



6 December 2019

Via email: waterinquiry@acc.gov.au

RE: Murrumbidgee Irrigation Ltd Submission to the ACCC Inquiry into Water Markets in the Murray-Darling Basin

Murrumbidgee Irrigation Ltd (**MI**) is one of the largest private irrigation companies in Australia servicing over 3,000 landholdings owned by over 2,500 customers, the majority of whom are shareholders in the Company. Our core business is water distribution. We provide irrigation water and drainage services to the Murrumbidgee Irrigation Area (378,911 Ha). MI and its customer/shareholders have made a significant investment in respect of Basin Plan reform and should expect to have confidence in water markets. MI is a member of the NSW and National Irrigators' Councils and supports the submissions of those organisations to the Water Markets Inquiry.

Additionally, MI wishes to make its own submission which provides comment on:

1. Regulation and Institutional Settings; and
2. Market Transparency and Information.

1. Regulation and Institutional Settings

There are several rules that are unnecessarily restrictive on Murrumbidgee water users and an impediment to trade between connected systems. MI has been actively seeking a review of these rules to determine if they can be relaxed or removed. In particular, the 100GL Murray-Murrumbidgee Intra Valley Trade (**IVT**) limit, the Barmah Choke trade restrictions, and pre-2010 Tagged Trade exemptions.

These rules were all drafted in a pre-trade environment and prior to any concept of held environmental water or the Murray Darling Basin Plan. MI is actively seeking a review of these rules to determine if they can be relaxed or removed.

Murray-Murrumbidgee IVT limit

The IVT is an accounting mechanism that sets limits to trade between the Murray and Murrumbidgee Valleys. The IVT ranges from 0 to 100GL and represents the undischarged trade debt owed to the Murray from the Murrumbidgee. The 100GL limit is intended to protect Murrumbidgee water users from unacceptable losses resulting from delivering water to the Murray via the Murrumbidgee river and from reduced dam airspace limiting allocation accrual from inflows. The IVT zero limit is arguably because there is no physical way for water to transfer back from the Murray to the Murrumbidgee.

Both these limits can and are usurped. Predominantly this is through using tagged licences (discussed below) but historically also via agreements with Snowy Hydro Ltd (to adjust the Required Annual Releases (RAR) between the Valleys) and Murray Irrigation Ltd to deliver water via Billabong Creek.

Recommendation: Current IVT limits should be reviewed and mechanisms (rule changes and accounting measures) put in place to further open trade between the Valleys.

Pre-2010 Tagged Licences

Tagged licences enable water allocation held in one Valley to be delivered to supply works in a different Valley. Tagged licences issued before 2010 are not restricted by the IVT limits. There are six (6) of these licences that impact the Murrumbidgee. All are unlimited with respect to the volume of any transfer. Five (5) licences enable Murrumbidgee water to trade to the Murray. This has resulted in the IVT exceeding the 100GL limit by almost double (c.80GL) across 2 years. One (1) of these licences (owned by Murrumbidgee Irrigation) enables Murray water to trade to the Murrumbidgee when the IVT is closed (at 0). In 2018, 29GL was traded on this licence leading to an end of year IVT deficit of -13GL.

There is no clear rationale for why these licences have been allowed to operate outside of IVT rules. The past and potential impact is disproportionately weighted against Murrumbidgee water users. There has been no credit for excessive losses associated with the IVT return transfers and no review of any allocation impacts to Murrumbidgee users from the use of these licences. In addition, Victoria has recently unilaterally changed how its tagged licences work which will likely have flow on implications for water users in other States.

Recommendation: The grandfathered provisions from tagged licences issued prior to 2010 should be extinguished. This would remove the ability for a small group of licence holders to effectively work around trade limits that are intended to protect others against negative third-party impacts.

Barmah Choke Restriction

The Murray-Murrumbidgee IVT is being used as a mechanism for managing third party River Murray operational risks and in doing so preventing water from travelling to its highest value use.

When the IVT balance is between 15 and 85GL Murray water can generally trade into the Murrumbidgee. However, if the Barmah choke is under restriction, trade between the Valleys is also restricted. Restricting trade into the Murrumbidgee under these circumstances has the sole purpose of reducing delivery challenges for River Murray operations. By keeping “callable” water (ie a high IVT) in the Murrumbidgee, this water can be used (“called”) to bypass the choke and deliver water to downstream Murray users. That is, the IVT is being used by river operators for downstream demand management.

This is an outdated and blunt instrument which restricts trade. River operators in both Valleys should look to other tools to manage channel capacity constraints. Irrigation Infrastructure Operators were required to unbundle water and delivery rights over several years in response to Water Reform. As a result of this reform water entitlement can trade freely across connected systems and cannot be prevented from leaving irrigation districts. In irrigation districts like the MIA, farmers now have a separate (and tradable) delivery right that provides them with an assured priority of water delivery and flow rate.

It is unfair and inconsistent that 11 years after the *Water Act 2007 (Cth)* came into effect that State operators have had no incentive or requirement to unbundle water rights. As a result, they are continuing to use water trade restrictions as a demand management tool.

Recommendation: Incentives are necessary to require the unbundling of water and delivery rights for all water users, not just those in irrigation districts.

2. Market Transparency and Information

Opportunities exist for simplifying and improving access to market information. Information on water markets is currently located across multiple platforms including brokers websites, various water exchange platforms and State trade registers. There is no simple, single point of access for current market information and potential for market manipulation exists.

A centralised exchange would enable ready access to market information (including volatility and volume) as well as a visibility of open buy and sell orders and recent trading activity. It would also enable individual market participants (or their agents) to lodge and match buy and sell orders, effectively setting the price across market segments in real time. MI does not support the calls for full transparency of individual allocation accounts and transactions. The level of information accessible should be broad enough to provide reasonable market transparency without compromising privacy or impeding commercial decision making.

A national register of water entitlements would support such an exchange without increasing the regulatory burden on infrastructure operators. The register would include as a minimum the water entitlement characteristics, including whether they are held as part of a group scheme or licence, and any encumbrances on the entitlement. With respect to encumbrances, the Personal Properties Security Register (**PPSR**) was anticipated for such a purpose when it was developed in 2009. Extending the PPSR to the registration of encumbrances over water entitlements would be an expedient solution, linking this information into a national water entitlement register.

Recommendation: Government investigates the creation of a centralised water exchange supported by a National Water Register linked to the PPSR.

Yours sincerely

A handwritten signature in black ink, appearing to read "Brett Jones", with a long horizontal flourish extending to the right.

Brett Jones
Managing Director