

Our Ref: #1936649  
Your Ref:

Ms Deborah Petersen  
Assistant Commissioner  
Water Study  
Productivity Commission  
LB 2 Collins Street East  
Melbourne VIC 8003

12 July 2006

Dear Ms Petersen

**Rural Water Use and the Environment: The Role of Market Mechanisms Discussion Draft**

Thank you for providing the opportunity to make comment on the above Discussion Draft.

Goulburn-Murray Water (G-MW) is a significant provider of irrigation distribution services in northern Victoria. G-MW and its customers are active supporters of and participant in reforms aimed at gaining best value from the nation's scarce water resources.

In Victoria, these reforms include unbundling water entitlements into a water share, a delivery share and a water use licence. After unbundling, there will be no link between the water entitlement, the entitlement to have water delivered and entitlement to apply water to land. Unbundling will give landowners more flexibility in the way they are able to configure their enterprises. For example, landowners will be able to permanently sell their water entitlement and purchase water temporarily while retaining their entitlements to have water delivered and apply water to land.

The delivery share attached to land creates a legal obligation on a rural water authority to provide that land with access to a distribution service and a concomitant entitlement for the land to have access to the distribution service. Associated tariff changes will result in a clearer nexus between the service provided and the payment made by landowners. The payment for access to the distribution system will be based on the delivery share attached to the land, rather than the previous arrangement where the payment was based on the water entitlement attached to the land.

Landowners will have the ability to adjust the delivery share attached to their land, i.e. to adjust the level of access the land has to the distribution service. Delivery shares will be able to be issued by the water authority, transferred between landowners and surrendered to the water authority

Importantly, under this model the amount of water entitlement owned by a landowner has no bearing on the charges paid by a landowner for access to (or use of) the distribution system which is servicing the property. Sale of water entitlements will not trigger an exit fee.

It is important that the differences between the Victorian model, where the distribution system access fee is based on the delivery share and sale of water entitlement does not trigger an exit fee, and other models, where the access fee is based on the water entitlement and sale of water entitlement does trigger an exit fee, are understood. The Victorian model is intended to allow efficient water trading.

ABARE has recently released a report "Exit Fees and Interregional Trade" (ABARE, 2006). In relation to unbundled entitlements, it indicates that if the liability for access charges was independent of whether an irrigator elected to trade all or part of their entitlement then the access charges would not distort the incentive to trade.

G-MW suggests that the Discussion Draft may be improved by more clearly drawing out the differences between the various models for recovering distribution system costs. Some readers may not appreciate the differences and may infer that the efficiency impacts of the various models in relation to water trading are the same.

Yours sincerely

Garry Smith  
MANAGER STRATEGY AND STAKEHOLDER AFFAIRS