

Water Trading Tool Kit - Fact Sheet 4

Water price – what will it be?

Introduction

In Victoria, allocation trade was first introduced in 1987, followed by permanent trade in 1991. Over time the water market has grown and matured. Trading is now part of doing business for most enterprises. In NSW allocation trade was first introduced in 1983 with permanent trade of entitlements in 1995.

There are two water markets: one for water shares (previously referred to as permanent trade) and one for allocation water (previously referred to as temporary trade). The trade of water shares will tend to be less volatile than allocation trades, but they are a significant investment and need careful consideration.

As with buying and selling any product or commodity where values vary, information on prices paid and volumes trading are important in determining an appropriate price. A large amount of information is now readily available from State water departments and water authorities. Water brokers are also providing regular updates and information on trades for their clients.

Water share trading

Since water trading was introduced, the value of water shares has generally increased but it has not been a steady or predictable with a range of both market and non-market drivers on price as well as seasonal influences.

Figure 1 shows HRWS water price movement on the Goulburn system since 1990-91.

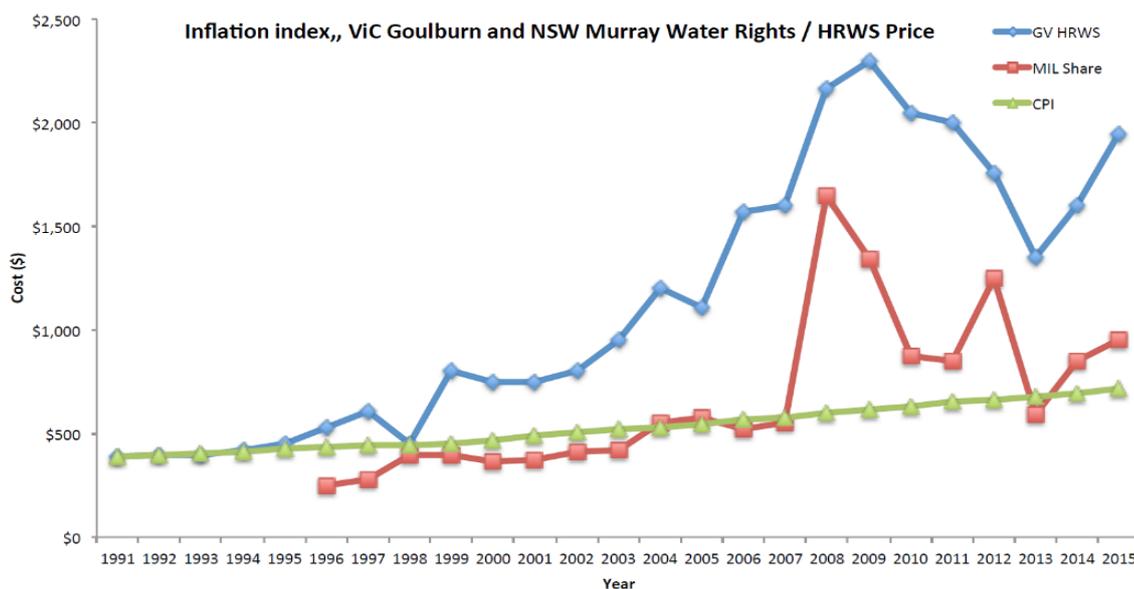


Figure 1: Goulburn Irrigation System HRWS and NSW General Security entitlement prices¹

¹ Water prices are indicative only and data has been sourced from various sources including Dairy Australia Water Availability – Background Paper RMCG (August 2009), Henning Bjorland University SA, National Research Flagships – A Summary of Water Trade and Price Data for the Southern Murray-Darling Basin CSIRO (June 2011). NSW General Security entitlements value-based on Murray Irrigation entitlement trade information at September of each year. Refer to Water Trading Tool kit for additional notes on looking at the value of water over time.

Allocation Trade

Allocation trade prices over the past decade have ranged from \$5/ML to more than \$1000/ML, which demonstrates the volatility that can exist in the market. Water availability is a major influence on allocation water price. Irrigators need to take into account what is happening across the entire southern-connected MDB and should not be focused only on their own irrigation system.

Table provides examples of recent irrigation seasons aligned to one of the scenarios described above, along with the median allocation price in that year. The median allocation price is based on the allocation price on the Goulburn system.

Table 1: Allocation price aligned to the different seasonal scenarios

Scenario	Allocation level	Irrigation season close to the seasonal scenario description	Median allocation price/ML – Goulburn System ²
Wet	100 % HRWS, 100% GS, Some allocation against LRWS	2011-12	\$20
Medium – Wet	100% HRWS 70–100% GS, 0% LRWS	2012-13 (100% NSW GS)	\$45
Medium	100% HRWS, 50–70% GS, 0% LRWS	2014-15 (61 % NSW GS)	\$120
Medium – Dry	100% HRWS, 0–50% GS, 0 LRWS	2009-10 ³ (34% NSW GS)	\$165
Drought	<100 % HRWS, 0% GS, 0% LRWS.	2007-08 (0% NSW GS) HRWS <100%	\$400

It is important to note that while history is not necessarily a guide to the future, Table 1 does show an obvious relationship between allocation price and water availability that is nothing new to irrigators. What is not so obvious is that in the medium years, allocation price varied from \$45/ML to \$165/ML when HRWS allocation in most valleys was at 100%.

What changed significantly between those three years was the allocation against NSW Murray GS. In the medium-wet scenario (2012-13), GS allocation was at 100%, the medium scenario (2014-15) GS allocation was 61%, and in the medium-dry scenario (2009-10) GS allocation was 34%.

There will always be other influencing factors affecting allocation price, however particularly in the medium scenarios, NSW GS allocation is a price indicator and needs to be considered when irrigators are working through their water purchasing strategies.

Further Reduction – full implementation of the Murray-Darling Basin Plan

Current water availability will be further reduced with the full implementation of the Murray-Darling Basin Plan (MDBP). The plan is set to recover 2750 GL for the environment; more than 1900GL has so far been recovered through buybacks and water-saving projects. Although the Australian Government has announced that it will not secure additional water through more direct buybacks, securing water through government-funded on-farm water efficiency programs will still cause a reduction in the consumptive pool as farmers transfer entitlements equal to a portion of water savings achieved. Irrigators will need to keep informed about the progressive implementation of the MDBP and its implications for water availability.

² Median allocation prices is for the Goulburn system and sourced from the Victorian Water Register.

³ 2009-10 year had 100% HRWS for all valleys except the Goulburn system which had a 71% HRWS allocation. It is considered that this is a reasonably close to the Normal “dry” conditions.