

Senate Standing Committee on Environment and Communications
Legislation Committee
Answers to questions on notice
Environment portfolio

Question No: 64
Hearing: Additional Estimates
Outcome: Outcome 6
Programme: Commonwealth Environmental Water Office
Topic: Sale of Gwydir Valley water
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Question Date: 04 March 2014
Question Type: Written

Senator Rhiannon asked:

1. Regarding the recent trade of some 10 billion litres of environmental water in the Gwydir Valley: What exactly were the circumstances or criteria that drove the sale of environmental water in the Gwydir Valley?
2. Surely some additional environmental benefits could have been gained by using the water in the area – why were they not pursued?
3. What constraints to environmental water use and delivery prevented use of the additional water for environmental purposes?
4. Are the constraints to environmental water use or delivery in the Gwydir Valley mostly of a physical nature or are they rules based or related to the culture of water use in the area?
5. Are these constraints well recognised and understood in the local area? How can this be quantified or demonstrated?
6. Are these constraints well recognised and understood by the MDBA who are engaged in developing a 'Constraints Management Strategy'?
7. Are these constraints being actively considered by the MDBA as part of the 'Constraints Management Strategy'? How?
8. Are they being actively considered by any local or regional bodies in terms of addressing or mitigating their effects on the ability to use or deliver environmental water? If not, why not?
9. What would be the estimated cost of addressing these constraints?
10. Exactly how much water was sold, at what price, where from, by what process and to whom?
11. Exactly who made the decision to sell the water? Was there any consultation with any stakeholders involved in advance of the decision to sell the water?
12. Was the CEWH under any pressure from anyone in any government, any government department, any water users / irrigators or their representative bodies to sell the water?
13. What will the proceeds be used for? Who will make the final decision about how to use the proceeds? When will a decision be made about how to use the proceeds? Will there be a consultation process about how and where to use the proceeds of the sale?
14. What or who will be the main sources of advice to the CEWH about using the proceeds?
15. Beyond the Gwydir Valley and the context of the sold environmental water, what is considered to be the biggest or most significant constraints to environmental water use and delivery in the MDB?
16. How are these constraints being actively considered by the MDBA as part of the 'Constraints Management Strategy'?
17. What are the key additions that would be made to the existing 'Constraints Management Strategy' to optimise the effective and efficient use of environmental water?
18. What are the other priorities for optimising the use of environmental water?

Answer:

1. The sale of ten gigalitres of regulated water allocation in the Gwydir Valley was undertaken consistent with the *Water Act 2007* (the Water Act). The Water Act provides for the trade of Commonwealth environmental water allocations and entitlements, and specifies the conditions under which trade may occur. The sale of regulated water allocations in the Gwydir was undertaken under Section 106 (2) of the Water Act which states that Commonwealth environmental water can only be disposed of if the proceeds are used to acquire water that improves the capacity of the Commonwealth's water holdings to meet environmental objectives.

The Commonwealth Environmental Water Holder (CEWH) decided to sell part of the available allocations in the Gwydir because:

- the local floodplains required a drying phase after a number of consecutive wet years;
 - the Commonwealth had sufficient water in its accounts to sell some allocation without affecting its ability to meet current and foreseeable future environmental needs; and
 - in addition, there was strong market demand in the Gwydir which resulted in a good sale price and provided funds for achieving alternative, priority environmental watering consistent with the provisions in the Water Act.
2. The CEWH made an assessment that there is a high degree of certainty that the sale of allocations will have no material effect on the capacity of the holdings to meet current and foreseeable future environmental needs. After the sale of ten gigalitres of the Commonwealth's allocations, there remains almost 80 gigalitres of Commonwealth allocations in the Gwydir (and over 90 gigalitres of New South Wales environmental water), of which up to 20 gigalitres has been approved for use in the Gwydir Wetlands, subject to a natural trigger such as unregulated flows into the wetland or an announcement of supplementary water access.
 3. The main constraints to environmental water delivery in the Gwydir relate to third party impacts (flooding of private land and access) and channel capacity constraints. Third party impacts relate particularly to cropped areas adjoining watercourses in the Gwydir wetlands which constrain water delivery until after the harvest of winter crops, usually in mid November. In addition, limited channel capacity at peak irrigation times constrains environmental water use. Both of these matters have had some impact on the extent and duration of wetland inundation achievable in the Gwydir.
 4. Constraints to delivery of environmental water in the Gwydir are predominantly physical (low-lying private land and access, and limited channel capacity; see response to part 3).
 5. The constraints described above are well understood by potentially affected landowners. However, the impact of these constraints on the ability of environmental water managers to achieve environmental outcomes is being investigated further.
 6. The purpose of the Constraints Management Strategy (the Strategy) is to look at options to maximise the environmental benefits of returned water to the river system in ways that provide neutral or better outcomes to the community – such as improved capacity to cope with flows up to minor flood level. The Murray-Darling Basin Authority (MDBA) worked with all jurisdictions to identify the primary constraints to environmental water delivery which formed the basis of the Strategy. The MDBA is currently undertaking pre-feasibility assessments in key focus areas to further understand the nature of these constraints and what may be done to address them. The MDBA is working with state agencies in the Gwydir to ensure respective projects align.

7. There are seven key focus areas being assessed and considered as a part of the Strategy, including the Gwydir. In each area, the MDBA is undertaking an assessment of impacts and management options to address third party impacts. In the Gwydir, the MDBA is working with state agencies to understand these issues. Results from the MDBA's work will be reported to Basin ministers in November 2014.
8. The MDBA is working with local state officers in key focus areas. The MDBA and Commonwealth recognise and value the knowledge held by local staff and their assistance is vital for understanding the issues and ultimately the success of the Strategy.
9. A preliminary assessment of the estimated cost of addressing key constraints is a component of the current prefeasibility assessment being undertaken by the MDBA (including in the Gwydir). This will be reported to Basin Ministers in November 2014.
10. Ten gigalitres of Gwydir regulated water allocation was sold through a tender which ran from 21 – 23 January 2014. Sixteen offers were accepted out of a total of 35 valid bids¹ received from license holders in the Gwydir Valley regulated river source for a return of \$3.217 million. Prices of accepted offers ranged from \$306 per megalitre to \$401.50 per megalitre, with a volume weighted average price of \$321.74 per megalitre².
11. The decision to sell regulated water allocations in the Gwydir was taken independently by the CEWH. The CEWH did not consult with the local community on the decision to sell water, but did consult with the river operator (State Water) and water brokers, on market conditions.
12. No. The CEWH received an unsolicited submission from the Gwydir Valley Irrigators Association indicating strong demand for water from irrigators and an opportunity for a win-win outcome through trade. This submission was received after the CEWH had identified the potential trading opportunity in the Gwydir.
13. As required under Section 106 (2) of the Act, the proceeds from sale of allocations in the Gwydir will be used to acquire water within the Murray-Darling Basin that improves the capacity of the Commonwealth's water holdings to meet environmental objectives. The decision on how and where to use the proceeds will be taken independently by the CEWH, informed by environmental needs within the Murray-Darling Basin, and consultation with river operators and water brokers on market conditions.
14. In deciding how to use the proceeds, the CEWH will be informed by: the Murray-Darling Basin Plan environmental watering plan; the Murray-Darling Basin Plan water trade rules; relevant existing Commonwealth and state government legislation; environmental needs within the Murray-Darling Basin as determined through annual water use planning in collaboration with state government departments and agencies, river operators, catchment management and land service agencies, local environmental watering advisory groups, wetland managers, holders of environmental water, landholders and communities and the MDBA. The Commonwealth Environmental Water Office's interim portfolio management planning framework also guides decisions on water use, carryover and trade and is available at: <http://www.environment.gov.au/resource/managing-commonwealth-environmental-water-portfolio>.

¹ A total of 54 bids were received however 16 were withdrawn and 3 were submitted late.

² Volume weighted average price is the total value of the water traded divided by the total volume traded.

15. Environmental watering has been undertaken throughout the Murray-Darling Basin over many years. As well as uncovering challenges, this experience has resulted in valuable knowledge being attained and forms the basis of some outcomes the MDBA has identified which are required to deliver environmental water effectively. The MDBA has been looking at opportunities to get better environmental outcomes by changing the way river structures are managed and revisiting some of the management practices in place, while still retaining the benefits of river regulation.

16. The purpose of the Strategy is to look at options to maximise the environmental benefits of returned water to the river system in ways that provide neutral or better outcomes to the community; such as improved capacity to cope with flows up to minor flood level.

The Strategy outlines a ten year process to identify and address constraints to activities further assessed in the seven key focus areas, prioritising the operational and management constraints and undertaking the Basin-scale analysis. Over the coming months, MDBA officials plan to meet again with communities to discuss new information and to build on the previous information the MDBA has collected. The outcomes of this years work will be reported in the first Constraints Management Strategy Annual Report, which will be presented to Basin ministers in November 2014 and then made publicly available.

17. The Strategy is the start of a comprehensive ten year process to provide advice to Basin governments for their work on addressing key constraints over coming years. Last year, the MDBA held a public comment period on the draft Strategy. Key additions were made to the Strategy as a result of this consultation and the feedback is publicly available in the document public feedback report, Draft Constraints Management Strategy. Over the coming months, the MDBA plans to meet again with communities to discuss new information and to build on the previous information the MDBA has collected. The outcomes of this work will be reported in the first Constraints Management Strategy Annual Report, which will be presented to Basin ministers in November 2014 and then made publicly available.

18. In addition to resolving constraints, optimising outcomes from environmental water involves active management to respond to environmental, seasonal and operational conditions. Active management aims to make water available when and where it can achieve the maximum environmental benefit and requires decisions on whether water may be:

- delivered within the current year to meet environmental needs;
- carried over to future years to meet future environmental needs; or
- traded (disposal or acquisition).