



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

General

SunWater would like to congratulate the commission on the work completed to date. The draft report is one of the very few documents in existence that attempts to fully describe the nature of water entitlements in Australia and the associated role of markets in the movement of entitlements between user groups.

There are however a number of matters that SunWater would like to comment upon, with the objective of further enhancing the Commission's comprehension of water industry conceptual framework issues, and improving the overall utility of the report to the Australian community.

Overview

The report could benefit from an expansion of the discussion of the differing conceptual models utilised within the different jurisdictions in relation to water resource planning. In doing so, the report should highlight that the water resource planning framework and associated water entitlement regime that has been implemented within Queensland is different to that of the southern Murray-Darling Basin.

The report adopts a conceptual position in relation to environmental flow needs that is limited to the current thinking in the lower Murray, and as such many of the subsequent market based commentary is not applicable within Queensland.

It is important to acknowledge within the report that Queensland has adopted a "rules based" approach to the determination of environmental needs. This approach ensures that the requirements for continued river health are incorporated into the operating licence conditions of in-stream water storage infrastructure, and thereby placing the needs of the environment ahead of the rights of water entitlements for consumptive purposes.

Within the Queensland framework, the concept of trading water for the environment is not applicable because the water available in the market is that which has been deemed available for consumptive purposes (after consideration of environmental requirements). The role of the market (for the environment) in this context would be limited to the management of issues of over allocation, whereby the government wishes to see a general and permanent reduction in the total volume available for consumptive use.



Chapter 2 – Entitlement and Allocation Regimes

Box 2.1. Gross and net entitlement systems

The concept of a net entitlement as described in the report is not relevant in Queensland. This is because the requirements for the environment are specified hydrologically as flow requirements within the river system. Operational and allocative rules are then adjusted to ensure in-stream flow targets are satisfied.

Accordingly, SunWater does not support the view the entitlements be defined in net terms, as it considers this to be a poor substitute for appropriate definition of the consumptive pool in the initial planning.

Preliminary Finding 2.6

Carryover arrangements need to be reflective of the underlying hydrologic characteristics of each system. SunWater asks that the Commission note that the management of third party impacts of carryover is difficult in some circumstances and this may lead to conflict between water users. Accordingly it is not considered prudent to provide a general endorsement for the provision of carryover in all systems.

Preliminary Finding 2.9

Capacity Share arrangements provide a mechanism whereby individuals are able to adopt differing risk profiles (hydrologically) without causing third party impacts. This is the major benefit of the Capacity Share approach in addition to the inter-temporal benefits associated with the continuous accounting of water available.

Preliminary Finding 2.10

The report suggests that the advantages of Capacity Sharing may be lessened through increased frequency of announcements under the announced allocation system - this is factually incorrect. Increased frequency of announcements will not overcome the desire for individuals to adopt different risk positions.

Preliminary Finding 3.1

SunWater supports the proposal that restriction on who can trade be removed, noting that these barriers have already been removed within Queensland systems. Trading between local government, mining companies, and irrigators is commonplace in many Queensland systems.

Table 3.2 Typical time for regulatory approvals for trade in seasonal allocations

SunWater requests further detail of the values listed in the table for Emerald. The approval time for seasonal trades in supplemented areas are generally instantaneous, and can be effected without manual intervention by SunWater staff.



Preliminary Finding 3.3

SunWater disputes the assertion that the government-owned exchanges should increase charges. The SunWater exchange is operated by SunWater as a service to its customers. The exchange is funded by SunWater customers through water charges. The imposition of additional fees on exchange will be detrimental to the further development of the market.

Preliminary Finding 3.5

Exit fees charged by SunWater are not attached to the water entitlement. In Queensland, water entitlements are issued by the State, and are located at the point of extraction from the natural system. Accordingly, the trade of water entitlements is unaffected by exit fees.

SunWater charges exit fees to customers seeking to terminate a channel supply contract. These fees represent an early buyout of future obligations under the contract.

SunWater contends that water entitlements issued by the State, held by individuals, and located at the point of diversion from the watercourse should be freely tradeable within hydrologic and environmental limitations.

The transport of water from the watercourse, through man-made and natural channels to individual farms forms a separate contracted service. This service should be documented contractually, but it does not constitute a 'water entitlement'. By separating the supply into the entitlement and transport, the issue of exit fees, as well as title registers can be resolved.

Table 3.5 Typical times for regulatory approvals for entitlement trades

Data shown for Emerald is incorrect. It is suggested that the Commission obtains better data from Department of Natural Resources, Mines and Water.

Table 3.6 Fees charged by major brokerage firms for trade in water entitlements

SunWater does not offer a brokerage service to customers for trade in water entitlements, accordingly the data shown is incorrect.

Preliminary Finding 6.1

SunWater disagrees with the assertion that planning processes have been overly relied upon to allocate water between environmental and non-environmental purposes.

As highlighted earlier, the Queensland Water Resource Plan approach is to identify environmental requirements first, and to determine the consumptive pool second. This approach is based on a philosophy that sustainability is achieved through ensuring that impacts on the natural environment are managed within limits of natural resilience.



The use of markets to access water for the environment assumes a philosophy that the environment must compete with consumptive users for rights to the resource. This is not considered a robust approach to the issue of sustainability and water resource planning.

Preliminary Finding 6.2

It should be clear that what is termed “environmental water” is really a pseudonym for reducing the consumptive pool to sustainable levels.

Page 158

SunWater does not believe that political statements made by organisations such as Fitzroy Food and Fibre have any place in a report of this type.

The statements made by Fitzroy Food and Fibre are unsubstantiated and false, and should be either removed as a quotation or should be corrected to represent the facts.

SunWater would be pleased to provide further details for the Emerald Lining project should the Commission decide it wishes to report the full position.

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