

Amended June 24 2009

FACT SHEET

NO. 20a

WATER SHARE PURCHASE

Produced by Goulburn-Murray Water

INTRODUCTION

The Victorian Government, as part of its Our Water Our Future action plan, has made the decision to close Lake Mokoan and return it to the original Winton Wetlands, a decision supported by other states and the Commonwealth.

The project will secure a reliable and viable water supply for irrigators while undertaking one of the biggest wetland restoration projects in the nation's history. This will make over 46,000 mega litres (ML) of water available each year to directly improve the health of the Broken, Goulburn, Snowy and Murray Rivers.

NEED FOR WATER SHARE PURCHASE

A range of measures is required to ensure that the Victorian Government's commitment to maintain reliability in the Broken System at 91% at current use after the lake is closed. In October 2006, the Mokoan Project Control Board released 4 options or packages, each providing measures to maintain existing supply reliability, for comment by irrigators. Of the 4 Offset Packages developed, Package "A" has been selected as the preferred package as it entails the least amount of infrastructure and the highest amount (now reduced) of water share purchase. This table below explains further what is included in this package and the current status of each component:

No	Offset Package "A" – components	Status
1	Tungamah Pipeline	completed
2	Mawson/Burnbrae Water share Purchase	
3	Remote Control and Monitoring of Lake Nillahcootie	
4	Remote Control and Monitoring of Broken River Weirs	installation in progress
5	Remote Control and Monitoring of Broken Creek Weirs	
6	Flow Monitoring of Catchment Streams	
7	Dynamic Real-time Monitoring of Irrigation Diversion Flow Meters	
8	Rain rejection storage Lake Mokoan inlet channel (300ML capacity)	design in progress
9	Supply into Broken River downstream of EGM	awaiting water share purchase outcome
10	Pump Station and Pipeline to supply irrigation diversions 2km up-stream of EGM to Violet Town Boundary Rd from EGM	
11	Piping of Supply to Major Creek Area	
12	Off-line Storage within Broken Creek System	
-	Purchase of 2,170 ML of Broken water share	in progress

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The offset packages initially identified the volume of water share purchase required from the Broken system could range from 1,150 to 4,640 ML however based on analysis of the system over the last 4 years, in particular since the Tungamah Pipeline project was completed, it has been shown that the project has delivered significant reduction in losses from Broken Creek. It is now only necessary to purchase up to 2,170 ML of high reliability water share as part of the reliability offset package.

Water share purchase is often referred to as entitlement purchase, these two terms are interchangeable, with no differentiation in meaning. Goulburn-Murray Water (G-MW) chooses to use the phrase 'Water Share Purchase' for consistency with other water authorities.

FREQUENTLY ASKED QUESTIONS

Q1. WHY IS WATER FOR RIVERS INVOLVED?

Water for Rivers (WfR) has been asked by the Victorian Minister for Water, to undertake the water share purchase component of the Lake Mokoan Decommissioning Project. Letters of offer to purchase water shares have been sent to irrigators by Water for Rivers as part of that project.

Water for Rivers is a company whose shareholders are the State Governments of Victoria and New South Wales and the Federal Government. Water for Rivers was established to recover water savings for environmental flows in the Snowy and Murray River systems by investment in water efficiency projects and entitlement purchase. On this basis, Water for Rivers is an investor in the Lake Mokoan Decommissioning Project.

Q2. WHY WAS THE VFF PROPOSAL NOT ADOPTED?

Water for Rivers has reviewed the history and associated information relating to the Project and met with the VFF subcommittee representing the Broken River catchment water users. The VFF alternative proposal was to reduce the consumptive pool by approximately 10,000 ML through a targeted water share purchase below Gowangardie Weir and along Broken Creek. This had expected benefits of increasing the funds available for water purchase through avoided infrastructure works and additional system water savings.

This would also improve the ability of the system to provide required service levels and improve reliability of supply to remaining irrigators of greater than the Government's commitment to 91% at current uptake.

The VFF proposal had a number of worthwhile aspects and has assisted in the development of a final offer by Water for Rivers. The assessment process has provided useful insight into the needs of the Broken System irrigator community.

However, there were two main reasons why the VFF proposal was not acceptable to the Government. Firstly, the price sought was above what the project could afford and what the Government considers as reasonable in light of the Valuer General's report. Secondly, the level of reliability sought was beyond what the Government has committed to provide.

Q3. WHY ARE OFFERS ONLY BEING MADE TO IRRIGATORS BELOW CASEY'S WEIR?

Water share below Casey's Weir, and in particular Broken Creek, Majors Creek and the lower sections of the Broken River, will be targeted to maximise water savings and allow improved control of water losses and potentially reduce the extent of offset works.

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Equally important will be the need to determine the future services required for irrigators to minimise future operating costs and, hence prices for the Broken system. At the request of the VFF Irrigators sub-committee, service level impacts for those irrigators downstream from the current Mokoan site were reviewed in 2008. This concluded that the rain rejection storage, together with improved system operations from increased monitoring and control capabilities, will assist in overcoming any system shortfalls. Other service improvement measures are also being considered, but are subject to the outcome of the water entitlement purchase program. More information will be made available as this comes to hand.

Q4. HOW MUCH WATER SHARE WILL BE PURCHASED?

It has been confirmed that 2,170 Megalitres (ML) of water share purchase is required to complete the offset measures, along with four infrastructure projects. Water for Rivers have allowed for the following possible outcomes:

1. If no expressions of interest for sale are received, then the infrastructure projects will be implemented and the required water entitlements will be purchased on the open market as they become available over time.
2. If 2,170 ML of purchase is achieved, the infrastructure upgrades and offsets will be implemented as planned to complete the reliability offset package.
3. If up to 3,285 ML of purchase is achieved (the limit of the entitlement purchase budget), the upgrade and offsets will go ahead as originally planned but the reliability of supply would improve beyond 91 % at current levels of uptake. This is due to the additional 1,015 ML being reduced from the consumptive pool and left in the system to benefit remaining irrigators.

4. If between 3,285 ML and approximately 5,000 ML of purchase is achieved, offers will be assessed in light of benefits they may offer to avoid some of the remaining planned infrastructure offset works.

5. If approximately 5,000 ML of purchase is achieved (the exact amount depends on the location of what is offered), the infrastructure works are determined as not being required.

It should be noted that as part of the water share purchase process, Extraction Shares would be reviewed in proportion to the volume of the water share sold. Refer also to Q.19

Q5. IF EXPRESSIONS OF INTEREST ARE RECEIVED FOR MORE THAN 5,000 ML, WHAT SELECTION CRITERIA WILL BE USED TO DETERMINE WHAT WILL BE PURCHASED?

If greater than the volume required to avoid the infrastructure works is achieved, any further purchase will result in a range of impacts and as such will require further careful consideration.

There are a number of factors that will be considered. Purchases will be selected where optimal outcomes are provided, including avoidance of infrastructure, contributions to loss reduction and protection of level of service. In support of the above factors, consideration will be given to acceptance of offers to sell all entitlements (less appropriate allowance for D&S) in preference to offers for partial sale of entitlement.

WfR will refer details of offers onto the DSE/G-MW Project Team and Mokoan Project Control Board for decisions on which offers provide the best overall outcomes, in the event that offers exceed 5,000 ML, and which infrastructure should proceed in the event of offers between 3,285 and 5,000 ML.

Q6. WILL WATER SHARES PURCHASED FROM THE BROKEN SYSTEM BE SOLD BACK TO DOWNSTREAM IRRIGATORS, AND THEREFORE NOT BENEFIT THE ENVIRONMENT AT ALL?

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No, any water share purchased as a reliability offset will be “retired” and thereby converted into river flow that cannot be diverted for irrigation. A proportional adjustment will be made to the maximum extraction share to reflect the remaining water share.

The Bulk Entitlement (BE) lists the volume of water that can be taken from the Broken River to supply water share holders (farmers with licences). The BE volume equals the total volume of licences held by farmers. If the Government or G-MW purchases water shares, G-MW will apply to have the BE volume reduced by the purchased amount. Once the BE is reduced there is no extra water available for allocation or trade further downstream or within the system.

This water share purchase and retirement from the Broken System will maintain Broken system reliability and provide more environmental flows on the Broken, Goulburn, Murray and Snowy Rivers.

Q7. WILL ANYONE BE FORCED TO SELL THEIR WATER SHARE?

No, purchase of water share only from willing sellers will be considered.

Q8. HOW WILL THE WATER SAVINGS BE MONITORED AND ACCOUNTED FOR TO ENSURE THAT THEY ARE DELIVERED?

Bulk Entitlements for the Broken, Goulburn and Murray systems will be amended to recognise the volumes of water saved and translated to unregulated, environmental flows.

Water savings volumes will be confirmed through an independent audit of the system operations model.

This audit will be undertaken by an independent consultant accredited by the Murray-Darling Basin Authority.

Monitoring will be through the compliance auditing of the Broken System BE and the Murray-Darling Basin Cap.

Q9. WILL THE SALE OF WATER SHARE AFFECT PROPERTY VALUES?

Property values are dependent on, but not limited to factors such as location, rainfall, aesthetics and water supply. These factors will vary between properties. Individuals considering selling some or their entire water share will need to make their own assessment as to the impact of the sale of water shares.

Q10. WHERE CAN IRRIGATORS, WHO MAY BE INTERESTED IN SELLING WATER SHARE, ACCESS ADVICE ON WHAT FARM CONFIGURATION OPTIONS ARE AVAILABLE AND ASSOCIATED COSTS?

Irrigators who wish to seek independent expert advice to assist them in assessing the offer are encouraged to engage the Department of Primary Industry. They can provide advice on options available to adapt to a new farming enterprise arrangement with reduced water share. Arrangements can be made by contacting Denis Santamaria, Water for Rivers Project Director on 0417 011 249.

Q11. HOW MUCH WATER IS ALLOWED TO BE KEPT FOR D&S AND STILL DEEMED TO BE A TOTAL BUYBACK?

There is no restriction on how much water share a diverter may choose to sell but they are strongly advised to retain a volume for domestic and stock use.

Diverters should ensure they retain sufficient entitlement for their D&S requirements. The nominal 2.0 ML for domestic and stock use may be insufficient for large households or for large holdings with significant stock numbers.

Q12. WHO WILL COVER ANY TRANSACTION COSTS ASSOCIATED WITH THE SALE, SUCH AS EXIT FEES?

There are no exit fees associated with the sale. Water for Rivers will pay for all lodgment fees associated with the sale.

Q13. WILL RECIPIENTS OF A PAYMENT FOR SALE OF THEIR WATER SHARE TO G-MW BE TAXED ON THE REVENUE THEY RECEIVE?

The transaction will be a sale of water and will be subject to the same tax rules as for any sale of a capital item. The level of tax incurred depends on a range of factors and potential sellers should consult their accountant for advice.

Q14. AT WHAT POINT WILL IRRIGATORS WHO SELL WATER NO LONGER HAVE ACCESS TO THAT WATER?

In recognition of recent suggestions by irrigators, as a matter of equity, it has been agreed that as a condition of the sale of water entitlements to Water for Rivers, a set date being 31, August 2009, will be adopted to define the allocation and carry-over associated with that water share which will be retained by the seller. In the event that sale transactions are not completed by 31 August, then as a condition of the sale the seller will waive the right to any allocation increases which may arise between 31 August and the sale completion date.

Q15. IF RIPARIAN RIGHTS ARE HELD IS IT NECESSARY FOR A WATER SHARE FOR DOMESTIC & STOCK PURPOSES TO BE RETAINED?

It is strongly recommended that water share holders plan to retain sufficient water shares to meet their expected domestic and stock requirements.

Landowners whose properties directly adjoin the stream may have riparian or private rights. A riparian or private right does not allow a landowner to have or install works to access water.

Riparian or private rights will not be extended to any land parcels created from future subdivisions of land which currently has this access.

G-MW is not obliged to operate a regulated supply system to meet water requirements under riparian or private rights.

The Northern Region Sustainable Water Strategy is currently reviewing riparian and private rights.

Q16. WHAT IS THE STATUS OF THE INTRODUCTION OF BASIN PRICING INTO BROKEN BASIN?

Goulburn-Murray Water has announced a policy to introduce basin pricing across the whole of its area of operation. It has deferred setting a start date for implementation to allow time for the development of a transition strategy that addresses a range of evolving issues and customer needs.

In developing a transition program, G-MW will consider issues associated with environmental entitlements and inter and intra basin trading, undertake further consultation on cost models and cost apportionment arrangements with its customer committees and take account of emerging ACCC directions and developments that may impact on G-MW's future pricing paths.

G-MW has decided that once a date for implementation of basin pricing is agreed, implementation will take place simultaneously across all basins.

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Q17. GIVEN THAT BUYING WATER SHARES REDUCES THE IRRIGATORS IN THE AREA, WILL THERE BE AN ASSOCIATED COST OF WATER TO THE REMAINING USERS?

The cost of operating and maintaining new infrastructure being added to the Broken system combined with levels of entitlement purchase up to approximately 5,000 ML will result in similar water charges to those associated with operating and maintaining the current Lake Mokoan infrastructure.

Effectively, after the introduction of Basin Pricing, the water charges for the with-decommissioning case and the without-decommissioning case will be similar. The level of impact will depend on the level of uptake in the entitlement purchase offer.

Indicatively, the possible pricing outcome for the combination of infrastructure and entitlement purchase or entitlement purchase only, up to approximately 5,000 ML, with basin pricing in place, would see a price range of the order of \$45/ML to \$55/ ML.

Any purchase of entitlement in excess of 5,000 ML would see a gradual increase in the price range as the size of the remaining entitlement pool decreases.

Q18. WILL THE BROKEN SYSTEM BE OPENED UP FOR TRADE IN THE FUTURE?

Under the National Water Initiative Agreement, Victoria is obliged to consider opening up of all systems to trade. No decision has been made on when this consideration would be done, except that it would follow the decommissioning of Lake Mokoan.

However, before any decision was made regarding new trading rules in the Broken System, a review of all the potential impacts of such a change would have to be done and key stakeholders consulted.

Q19. WHEN ACCEPTING THE BUYBACK, WHAT EXACTLY IS BEING TAKEN, IE WATER SHARE, EXTRACTION SHARE?

Offered High Reliability Water Share (HRWS) together with corresponding component of Low Reliability Water Share (=HRWS*0.21)

The Works Licence will be amended to include a reduction in the Extraction Share proportional to the reduction in Water Share.

In the event that all entitlement is sold, the Works Licence will be cancelled and the works decommissioned.

Q20. IF YOU SELL ALL OR PART OF YOUR WATER ENTITLEMENT WILL YOU BE ABLE TO BUY WATER AT A LATER DATE (TEMPORARY OR PERMANENT) AND OPERATE AN IRRIGATION SYSTEM

As a condition of the sale of water entitlement, the seller agrees to not purchase any water in the Broken system for use on the property from which the water entitlement has been sold, for a period of 5 years.

Q21. WILL BROKEN CREEK DIVERTERS WHO DO NOT SELL ANY OF THEIR ENTITLEMENT TO WATER FOR RIVERS BE ABLE TO PURCHASE ADDITIONAL WATER, TO IMPROVE THEIR RELIABILITY IN THE FUTURE?

This will be determined on a case by case basis.

Where the water share purchases realise water savings and improvements in the reliability of the remaining entitlements, G-MW will need to carefully consider all future applications to trade water shares or extractions shares back into areas where these trades could result in a subsequent unacceptable increase in losses, reduction of the Broken system reliabilities, reduction in water savings and adverse impacts on level of service.

Upper Broken Creek is defined as a distribution system in the Broken BE. It has a loss entitlement. Loss entitlements need to be provided for before seasonal allocations are made.

G-MW proposes to reduce the Upper Broken Creek loss entitlement following purchases of water shares by WfR, to reflect reduced loss requirement.

Sufficient loss entitlement would be retained to preserve the deliverability of remaining water shares.

Trade back into the Upper Broken Creek would not be prevented, so long as no adverse impact was created for environment or other users, in accordance with Trade Rule 26.

A way to avoid an adverse impact would be for the purchaser of water shares on the Broken Creek to transfer to G-MW water shares sufficient to cover the additional loss associated with delivery of the purchased water.

Q22. HOW MAY FUTURE O&M COSTS AND CUSTOMER PRICING BE AFFECTED BY THE TOTAL VOLUME OF ENTITLEMENT PURCHASE UNDERTAKEN BY WATER FOR RIVERS?

If further infrastructure is installed, the cost to G-MW of operating and maintaining the Broken system will increase as will the price paid for water by Broken diverters.

If further infrastructure is replaced by entitlement purchase (up to approx 5,000 ML), the additional operations and maintenance costs are avoided. However, the reduced customer base means that the price for water paid by remaining Broken diverters would be similar to that paid if an infrastructure solution had proceeded.

Purchasing more than 5,000 ML would result in a progressive increase in tariff due to the declining customer base. Refer also to Q17.

Q23. WHEN SOMEONE OFFERS A PORTION OF THEIR HIGH RELIABILITY ENTITLEMENT, WHAT IS THE APPROPRIATE PORTION OF LOW RELIABILITY ENTITLEMENT THAT THEY SHOULD OFFER UP?

Under unbundling, the ratio of LRWS to HRWS was 21%. Hence if 100 ML of HRWS is offered, then it is expected that 21 ML of LRWS would also be offered. The offer, whilst referenced in terms of volume of only the HRWS, is for ALL the entitlement, both LR and HR, at the offer price of \$3,500/ML. Refer also to Q19.

For example, if 100 ML of HRWS is offered for sale, then 100 ML of HRWS plus 21 ML of LRWS will be traded for a total payment of \$3,500/ML by 100 ML or \$350,000.

Q24. WHEN SOMEONE OFFERS ALL THEIR ENTITLEMENT EXCEPT FOR SAY 2ML HIGH RELIABILITY FOR ONGOING DOMESTIC AND STOCK REQUIREMENTS, WHAT WILL BE THE CORRESPONDING ACTIONS WITH RESPECT TO CHANGED EXTRACTION SHARES?

The Works Licence will be amended to indicate that in the event that 2 ML of HRWS is retained, the Extraction Share will decrease to 0.02 ML/d. The Works Licence conditions be changed to reflect diverter's infrastructure will be limited to a pump suitable for delivery of water for D&S purposes only, with corresponding infrastructure to be installed by the diverter. This may require existing irrigation pumps to be decommissioned.

Q25. IS IT LIKELY THAT DOMESTIC AND STOCK SUPPLIES WILL BE METERED IN THE FUTURE?

The current metering program is focused on water shares greater than 10 ML. Metering for 2 ML water shares is not a requirement under current business rules, but this does not preclude the possibility of meters being installed in the future for water shares less than 10 ML.

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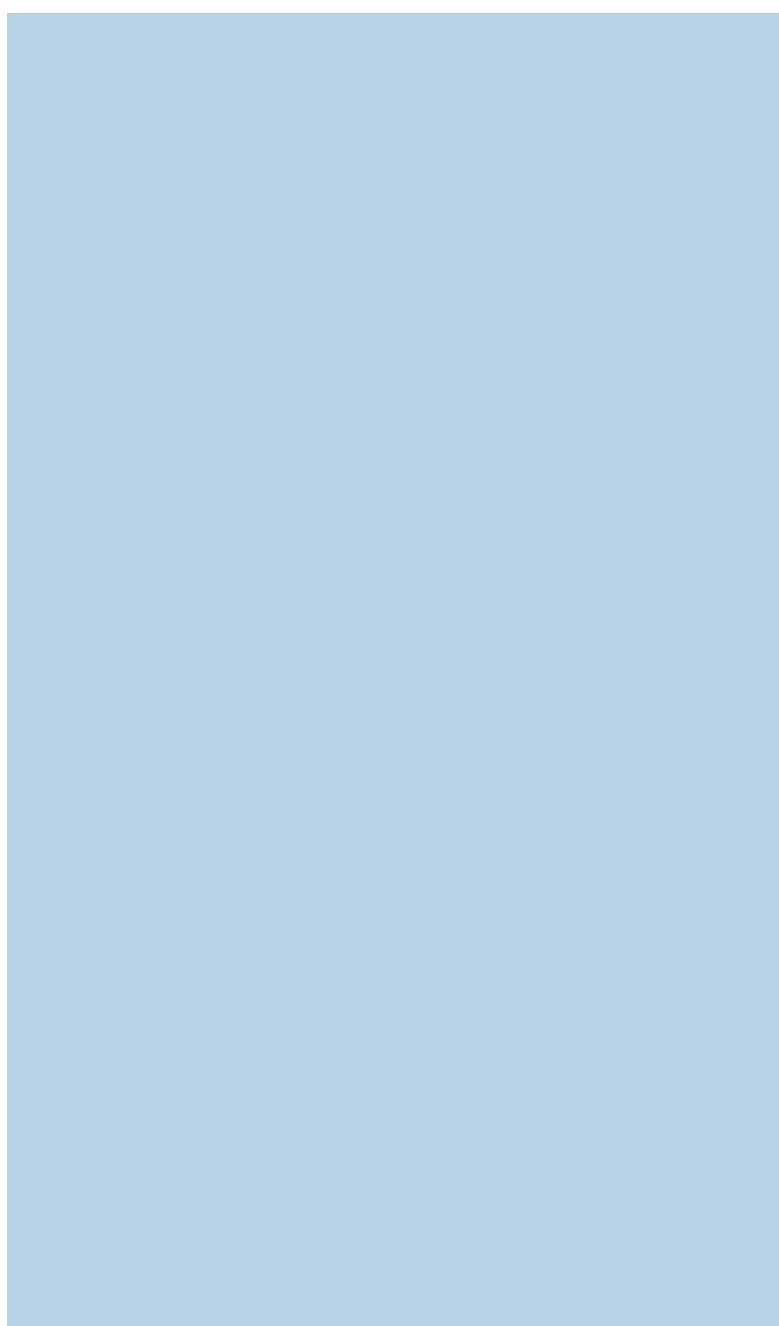
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Current G-MW policy is that all amended or new licences for D&S are required to be metered at owner's cost prior to extraction. Therefore any such remaining infrastructure would need to be metered at owner's cost.

Q26. CAN WATER SHARES CURRENTLY HELD BY A NUMBER OF PARTIES UNDER ONE LICENSE AND NOT YET UNBUNDLED, BE UNBUNDLED TO ALLOW 100% SALE OF ONE WATER SHARE AND NO SALE OF THE REMAINING WATER SHARE/S , WITHIN THE TIMEFRAME OF THE WfR PURCHASE PROCESS?

Currently there is a total of 2.7 GL (17 No.) where ownership of the water shares has not yet been confirmed. The process for confirming ownership of water shares is in place and is administered by the Victorian Water Registrar, supported by G-MW. There appears to be no impediment to the parties making application as soon as possible. Such applications would be processed by the Water Registrar in normal timeframes.



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