



Murray Irrigation

Murrumbidgee inter-valley transfer application and assessment process

Submission to the WaterNSW Issues and Options paper

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1 Executive Summary

Murray Irrigation congratulates WaterNSW for the compilation of the Issues and Options Paper in relation to Murrumbidgee Inter-valley Transfer (IVT) application and assessment approach. Murray Irrigation is making this submission given the frustration expressed to us from some of our shareholders trying to participate in this system. Murray Irrigation also would like to declare that we own a small number of Murrumbidgee Water Entitlements.

Murray Irrigation has a lot of experience in implementing initiatives to be as fair and as equitable as possible to our diverse range of shareholders businesses and offer some suggestions for WaterNSW to consider in future improvements to this system. In this submission we very much support an “equity” approach that give all willing participants an opportunity to enact a trade. In relation to the Murrumbidgee IVT mechanism, we also support the recommendation from the ACCC that was cited in the WaterNSW Issues and Options Paper¹.

The following outlines some suggestions we can offer from our experience and then with an example of some of those principles in place.

¹ “improving the efficiency of, an equity of access to the opportunity of trade, which are currently largely ‘first in, first served’” ACCC Report at page 37

2 Key issues we often hear

Some key issues we often hear from our shareholders include:

- **Notice**- not enough notice to be able to submit a transfer.
- **Submission**- the submission process is a bit clunky which incurs cost and time with uncertain outcomes.
- **Fairness**- before participants can make a submission they find the system is already over-subscribed (possibly by large volume trades) and they miss out.

3 Some IVT Administration Suggestions

The theme emerging from the following suggestions is an “equity” based approach that maximises the opportunity for all participants to have some volume eligible for a trade within current trade limits and transparency regarding the system administration.

3.1 Communication

We feel that it is important to make sure all potential participants have adequate notice and hence an opportunity to make a submission for a trade. Ensuring potential participants have the right communication system in place is important. Murray Irrigation uses a combination of text messages, email, hardcopy, online and through our Demand Management System to communicate to our customers. This can ensure consistent communication to customers that have varying skills for use of today’s communication systems.

3.2 Submission Timeframe

It is important that all participants have an adequate period to make an IVT submission and should not need to feel “tied to their computer” in order to make a successful submission. Murray Irrigation provides an adequate period of notice for products that we know will be oversubscribed because we know that missed opportunities can have a big impact on our customers. We recommend a period where you feel that the participant will have adequate opportunity to receive notice and make a submission, for example five days.

3.3 Simple Submission Process

The submission process should be via the customers portal online and a very easy process for a participant to complete, for example it should take a maximum of five minutes and automated notice that the application was submitted successfully. This is to ensure a large amount of time (and then frustration) is not burdened for a participant who may then have limited success (see item 3.5). If not already developed, we recommend developing a simple and user-friendly online framework for participants to use.

3.4 Clear Trade Parameters

It is important that a future revised trade system has very clear parameters so participants are well aware of how the system will work and be managed. Examples of parameters that would be established are:

- Maximum individual trade volumes along with a “pro-rata” approach in the event of oversubscription
- An established base volume based on number of applications for that tranche, for example up to 40% of trade volume. Conversely the trade would be accepted in full if undersubscribed.
- Indicators of likely demand for applications could also be provided such as “high”, “medium” or “low” to give the participant an idea of how much it may be oversubscribed. This indicator could be based on extent of demand from the previous trade tranche.
- Duplicate applications should not be allowed from the same business entity, for example, someone “gaming” the system might then simply submit numerous small applications to get around new parameters.
- The system should also collate the cumulative beneficiaries of trade for that entity within that water season and reserve an opportunity to amend trade parameters should trends emerge that undermine certain “equity” principles.
- The water would need to be physically available in the participants account to avoid deliberate “over-inflating” of volume in the EOI stage.
- The destination of the trade should be considered and factor in transmission losses should there be a third party impact from that trade activity. For example, a trade to the SA border is likely to incur higher transmission losses than a trade from one upper valley to the next.
- The origin of the trade should also be considered in the event of someone “gaming” the system to get around other rules, for example, the choke trade rules.
- The total number of applications and total volume of trade is also publicised.
- Penalties in place to exclude participants should deliberate or systemic breaches of trade rules occur.

3.5 Two Step Approach

We often have a two-step approach where we encourage our customers to submit an “Expression of Interest” (EOI) which is followed by us making an “offer” once the extent of demand is calculated. This process can occur quickly as long as there are well defined metrics involved. The EOI stage establishes the magnitude of interest whilst incurring very little time lost and no cost to the participant while the “offer” stage enables the participant to have a full understanding of how much water they are eligible to transfer and the corresponding application cost is then charged based on this acceptance.

3.6 Cost Recovery

The cost of enacting the trade should be at full cost recovery on each application whether it be a 10ML or 1,000ML trade. We understand the current cost is \$49.37 per application.

3.7 Potential System Administration Example

The following example outlines a potential approach that adopts principles outlined earlier. Please note that the example is not intended to reflect the actual real volume or quantity of what occurs in today's transfer platform. The intention is to focus on principles of how to equitably manage an oversubscribed volume to transfer.

An example is John Citizen owns a farm in the Murrumbidgee and a farm in the Murray Valley. He would like to transfer 1,000ML onto his Murray Valley farm:

1. **Communication:** John would like to trade 1,000ML into the Murray Valley and he has received notice via text message that the IVT is open for Expression of Interest (EOI) in two days' time, it will be open for 5 days and the total volume available to trade is 400ML OUT of the Murrumbidgee valley.
2. **Submission Timeframe:** John knows that he has five days to submit an EOI and can log in via his home computer or via an app on his phone. He already has the "heads-up" that there is likely to be high demand and it is likely a relatively small volume of his proposed trade may only be eligible.
3. **Submission Process:** John decides to submit a trade and goes to his customer portal on-line and within five minutes is able to lodge an Expression of Interest to transfer 1,000ML. He knows that this stage is not binding and incurs no fee.
4. **Parameters:** John would like to propose to trade more than 1,000ML but he knows that the maximum volume available whilst the indicator is on "high" is 1,000ML as it is likely to be oversubscribed. He knows not to get his expectations up as 40% of the eligible water volume to trade is per application and the remaining 60% is pro-rata based on oversubscribed volume (see item A below).
5. **Offer:** John is making a submission knowing that he will be offered something much lower but is keen to make the trade. He receives an offer to transfer 293ML and he accepts it knowing what the transfer fee is. The calculations over how the offer was determined are outlined item A below.
6. **Cost:** The cost of the transfer is fixed for each application at a flat rate. John is still ok with this cost as he was aware of this before he committed to accepting the offer. He has also been given an indication he can transfer a slightly higher amount of water in the event other offers are subsequently rejected. The cost of the transaction fee is at full cost recovery to WaterNSW to administer the IVT.

A. Example Trade Submissions and Calculations

There were three submissions received over the five day eligible period:

Landholding A (John Citizen): 1,000ML

Landholding B: 40ML

Landholding C: 90ML

Total: 1,130ML

The available opening trade volume is 400ML, the total demand is 1,130ML. According to the parameters, a base volume of 40% is first calculated along with a pro-rata volume of 60% and an offer volume is then proposed to the landholder to either accept or reject.

Landholding	Base volume eligible per application (40% of available trade volume divided into each application)	Pro-rata Volume (60% of the remaining EOI volume calculates to be 24.7% (240/970) of the EOI volume)	Eligible "offer" to landholder
A (John Citizen)	60	$24.7\% \times 940 = 233$	293
B	40	$24.7\% \times 0 = 0$	40 (already meets base minimum criteria so accepted in full)
C	60	$24.7\% \times 30 = 7$	67
Total	160ML	240ML	400

In considering the above "equity" approach, everyone gets an opportunity to trade water based on eligible base volumes and a pro-rata approach when over-subscribed.