease (December 24, 2012), the allocation announcement stood at 80% HRWS due to dry conditions. Therefore for the first lease season (2012-2013) Dylan Daze can only receive the remaining 20% (40 ML) of HRWS but up to 100% (100 ML) of LRWS if the remainder of the season allows. The 80% of HRWS previously allocated remains the property of Fred, unless an Allocation Trade is agreed to and completed.

As the 2012-2013 season progressed, allocations increase to 100% HRWS and 20% LRWS, Dylan Daze's ABA is credited with a total of 60 ML (40 ML HRWS plus 20 ML of LRWS).

The 2013/2014 season is a good rainfall year in the MID catchment with 90% of HRWS allocated and the weir spilling prior to December 15. Prior to the spill event, Dylan Daze used 140 ML of a potential 180 ML (90% of 200 ML HRWS). The weir spilled thus the 140 ML used was all credited back as Spill Entitlement. Dylan now had 180 ML of available allocation in his ABA. The remainder of the season resulted in an overall allocation of 100% HRWS and 10% LRWS. Dylan therefore received in total 350 ML for that season - 140 ML Spill Entitlement, 200 ML of HRWS and 10 ML of LRWS.

The 2014/2015 season also started well with the weir spilling early prior to which Dylan had used 96 ML. The announcement of allocation just before the lease ended (24 Dec 2014) was 100% HRWS and 20% LRWS. In total, Dylan was allocated 306 ML for the 2014/2015 season; 96 ML of spill entitlement, 200 ML HRWS and 20 ML LRWS to his ABA.

Consequently at the end of the LTT on December 24, 2014, all Water Share assets (200 ML HRWS and 100 ML LRWS) were transferred back to Fred Flood's (the owner) ABA. For the rest of the 2014 - 2015 season Fred Flood had only the ability to re-coup up to 80% of LRWS (80 ML), as 100% of HRWS and 20% of LRWS had already been made earlier in the season and Dylan remained the owner of the previous allocation.

As Fred wanted to continue irrigating for the remaining five months of the season, he was now faced with five main options.

- To wait for increased allocation announcements before he could start irrigating again.
- To rely on Dylan to transfer an agreed volume at no cost, so he could irrigate at the next designated time possible.
- For Dylan to sell an agreed volume at a reduced rate, so he could irrigate at the next designated time possible.
- For Dylan to sell an agreed volume at market value, so he could irrigate at the next designated time possible.
- To source available allocation from a third party, so he could irrigate at the next designated time possible.

Unfortunately for Fred no further allocations were made after the term had expired. Lucky for Fred, Dylan agreed to transfer 10 ML immediately at a reduced cost. As Fred required a further 10 ML further into the season, he sourced this additional amount from an advertisement in the local paper.

### **Lesson**

It is important to keep in mind when completing an LTT; previously issued allocation is not automatically transferred at either the beginning or the end of the contract. Completing an Allocation Trade allows irrigations to continue uninterrupted pending future allocations. As such, an Allocation Trade is advised in both instances for the lessee (holder) at the beginning of the term and for the lessor (owner) at the end of the term. Consideration should also be made as to volumes available as part of the Allocation Trade for both the holder and owner alike.

### **6.2.3.3 Forms and procedures for conducting a Limited Term Transfer**

When completing an LTT, a uniquely numbered Form 10 is required to be submitted to SRW. The form requires the details of the Water Share being leased (volume, total trade value, including the name and signatures of **all** owners along with any WULs that the leased Water Shares are to be associated to). The lessee is required to provide signatures and their ABA if applicable; otherwise a new ABA will be issued automatically. All relevant lessees and lessors are required to sign the pre-filled form and lodge to the Water Registrar's office within 60-days of SRW's approval. Prior to recording, written consent is required from any mortgagees related to these Water Shares. If the application expires or is not completed correctly within 60 days of approval, it will automatically be rejected and a new application will need to be lodged, including payment of all associated fees.

This process can be initiated by either the lessee or the lessor. Individual applications will need to be submitted if leasing more than one Water Share i.e. HRWS and LRWS equals two applications. Usually 10 working days is required for processing an LTT. However, extra time may be necessary to ensure all required information is completed and specific documents (such as Company Extracts) are submitted.

Once the application is submitted, it is processed and approved by SRW personnel pending final recording in the Water Register. Once approved, a "pre-filled form" (representing a contract) and accompanying explanatory letter (notification) are sent to all parties involved. The pre-filled forms are to be signed by all parties (all lessees and lessors). This form then needs to be accompanied by the recording fee to the Water Register by the buyer in most cases, but sometimes this might be the seller. The latest up-to-date application fees that need to be paid as part of the lodgement of Form 10, are listed on the Victorian Water Register website, or available through SRW personnel.

Form 10 used in a Limited Term Transfer can be downloaded from the Victorian Water Register Website ([www.waterregister.vic.gov.au](http://www.waterregister.vic.gov.au)) or from the SRW office located at Johnson Street Maffra.

## 6.3 Associated non-water trade transactions

Along with water trading, unbundling created the ability to transfer Delivery Share.

### 6.3.1 What is a Delivery Share Transfer?

A Delivery Share Transfer is the permanent transfer of all or part of an irrigator's Delivery Share rate.

This additional transaction was introduced to give a farmer a guaranteed volume of water in peak congestion time on a given delivery channel. Theoretically, the more Delivery Share an irrigator owns, the higher the guaranteed daily delivery rate and the higher available delivery volume.

Though purchasing extra Water Share without having purchased additional Delivery Share might seem good in the beginning, using more than your Delivery Share volume may result in being charged excessive fees for casual use. The purchase of additional Delivery Share with additional Water Share allows an irrigator to receive larger volumes of water allocation and to use it at the standard channel usage charge.

Restrictions apply where a Delivery Share can be traded within the MID, as they directly relate to and influence the capacity of each of the irrigation channel systems in the MID. The purchase of Delivery Share from another irrigator within a channel delivery system, i.e. neighbour, has little restrictions. However the purchase of Delivery Share from a different delivery channel system in the MID has greater restrictions. In any case, application for Transfer of Delivery Share must be made to SRW.

#### 6.3.1.1 Things to consider about Delivery Share Transfer

In order to irrigate from the channel system irrigators are required to have Delivery Share. It is advisable to have a volume of Delivery Share adequate for required usage, so as to avoid incurring additional tariff charges for 'casual use'. This additional tariff is subject to an increase each financial year (refer to section 4.3 regarding Delivery Share, for more information on implications of casual use charges).

Delivery Share is still required to access an irrigation delivery channel, even if only LRWS is owned. It is advisable to retain adequate Delivery Share if planning to use irrigation water otherwise casual use fees may be charged (eg: based on 2009/2010 fee of \$42/ML compared to \$9/ML). Transferring Delivery Share away from its associated land can affect the value of that land.

### 6.3.1.2 Lessons from real life examples of a Delivery Share Transfer

#### Example

Sam Waterless has been dairying in the MID on his 100 hectare property with 300 ML HRWS for 40 years. He has no children interested in continuing to run a dairy herd on this land. He wishes to remain living there as a beef farmer without irrigated land. Therefore he sells off most of his HRWS (290 ML), retaining 10 ML for D & S use. Along with the water share, he transferred the related Delivery Share rate to a neighbour. Sam sold his Water Share and Delivery Share for an agreed value based on the current water trade market price. Before completing these transfers, Sam's property was valued at \$1.3M. However after the transactions had been completed, Sam mortgaged his property and found, it worth less than half its previous value. Taking into account the money acquired from selling the water, Sam made a considerable loss overall at the financial level. Arguably, there were some non-monetary gains to his new lifestyle.

#### Lesson

When buying or selling water it is important to keep in mind, the implications that Delivery Share will have. If selling Water Share you will need to decide if you will also sell a volume of Delivery Share as you will continue to be billed for all your Delivery Share. You may wish to terminate (surrender) some or all of your Delivery Share. The termination fee is 10 times the annual rate.

I.e. Delivery Rate of 1.500 ML/day x \$3,995.00 (annual fee) = \$5,992.50 (cost per year) x 10 years = \$59,925.00 (termination/surrender fee).

In contrast, if buying Water Shares make sure you have enough Delivery Share to cover the use of the additional water so as to avoid casual use fees.

### 6.3.1.3 Forms and procedures for conducting a Delivery Share Transfer

When completing a Delivery Share Transfer, a Form 36 is required to be submitted to SRW. In a Delivery Share Transfer, normally a buyer or seller approaches personnel from SRW. For a Delivery Share to be transferred, the Delivery Share rate being transferred and both buyer's and seller's Delivery Share Entity (DSE) numbers are required. The DSE number can be found on both the 'water usage statement' and 'SRW account'. The transfer of Delivery Share must be assessed by SRW, to ensure that delivery capacity is actually available. Considerations made in this assessment are related to channel capacities. Mortgagee



consent is required if associated land is mortgaged, as transferring of Delivery Share can effect the value of the property.

This process can be initiated by either the buyer or the seller. Usually 10 working days is required for processing a Delivery Share Transfer. Given that Delivery Share is linked to the land, consent from the mortgagee is required, each time an application is made.

SRW personnel assess and process an application, once submitted. The current application fee, must be paid as part of the lodgement of Form 36, SRW personal staff will be up to date with its actual cost. Form 36 used in a Delivery Share Transfer can be obtained from the SRW office located at Johnson Street Maffra.

## 6.4 Trading Operation Rules in the MID

There are certain trading operation rules that need to be followed. Trading rules in the MID affect the transactions of Water Share Transfers, Allocation Trades and Limited Term Transfers. Each different transaction can be affected by rules relating to actual trading zones.

### 6.4.1 MID Trading Zone Rules

Currently the water trading zones relevant to the MID are as follows:

#### **Northern Macalister (also referred to as Zone 41A)**

This trading zone covers properties north of the Thomson River below the siphon at Denison. It covers irrigation farms located along the Macalister River to the Thomson River junction.

#### **Southern Thomson/Macalister (also referred to as Zone 41B)**

This trading zone covers properties south of the Thomson River below the siphon. It covers all irrigation farms in the Nambrok/Denison area of the MID including Thomson River irrigators below the siphon to the Latrobe River.

#### **Mid-Thomson (also referred to as Zone 42B)**

This trading zone covers irrigators along the Thomson River from Cowwarr Weir (including weir pool) to the siphon and incorporates irrigators along the Rainbow Creek and Cowwarr Channel.

#### **Please note:**

Currently the Trading Zones of Zone 41A and Zone 41B are under review for amalgamation. As this process requires Ministerial approval, if and when this will happen is unknown. Customers with any queries regarding Trading Zones are therefore encouraged to contact SRW for assistance.

#### **6.4.1.1 Implications of MID Trading Zones on Allocation Trades**

In the case of Allocation Trades, currently irrigators from the Northern and Southern Zones can trade allocations without any restriction. Trades from either of these two zones into the Mid Thomson are not available at all times (due to the “back trade rules”), as the Thomson River solely supplies the Mid Thomson area. Irrigators from the Mid Thomson zone however, can trade to either the Northern or Southern zones without restrictions. Only, when a trade out of the Mid Thomson is actually completed, can a back trade from the North or South zone begin.

#### **6.4.1.2 Real life examples of trading rule implications regarding Allocation Trades**

##### **Example**

Betty Northwood whose property is located in the Northern Macalister Zone wanted to sell 50 MLs of allocation from her ABA. She put an advertisement in the paper to see if there were any interested buyers. Bob Southgate from the Southern Macalister Zone responded but was only interested in purchasing 25 MLs. Betty agreed and they completed the Allocation Trade, without any problems. In the meantime, George Middleborough responded and wished to purchase Betty's remaining 25 MLs.

George Middleborough's property is located in the mid Thomson area and at that time of this application, there were no completed trades from the mid Thomson to either the North or the South zones, leaving no available volume for this trade. Therefore, the trade with Betty, could not go ahead until such time that another trade of 25 MLs or more out of the mid Thomson had actually happened and been completed. A few days later George contacted SRW and was informed that an appropriate trade out of the mid Thomson did occur. He submitted another application and the trade with Betty, was then completed a few days later.

### 6.4.1.3 Implications of MID Trading Zones on Water Share Transfers and Limited Term Transfers

In the case of both Water Share Transfers and Limited Term Transfers, there is no trading allowed for a Water Share into an existing ABA supplied within a different zone, eg Northern zone Water Shares into a Southern zone ABA. Therefore, the Water Share retains its original zone identity and the creation of an additional ABA is required. This means that every time an irrigator, in this situation, requires access to their additional allocation (from new ABA into the original one) they are required to complete an Allocation Trade. In the case of a drought declaration, the irrigator would then only be able to trade this allocation to someone from the original zone.



### 6.4.1.4 Lessons from real life examples of trading rule implications regarding Water Share Transfers and Limited Term Transfers

#### Example

Jessie Transfield has a property located in the Northern Macalister Zone of 45 hectares and a Water Share holding of 100 ML HRWS and 50 ML HRWS. She sold 40 ML of HRWS plus the appropriate Delivery Share to Geoff Purchase whose property is located in the Southern Macalister Zone. Due to purchase of Water Shares from the Northern Macalister Zone, a new ABA was required for the Water Shares that had just been purchased. As Geoff was in need of allocation, Jessie agreed to also sell him 10 ML of Allocation, along with the purchase of the 40 ML of HRWS (and associated Delivery Share). Geoff transferred the 10 MLs of Allocation directly to his existing ABA, via an Allocation Trade. This was possible as there were no restrictions on Allocation Trades between the North and South zones. Future allocations against the 40 ML HRWS Geoff purchased, will be issued directly to the new ABA. For Geoff to use allocations issued against the 40 ML HRWS, he is required to complete Allocation Trades from his new ABA into his existing ABA.

With the implementation of these strict rules for a Water Share Transfer, if the intention of the Water Shares is permanent use within a different trading zone, an application to SRW is required. On application, the Water Shares within the new zone are considered, but at a financial cost involving stringent assessment by SRW.

Following on from Geoff Purchase's example above:

As Geoff's intention is to use the 40 ML of new Water Share from the Northern Zone permanently in his Southern Zone, he will apply for a re-issue of this Water Share as now sourced from the Southern Zone. This means that Geoff's newly issued ABA is no longer required and all his Water Shares become linked to his original ABA. This comes at a cost and involves a lengthy application process; in the long term it will reduce Geoff's need to transfer allocation from one ABA to the other, which incurs ongoing application fees and time for submitting applications.

These strict trading zones exist currently and operate for Water Share Transfers and Limited Term Transfers as discussed previously. However, SRW has requested a review of these trading rule zones in the MID, which will hopefully make it easier for customers, but this is likely to be sometime away as such changes require Ministerial approval.

## 6.4.2 Water Share ownership in the MID regarding Holding Limit

Previously there was a 10% limit in ownership of the volume of Water Shares by non-landowners; also known as Non Water Users (NWU). Since October 2009, this no longer applies.

Currently the only limit in place, is a Holding Limit. The Holding Limit is 2 times your AUL.

### Example

An AUL of 100 ML results in a Holding Limit of 200 ML

A Holding limit applies to all associated Water Shares and Allocation of irrigators, though it **does not** apply to Water Shares held in the NWU pool.

### Example

A farmer can hold 200 ML Water Share and can also hold 200 ML of Allocation.

### 6.4.2.1 Lessons from real life examples regarding Holding Limit

#### Example

Vanessa von Barron owned a large property with 500 ML of HRWS and 250 ML of LRWS. She decided to sell all her land, but to retain 100 ML of HRWS. As she no longer owns land within the MID, the water is then placed into the NWU pool. Though this water has no connection to a land parcel, Vanessa will continue to receive future allocations, which are available for trade each season. The previous 10% ownership limit may have restricted her from retaining this Water Share with no association to an irrigation property within the MID, had the 10% limit been exceeded. As a Non Water User, Vanessa can now also continue to purchase additional volumes without restriction. As Vanessa now owns Water Shares only, she will continue to incur an annual charge for the volume of Water Share she retained. As Vanessa retained no land, she will no longer incur charges related to Delivery Share or usage, nor will she receive any Spill Entitlement.

### Example

Connie Waterdown has a property in the MID of 50 hectares with an AUL of 200 ML. The property's current water entitlement volume is 100 ML of HRWS and 50 ML of LRWS. Connie recently paid the total mortgage on this irrigation property, which left her with future spare cash to invest. She decided that purchasing additional Water Share would secure her water supply to the property. Knowing that she can own a volume of Water Share and allocation up to twice her AUL (400 ML Holding Limit) she is now in the process of sourcing additional volumes of up to either 250 ML (of HRWS, LRWS or a combination).

## 6.5 Assistance from solicitors and water brokers

Any water trade transactions can be conducted by the irrigator (as the buyer/lessor or seller/lessee) assisted by a solicitor or water broker. The assistance of solicitors' services are mostly used when land is involved as part of a water sale and in selling large volumes of water (without land) where the monetary transaction value is deemed by the seller and or buyer to be high risk.

Brokers vary in their fees and levels of service. A broker might:

- Put the irrigator in contact with a buyer or seller so they can complete the transaction themselves,
- Put the irrigator in contact with a buyer or seller and assist in completing the transaction, or
- Offer a complete service from finding the buying party or volumes required right through to completing the transaction.

Water trade service providers will also offer different ways of contacting buyers or sellers from personal contact, to email and text message. Fees can vary depending on the extent of the service and the methods used. Assistance with determining what price to buy or sell water can also be provided by a broker. Prices reflect the market place value for a particular time within the season. The current median price (as listed in every transaction) of water per ML is located at the Water Register Website. However, the listed median prices are dependent on customers providing true values of the transactions.

## 6.6 Considerations when conducting a water trade in the MID

When either buying or selling water in the MID, a number of additional considerations to the ones discussed previously, need to be made before an irrigator actually takes part in an Allocation Trade, Water Share Transfer or a Limited Term Transfer. These include; assistance from solicitors and water brokers and questions that may need to be asked about each of the trades

The following sections 6.6.1 – 6.6.6 highlight key considerations as questions that should be asked prior to conducting a transaction.

### 6.6.1 Buying and selling water and the implications of Delivery Share.

- Does the irrigator have adequate Delivery Share to cover the additional amount of water they are buying?
- Does the irrigator wish to sell all the associated Delivery Share with all the water they plan to sell?
- Should the irrigator retain all their Delivery Share, some of their Delivery Share or none of it?
- If an irrigator decides not to purchase extra Delivery Share for the additional water they intend to use, are they aware of the implications of casual use costs that could occur?
- Are irrigators aware that if they sell water without the associated Delivery Share that they are liable to pay the related ongoing annual infrastructure fee, until they transfer the Delivery Share or pay the surrender fee?

### 6.6.2 Buying Water Shares and the allocation implications

- Are irrigators aware that when they buy Water Share (WST) or lease Water Share (LTT) that they do not get Allocation automatically as part of either transaction?
- Having purchased or leased Water Share, do irrigators have enough allocation in their current ABA, so that they can actually use this water until a future increase in allocation occurs?

### 6.6.3 Implications on increasing AUL

- Though increasing AUL allows extra water usage, are irrigators aware that Delivery Share does not increase automatically and therefore casual use fees may be charged?
- Do irrigators realise that if they are successful in their application for an increase in their AUL, they automatically receive a proportional increase to the amount of additional Water Share and Allocation that they can hold in their ABA?

### 6.6.4 Implications around a Limited Term Transfer

- Are irrigators aware, that if they agree to lease their Water Share to another irrigator, only the holder (lessee) and not them (as the owner/lessor) can surrender an LTT before the expiry date?

### 6.6.5 Implications of MID Trading Zone rules

- Are irrigators aware that when purchasing additional Water Shares from a trading zone in a different part of the district an additional ABA will be required?
- Are irrigators aware that restrictions concerning the Northern, Southern and Mid Thomson Zones apply to all water trade transactions (i.e. Allocation Trades, Water Share Transfers and Limited Transfers) which may affect how they can use them?
- Are irrigators aware that although trading zone restrictions apply, opportunity to overcome these is available currently, but at a financial and time cost?

### 6.6.6 Implications of water use and water trade on Land Transactions

- Are irrigators aware of the implications of selling all the water right from a parcel of land?
- Are irrigators selling their water with part of their land?
- Are irrigators selling their water without any land?
- Are irrigators aware of the subdivision implications and requirements to irrigate in relation to WULs, easements, outlets & Delivery Share issues?

#### **Please note:**

If an irrigator is selling or buying water in conjunction with a land transaction, the irrigator is required to contact SRW.

## 6.7 Doing a Water Budget

A Water Budget provides irrigators with an estimate on what water they may need for the irrigation season or the remaining part of the season. It is a useful tool to determine whether they need to buy additional Water Share or whether they may actually have surplus to sell.

Calculations within a water budget are easy to do. However a few assumptions need to be made about irrigation requirements. Remember it is a tool for estimating water use in and within a season, but seasons will vary. Ideally irrigators should keep a record of actual megalitres used per irrigation/outlet to keep a record of how they are progressing for a given season.

There are three ways that irrigators can estimate their **total seasonal** water use:

- The average district water use for the MID of 6 ML/ha (based on average irrigation efficiency).
- The history of water use on the farm.
- The stocking rate capacity for the MID of 2 ML/cow (based on average irrigation efficiency).

The *'history of use' technique* provides more accurate results of the potential water use for the farm. However if this information is not available, the other two methods for water budgeting provide a useable estimate.

If irrigators do know their history of irrigation water usage, comparing it with the other two water budgeting techniques, they can judge how their irrigation efficiency measures up to the rest of the MID.

Ideal times to do a water budget are December 16 (once the spill period had finished); during seasons of low allocations and seasons with high water use (high evaporation rates with low rainfall). Water Budgets allow monitoring against the annual use limit for the farm and also capture opportunities for trading water and making the most of pasture growth.

SRW 'Water Usage Report' can assist in updating water budgets as it provides up-to-date information about Water Shares, current available allocations, and water usage details. Also, the ability of an irrigator to enter their own meter readings keeps an up-to-date report of water use. Relevant information is located and updated on SRW's online water ordering centre "Waterline" at [www.srw.com.au/worder](http://www.srw.com.au/worder), or by contacting a planner on 1300 360 117.

For guidelines on how to make the most of a water usage report, refer to SRW Fact Sheet September 2009 titled *A guide to your Water Usage Report Macalister Irrigation District*.

### Example

Using an example of a dairy farm of 100 hectares running 240 cows, intending to irrigate 80 hectares 12 times at a rate of 46 ML/irrigation, the three different estimates are:

#### 1. MID district average

Irrigated area = 80 ha

Water use = 6 ML/ha

Therefore water required is

$$80 \times 6 = 480 \text{ ML}$$

#### 2. History of use

Water/irrigation = 46 ML

Irrigations /season = 12

Therefore water required is

$$46 \times 12 = 552 \text{ ML}$$

#### 3. MID stocking rate

No of cows = 240

Water use = 2 ML/cow

Therefore water required is

$$2 \times 240 = 480 \text{ ML}$$

## 6.8 Useful websites and information sources

The following two websites are useful to supplement the information in this booklet.

- Victorian Water Register – [www.waterregister.vic.gov.au](http://www.waterregister.vic.gov.au)
- Southern Rural Water – [www.srw.com.au](http://www.srw.com.au)



