

Multi-Jurisdictional Management and Execution of the Murray Darling Basin Plan  
**SELECT COMMITTEE ON THE MULTIJURISDICTIONAL MANAGEMENT AND  
EXECUTION OF THE MURRAY-DARLING BASIN PLAN**

Submission by the Commonwealth Environmental Water Holder

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Multi-Jurisdictional Management and Execution of the Murray Darling Basin Plan  
Submission 4  
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**EXECUTION OF THE MURRAY-DARLING BASIN PLAN**

Submission by the Commonwealth Environmental Water Holder

## 1 Role and responsibilities of the Commonwealth Environmental Water Holder

- About the Commonwealth Environmental Water Holder
- Working in partnership to deliver environmental water
- Using Commonwealth water
- Environmental outcomes

### ***About the Commonwealth Environmental Water Holder***

The Commonwealth Environmental Water Holder (CEWH) is a statutory position established under the *Water Act 2007* (Water Act) responsible for managing the Commonwealth environmental water holdings and the Environmental Water Holdings Special Account. The CEWH is supported by staff of the Commonwealth Environmental Water Office (CEWO). The Commonwealth environmental water holdings must be managed to protect and restore the environmental assets of the Murray-Darling Basin (the Basin), including watercourses, lakes, wetlands<sup>1</sup> and floodplains, in the national interest. The Water Act also gives effect to relevant international agreements, such as the Ramsar Convention. The CEWH's function is a critical part of the sustainable management of the Basin's water resources over the long-term for environmental, social and economic outcomes.

The CEWH is governed by the requirements of the Water Act, such as managing the Commonwealth environmental water holdings in accordance with the Basin Plan 2012 (the Basin Plan) environmental water plan (Chapter 8), including the principles and methods to determine priorities for applying environmental water. The Basin Plan requires the CEWH to perform its functions and exercise its powers in a way that is consistent with the *Basin-wide environmental watering strategy* and have regard to the Basin annual environmental watering priorities developed by the Murray-Darling Basin Authority (MDBA). In addition, the CEWH must comply with other relevant state and Commonwealth policy, frameworks and environmental legislation, including the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act).

National water reform is being undertaken in collaboration between the Australian Government and Basin State and territory governments (Queensland, New South Wales, Victoria, South Australia and the Australian Capital Territory).

The Water Act requires the Commonwealth and Basin States to manage the Basin's water resources in the national interest and give effect to relevant international agreements.

State government water agencies are responsible for managing water resources in storages and in rivers, including water infrastructure and for river operations. The CEWH has no

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<sup>1</sup> See information about the Basin's wetlands: <http://www.environment.gov.au/water/cewo/wetlands>

independent capacity to manage or deliver water, and must work within state regulatory, licensing and operational frameworks, and in partnership with environmental agencies, to ensure water is provided from the Commonwealth's accounts to support the CEWH's environmental objectives. The CEWO works with delivery partners in the States to plan the location, timing and scale of environmental watering events, and manage the transfer of allocations to enable the water to be delivered as planned. This ensures risks are managed collaboratively and broad consultation occurs, before watering events proceed.

### ***Working in partnership to deliver environmental water***

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The CEWH cannot undertake its functions without the support of others. All Commonwealth environmental water delivered in the Basin occurs in partnership with state governments, local groups and non-government organisations, including the irrigation industry, environment groups and Indigenous communities.

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The CEWH first delivered water in the Basin in 2009. Since then, the CEWO's business processes and operations have undergone continual improvement to ensure the legislative requirements of the Water Act are being met in a way that is both transparent and accountable.

The CEWH remains focussed on improving business processes that support the management of the Commonwealth environmental water holdings so confidence in the Commonwealth's investment increases.

The CEWO's six local engagement officers are critical for building and maintaining relationships, working alongside communities throughout the Basin. These officers allow a direct link between the community and delivery staff and spend much of their time discussing environmental watering activities with the community and feeding that into CEWO operations.

The CEWH's decision-making will vary depending on the seasonal conditions, water availability and the predicted environmental response. Being dynamic in the way the environmental water is managed relies on multiple agencies and jurisdictions, including state agencies and research institutions to:

- be the CEWH's eyes on the ground
- manage infrastructure and operate the rivers
- monitor and collect data pre and post watering
- report on what happened and why
- identify opportunities for new approaches through adaptive management.

The CEWH relies on the existing structures set up by the states to manage the portfolio effectively.

The CEWO also trials innovative approaches, manages risks and fosters an environment that enables adaptive management. The CEWH works in active partnership with other environmental water holders (both Commonwealth and state), river operators, land holders

and irrigation infrastructure operators to deliver environmental water. There is a continuing need to increase transparency about the roles and responsibilities in the Basin Plan among those involved in environmental water management and to grow and expand our partnerships.

#### *Avoiding third-party impacts – the ‘good neighbour’ approach*

While the CEWH’s primary focus is on achieving, monitoring and reporting environmental outcomes, it also has a responsibility to minimise risks to communities while undertaking its activities. As a member of the Basin community, the CEWH is committed to being a ‘good neighbour’. Operating effectively in a working river system where much of Australia’s food and fibre is produced necessitates that environmental water management must co-exist with agricultural production in a mutually respectful and harmonious manner.

The good neighbour approach is based on practices that guide the management of Commonwealth environmental water<sup>2</sup>. It aims to promote mutually beneficial relationships with other water users and landholders, in a way that is consistent with the CEWH’s statutory obligations.

Examples of good neighbour policy in action include:

- The CEWH has not, and will not, place water orders that would flood private land without the consent of the landholder. If potentially unacceptable impacts are identified on private property through planning, the CEWO will negotiate with affected landholders to avoid or minimise any potential problems and obtain consent to water.
- Considering the available channel capacity in a river system when ordering water, and where possible minimising the impact on other users.

#### *Indigenous engagement*

The CEWO works collaboratively with First Nations people across the Basin to deliver environmental water for environmental and cultural outcomes. In some instances, direct partnerships with First Nations enables the inclusion of Indigenous people and knowledge in the planning and delivery of Commonwealth environmental water to culturally significant sites in the Basin.

In other instances, the CEWO relies on the local connections of state governments and other water delivery agencies, who have relationships and established processes for First Nations participation in management of important environmental sites. The CEWO also works with the Murray-Lower Darling Rivers Indigenous Nations and Northern Basin Aboriginal Nations representative bodies. Work is currently underway to incorporate First Nations environmental watering objectives into planning for environmental flows at a Basin-scale.

The CEWO is actively working to enhance its engagement with First Nations in the Basin, through increased opportunities under the Monitoring, Evaluation and Research Program and the development of a First Nations Participation and Reporting Strategy.

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<sup>2</sup> Read about the good neighbour policy here: <http://www.environment.gov.au/water/cewo/local-engagement>

### ***Using environmental water***

Decisions about how Commonwealth environmental water will be used each year are made by the CEWH following annual planning processes. Planning for, and delivery of, Commonwealth environmental water is a collective effort.

Local groups, state governments and others are involved in helping to determine how and where water can be best used, identifying potential risks, delivering the water and also monitoring the outcomes. To deliver the water to the target location, the CEWH has entered into a number of formal partnership agreements with state governments and non-government organisations across the Basin to support environmental watering<sup>3</sup>. The CEWO engages through a number of forums, such as Customer Advisory Groups, Environmental Water Advisory Groups and Operational Advisory Committees, to name a few. These are the forums where Commonwealth, state, local and industry representatives can discuss the planning and delivery of environmental water.

Since 2009, over 9,340 gigalitres of Commonwealth environmental water has been delivered to rivers, wetlands and floodplains across the Basin.

### ***Environmental outcomes***

Environmental water is used by the CEWH to achieve specific outcomes. The results of watering are being documented through ecological monitoring. To date, the CEWO has committed over \$55.4 million to monitoring, evaluation and research through to 2022-23, to help manage the use of Commonwealth environmental water and to demonstrate environmental outcomes. Environmental watering has shown significant environmental benefits for river systems as a whole, but also for the fish, birds, frogs and vegetation that rely on the rivers and wetlands. While the full results of environmental watering across the Basin will take many years to be realised, monitoring to date has shown that Commonwealth environmental water is contributing towards a range of environmental objectives including:

- providing river flows that support improved water quality for the environment and water users
- maintaining habitats that are used by migratory species
- connecting rivers to low lying floodplains to maintain food chains and support fish movement
- filling wetlands that support native fish, birds and other native animals
- supporting the recovery of the environment following the drought, and building resilience in preparation for the next drought.

### ***Measuring environmental outcomes***

Monitoring and evaluation is required under the Water Act and Basin Plan. It is also critical to the management of Commonwealth environmental water so that outcomes, like those provided above, can become known. Monitoring undertaken under the *Monitoring,*

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<sup>3</sup> <http://www.environment.gov.au/water/cewo/publications/agreements-use-commonwealth-environmental-water>

*Evaluation, Reporting and Improvement Framework*<sup>4</sup> supports the efficient and effective use of water, ensures accountability and transparency, supports adaptive management and helps to build knowledge. A number of monitoring activities are undertaken supported by the CEWO:

- Operational monitoring is undertaken for every watering action, which collects on-ground data about the environmental water delivery action such as volumes, timing, duration, location, flow rates and river heights. Much of this information is provided to the CEWO from State Waterway managers.
- Long and short term intervention monitoring helps us to understand the environmental response to watering actions. We contract this directly with research institutions, contractors and federal and state government agencies. States are aware of these projects and often work with us to identify and support complementary monitoring activities.

The CEWH is not the only entity investing in environmental monitoring and evaluation activities, it is a shared commitment and the Basin Plan places responsibility on other agencies too:

- Basin States are required to monitor and report on the changes in environmental health over time at a wetland and catchment scale.
- The MDBA are required to monitor and report on the changes in environmental health at a Basin-scale.

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<sup>4</sup> <http://www.environment.gov.au/water/cewo/publications/cew-monitoring-evaluation-reporting-and-improvement-framework>

Submission by the Commonwealth Environmental Water Holder

## 2 Water resource management in the Murray-Darling Basin

The below are all essential elements of the Basin Plan and will be critical to achieving outcomes, however others (mainly State agencies) hold responsibility for their implementation. It will be essential for all agencies to work together to achieve the best outcomes.

- Water Resource Plans
- Compliance
- Implementation of Pre-requisite Policy Measures
- SDL adjustment mechanism projects
- Northern Basin Review and 'toolkit' measures
- Constraints alleviation

### ***Water Resource Plans***

Under the Water Act and Basin Plan, Basin States are required to have 36 Commonwealth-accredited Water Resource Plans (WRPs) in place by 30 June 2019 to implement the Basin-wide Sustainable Diversion Limits (surface and groundwater plan areas). Extensions have been provided for States to deliver these Water Resource Plans. The MDBA are responsible for the review and assessment of WRPs. Under the Water Act, the Minister of Agriculture accredits the final version of a WRP.

While the Department of the Environment and Energy does not have a role in the assessment and accreditation of WRPs, the CEWO has a vested interest in WRPs across the Basin. WRPs set new rules for the use of water within the Basin including the Commonwealth environmental water holdings. In turn this can have implications for different species and ecological assets listed under the EPBC Act, including Ramsar wetlands of international significance or other Matters of National Environmental Significance.

Opportunities for the CEWO to actively engage on WRPs has varied between Basin States, each using different mechanisms for facilitating consultation. The CEWO has provided public submissions on eight WRPs to date (all published on the CEWO's website) and will continue to provide feedback for remaining plans yet to be released (where a public submission for a WRP has not been provided, the CEWO has been directly engaged and provided feedback on other instruments related to the WRP). Submissions cover the CEWH's obligations under the Water Act, PGPA Act and the EPBC Act.

### ***Compliance***

The Basin Plan represents a significant public investment and a reform that in its nature has implications for a broad suite of environmental, social, cultural and economic interests. The

responsibility for providing public assurance and accountability is shared, with compliance, enforcement and oversight provided by Basin States, the MDBA and the Inspector-General for the Murray-Darling Basin.

The Basin compliance compact provides a renewed joint commitment from the Australian and Basin State governments in discharging their respective responsibilities of a consistent standard and with the aim of restoring public confidence in water resource management. The implementation of this compact continues. The establishment of the NSW Natural Resource Access Regulator has also provided a strong response to the inquiries that have transpired since 2017. Regulatory maturation will need to evolve to provide high standards in public accountability through strong compliance mechanisms that have at its foundation robust and transparent processes.

### ***Implementation of Pre-requisite policy measures***

In determining the volume of water to be recovered for the environment Basin States agreed to the implementation of additional policy measures<sup>5</sup> that would allow for the efficient and effective use of held environmental water by: protecting environmental water from extraction, re-regulation or substitution; and allowing water to build on natural flows throughout the river system.

Pre-requisite policy measures (PPM), originally termed ‘unimplemented policy measures’, are limited to the Southern Connected Basin however measures of similar effect are required as part of the Northern Basin “toolkit measures”.

Basin States committed to introduce within their state frameworks policies and procedures by June 2019 that would allow for:

1. the credit of environmental return flows for reuse at downstream environmental sites (protection of environmental water)
2. the call of held environmental water from storage during un-regulated flow events (piggybacking).

These two policies have a direct effect on the efficient and effective use of the Commonwealth’s water holdings as they are intrinsically linked to the environmental benefits we can get from our water.

The crediting of return flows provide a mechanism to ensure environmental water can be used more efficiently and effectively throughout the length of the river system. This will provide many environmental benefits, for example, environmental return flows will be able to be used more than once, providing a benefit to multiple sites, maximising the environmental outcomes that can be achieved from the same water.

As with entitlements held for consumptive use, Commonwealth environmental water should be protected from extraction by other users. Before the Commonwealth’s entitlements were recovered under the Basin Plan, they were owned by consumptive users and the water was not available for extraction by other water users from within the same water resource area.

In regulated rivers, piggybacking allows Commonwealth environmental water to be used to build on the flows already in the river to mimic what would have happened in larger natural

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<sup>5</sup> 'unimplemented policy measures' section 7.15 Basin Plan



events (still well short of flooding flows). Piggybacking provides for environmental water to be used more efficiently because a greater outcome can be achieved with the same volume of water. It is also necessary to realise the full value of Commonwealth environmental water and is essential to achieve the Basin Plan objectives whilst maximising the environmental benefit of the water.

In July 2019 the MDBA determined that Basin States had put into effect the required policies and procedures at a legal/policy instrument level but noted that a commitment to further work by Basin States was necessary to refine and improve PPM implementation on the ground over time<sup>6</sup>. The MDBA will report on the effectiveness of ongoing PPM implementation in 2024 as part of the reconciliation of the Sustainable Diversion Limit Adjustment Mechanism (SDLAM) which is dependent on the realisation of the benefits of PPM implementation.

Basin state commitment to a programme of work and resourcing for on-going refinement to operational arrangements has not yet been resolved.

### ***Sustainable Diversion Limit Adjustment Mechanism***

Achieving the environmental objectives of the Basin Plan is predicated on 2,750 GL of water being returned for the environment of the Murray-Darling Basin. The Sustainable Diversion Limit (SDL) is the remaining water that can be extracted for consumptive uses, including agricultural production.

To minimise potential adverse socio-economic impacts and maximise the possible environmental outcomes Commonwealth and state governments agreed to include within the Basin Plan an SDLAM that aimed to reduce water recovery through: (a) state sponsored supply measure projects that are intended to achieve equivalent environmental outcomes using less held environmental water (up to a maximum of 650 GL); (b) investment in on-farm water use efficiency projects with the water savings contributing to the Commonwealth's water holdings (up to 450 GL). These SDL projects should mean that less water recovery is required under supply measures, and less water is required to be recovered through direct purchase (efficiency measures).

Supply measure projects designed to maximise the effectiveness of environmental water use include:

- removing physical constraints or barriers to environmental water flows
- putting in place additional protections for environmental water flows (called shepherding) and other state regulations to make environmental water use more effective
- putting in place infrastructure and projects that deliver the same environmental outcomes with less water (supply measures)
- changes to river operating rules
- better methods to account for environmental water

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<sup>6</sup> Read the Murray-Darling Basin Authority Communique, 3 July 2019 at: <https://www.mdba.gov.au/media/mr/murray-darling-basin-authority-communique-03-jul-2019>

- agreement to not substitute environmental water that was planned or held by states before the Basin Plan.

Basin States are required to implement the projects by 2024 in collaboration with Commonwealth agencies, including the CEWH. Working together effectively will ensure that the projects meet the MDBA's requirements and that water recovered for the environment can be managed effectively to achieve the environmental targets and expected outcomes of the Basin Plan.

### ***Northern Basin Review and 'toolkit' measures***

A review of the northern basin sustainable diversion limit conducted by the MDBA resulted in a 70 GL adjustment to the water recovery target in 2018. This adjustment was made on the basis that Basin States committed to the implementation of 'toolkit measures' that in effect would provide similar outcomes with less water recovery<sup>7</sup>. The northern basin toolkit includes commitment for: strategic water acquisitions; measures to protect environmental flows; investigation of options for event-based environmental water delivery; addressing operational constraints within the Gwydir catchment; and infrastructure works to improve fish habitat and promote movement.

Water resource plans for northern basin catchments will be a key instrument for bringing into effect Basin State commitments to the toolkit. The water resource plans continue to be developed and will be subject to accreditation by the Commonwealth Minister for Water Resources by 31 December 2019.

Maximising the outcomes achievable from the delivery of Commonwealth environmental water within and between northern basin catchments are dependent on the implementation of fully effective toolkit measures. The Northern Basin Commissioner, and more recently the announcement of the Murray-Darling Basin Inspector General, provides welcomed oversight to the implementation of new measures by Basin States.

### ***Constraints alleviation***

Improving the health of floodplain environments requires the delivery of held environmental water to top-up natural flow events; extending the flow height or duration. Physical restrictions such as low-lying bridges, crossings or private land, and existing operational rules/practices constrain the use of environmental water to contribute to these natural flow events.

Operational constraints creating a significant impediment to environmental water outcomes have been identified in the rivers of the Southern Connected Basin and the Gwydir River<sup>8</sup>. Relieving these constraints are critical to the successful achievement of the Basin Plan environmental objectives and outcomes as this would allow the flow to significant additional areas of near channel habitat (wetlands, benches, billabongs) to be actively managed. They

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<sup>7</sup> Toolkit measures and the northern basin review are described further detail at: <https://www.mdba.gov.au/basin-plan-roll-out/northern-basin-projects>

<sup>8</sup> More information on constraints management can be found at: <https://www.mdba.gov.au/basin-plan-roll-out/managing-constraints>

are important to the efficient and effective use of Commonwealth held environmental water, and for achieving complementary social and economic benefits.

The relaxation of operational constraints is a key assumption in the SDLAM (Enhanced Environmental Water Delivery supply measures). Basin States are responsible for implementing local projects and putting in place policies that address operating constraints.

The NSW and Victorian governments have not yet fully committed to implementing projects that would alleviate operational constraints to the levels agreed as part of the SDLAM. The level of constraints relaxation achieved by Basin States will factor into the SDL reconciliation in 2024.

### 3 Portfolio management

- Allocations and entitlements
- Managing the portfolio
- Trading environmental water

#### ***Allocations and entitlements***

The Commonwealth environmental water holdings are water entitlements and rights, issued by Basin state governments that were acquired by the Australian Government through investments in water-saving infrastructure and purchases on the water market.

The Commonwealth environmental water holdings grew progressively over time since 2008 (see graphic below). The total volume of the holdings as at 31 August 2019 was 2,848 gigalitres of entitlements. Over the long-term, the average annual amount of water allocated against these entitlements is estimated to be 1,953 gigalitres<sup>9</sup>. The Basin Plan water recovery target of 2,680<sup>10</sup> gigalitres is based on the long-term average. At 30 June 2019, the estimated value of the portfolio was \$3.77 billion. The Commonwealth environmental water holdings may continue to grow until 2024. Not all of the water recovered to bridge the gap is held by the CEWH, with other entitlements held by the relevant State agencies in South Australia, NSW and Victoria.

As at 31 August 2019, the Commonwealth environmental water holdings consist of 124 different entitlement types in 509 water accounts across 28 surface and groundwater systems. The rules governing the entitlements vary across states and across catchments. Commonwealth environmental water entitlements are subject to the same fees, allocations, carryover and other rules as equivalent entitlements held by other water users under the relevant state Water Sharing Plans. These rules determine how the water can be used, the value of the portfolio and the environmental outcomes that can be achieved.

Under drought conditions and other extreme conditions, different rules may apply depending on the situation in each respective catchment. Section 324 of the *Water Management Act 2000 (NSW)* allows the Minister or their delegate to direct, by order, that temporary water restrictions within a water source have effect for a specified period, if the restrictions are determined to be in the public interest. For example, in the Lower Darling River currently any available water is restricted to use for high priority needs and permanent plantings<sup>11</sup>.

<sup>9</sup> <http://www.environment.gov.au/water/cewo/about/water-holdings>

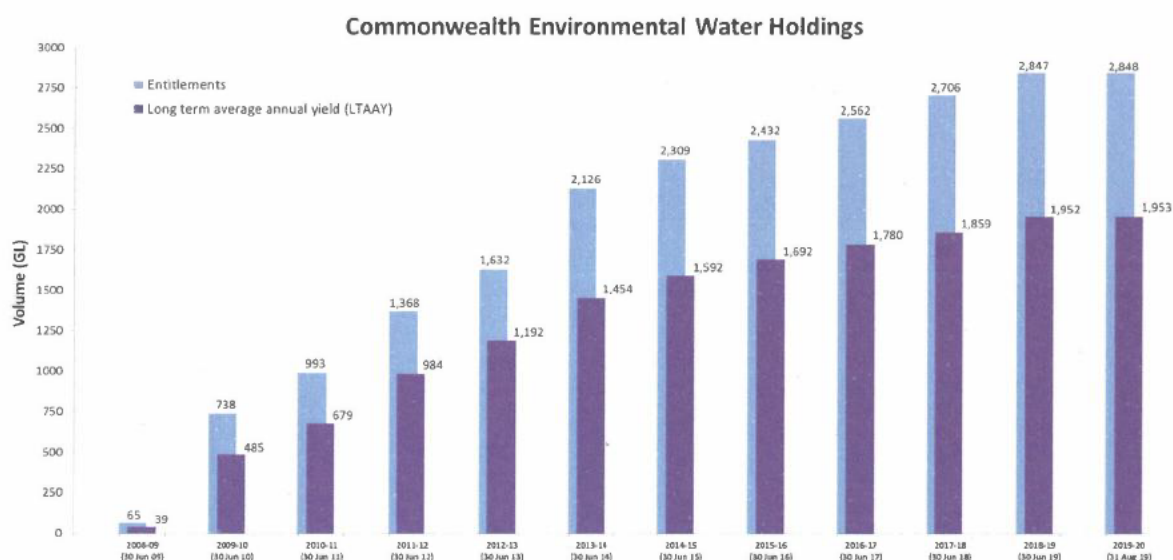
<sup>10</sup> Consists of the 2750 GL to be returned to the environment, minus 70GL under the northern basin review.

<sup>11</sup> <https://www.industry.nsw.gov.au/water/allocations-availability/temporary-water-restrictions/amended-lower-darling>

The existing state-based management tools set the rules for how the CEWH can manage water and there are broadly three options:

- delivering water to a river or wetland to meet an identified environmental demand or allowing unregulated water to flow to end-of-system
- for held water types, leaving water in storage and carrying it over for use in the next water year (referred to as ‘carryover’) within the rules allowed for that type of entitlement in that catchment
- trading water (selling allocation and using the proceeds to buy water or invest in environmental activities).

The decisions made are guided by the MDBA’s *Basin-wide environmental watering strategy* and the Basin annual environmental watering priorities. The processes and frameworks are informed through collaboration with delivery partners and communities.



The CEWH’s planning and decision-making is driven by the need to fulfil legislated environmental outcomes. The portfolio of Commonwealth environmental water is actively managed to adapt to seasonal, operational and management conditions in the same way that an irrigator adapts to changing conditions to achieve the best outcomes with their water. This is particularly important because conditions differ across catchments and years.

It is a Basin Plan principle that the Commonwealth’s water entitlements held for environmental use will not be enhanced or diminished relative to similar entitlements held and used for other purposes, except by agreement to improve environmental watering. This includes changes to fees and charges, access to allocations, and the capacity to use, trade, and carryover, compared to like entitlements held for other purposes, including irrigation. Any changes that disadvantage the Commonwealth’s holdings compared to equivalent entitlements held by other users have the potential to devalue this public asset.

## ***Managing the portfolio***

### *Carrying over water for future use*

Some water entitlements issued under state law have provisions that allow water holders to use water allocated to their water entitlements across future years<sup>12</sup>. The rules for carryover vary for different entitlement types and in different water plan areas across the Basin, however some general principles are:

- Carryover provides flexibility in the timing of water delivery across years for all entitlement holders. The CEWH complies with the same rules that apply to all holders of equivalent entitlement types.
- Carryover is an essential management tool for any water user as a prudent risk management strategy.
- Carryover allows the most effective use of water. For example, water reserved in wet years can be used later to mitigate the risk of environmental damage during drier periods.
- Carryover limits apply to all entitlement holders, including the CEWH.
- State rules ensure that no water holder can fill up dams to the exclusion of other water users, including the CEWH.

Generally, the CEWH has used water early in the water year (i.e. late winter and early spring), whereas peak demand for agriculture is summer. Carrying water over for use in the next water year (commencing in July), typically before the state water authorities allocate water is very beneficial for the environment. This is because spring has traditionally been a period of high natural flows and the CEWH can use water to support environmental outcomes like breeding events for fish and birds.

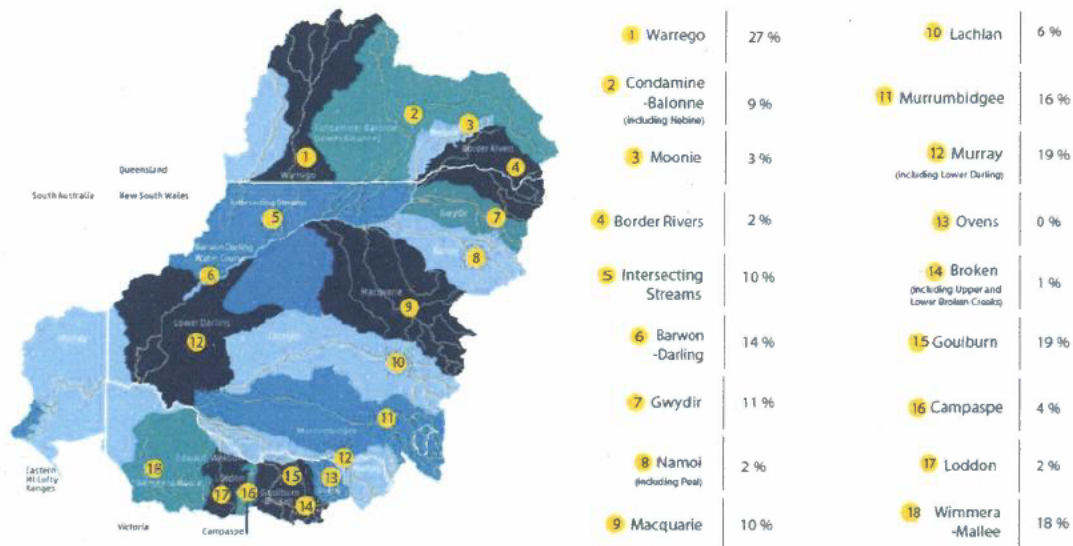
Commonwealth environmental water makes up a very small portion of all water stored across the Basin. Commonwealth environmental water carried over into 2019-20 was equivalent to approximately 2.2 per cent of the capacity of public water storages across the Basin. At 31 August 2019, the total amount of Commonwealth environmental water in public dams and other storages as a percentage of the Basin-wide storage capacity remained at 2.2 per cent. The CEWH publishes carryover information on its website to increase transparency in the management of the portfolio<sup>13</sup>.

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<sup>12</sup> Water users in regulated systems hold water in storages which may be available to use later in a water year, or in future water years in accordance with state-based laws and regulations.

<sup>13</sup> <http://www.environment.gov.au/water/cewo/about/water-holdings>

Commonwealth Environmental Water Holdings as a percentage of the MDBA Baseline Diversion Limit (as at 30 June 2019)



### Trading environmental water

In the event that a decision is made by the CEWH to trade water, this must be for the sole purpose of protecting or restoring the environment. Selling water to other users can only be considered if it does not detract from environmental outcomes. The Water Act sets out the conditions under which Commonwealth environmental water can be sold and prioritises how the proceeds can be used. Water can only be sold in the following circumstances:

- If water allocations are not required in the current year to meet environmental objectives and cannot be carried over for use in the next year.
- If water allocations are not required to meet environment objectives and, if retained, would likely reduce future allocations due to account limits being reached.
- If the proceeds are used to purchase water that would improve the capacity to achieve the environmental objective set out in the Basin Plan through environmental water use.
- If the proceeds of water allocations can be used for environmental activities that would improve the capacity to achieve the environmental objective set out in the Basin Plan and are complementary to environmental water use.

Owing to the formulation of the Water Act, the last two circumstances require that the risk of lost environmental outcomes from not providing the water to the environment are part of the consideration.

As a government entity, the CEWH and CEWO staff must also comply with a wide range of existing legislative requirements. This includes: financial management arrangements for Commonwealth agencies; freedom of information; and policies relating to information management, auditing, employee conduct and accountability. As the Commonwealth holds

environmental entitlements across four states, the CEWO must also comply with the water trade and water resource management frameworks of those states.

All trading activities are guided by the *Commonwealth Environmental Water Trading Framework*<sup>14</sup>. This makes sure all trades comply with operating rules, protocols and procedures for buying or selling water, including the Basin Plan water trading rules.

The framework ensures that trading activities:

- support enhanced environmental outcomes;
- have regard to social and economic outcomes;
- consider impacts on the market, including any third-party impacts;
- are undertaken in a manner which meets legislative requirements;
- are financially responsible, fair, equitable, transparent and accountable; and that
- the CEWH and CEWO staff act with integrity and high ethical standards.

The CEWH is a leader in water market transparency and openness, publishing a quarterly update that signals what trading actions are being considered<sup>15</sup>. When trades are undertaken, processes are used to minimise barriers to access for market participants.

To date the CEWH has sold 60.7 gigalitres of water allocations through five open tenders that resulted in 116 trades, raising \$18.6 million. Less than 0.6 per cent of the allocation received by the CEWH since 2008-09 have been sold to date.

The CEWH will always use water directly for environmental outcomes where possible. The Commonwealth Environmental Water Holder can only trade to meet environmental objectives, not as a profit-making enterprise<sup>16</sup>. In any year, we use the majority of the water available to us for environmental flows. We keep some water in our accounts as carryover for the following year. Trade opportunities are considered as they arise, but we only expect to infrequently trade small proportions of water.

The trade of Commonwealth environmental water must be undertaken for environmental purposes but it can also provide a benefit to other market participants. For example, in January 2014, 10 gigalitres of Commonwealth environmental water allocations were sold in the Gwydir catchment of northern New South Wales. Conditions for a sale of temporary water allocations in the Gwydir were favourable at the time because the needs of the environment had largely been met and there was strong demand for water from irrigators due to drier than normal conditions. This meant that irrigators obtained access to water to finish off their crops.

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<sup>14</sup> <http://www.environment.gov.au/water/cewo/publications/water-trading-framework-nov2016>

<sup>15</sup> <http://www.environment.gov.au/water/cewo/trade>

<sup>16</sup> Extracted from the Explanatory Memorandum to the *Water Act 2007* Amendment Bill