

Water Trading Tool Kit - Fact Sheet 10

Securing your water needs

As the water market has matured, more products are now available for individual irrigators to access water. Options include:

- Owing entitlement and gaining access through seasonal allocations
- Leasing entitlement from others and then gaining access through seasonal allocations
- Entering into a forward contract for delivery of allocation water in the subsequent season
- Purchasing allocation water directly from the market
- Using carryover on entitlements owned (or leased) to manage exposure to the allocation market from one season to the next.

The different products have a range of pros and cons. Irrigators need to assess their own position and determine the appropriate mix for their circumstances. Factors influencing the mix of products include:

- Attitude to risk
- View of the future in terms of water access and price
- Financial position
- Capacity and attitude to participation in the allocation water market.

There is no set recipe on the best mix of water products. Some irrigators can operate effectively with very little water ownership as they have a high capacity and willingness to participate regularly on the allocation market (high level of active management). Others with less time or with other business strengths will be vulnerable if they have a high exposure to the allocation market.

Irrigators need to ask themselves how important water is to their business. If the answer is very important, then they need to develop a risk management strategy around access to water.

The Murray-Darling Basin Plan means less water is available for consumptive use, which is even further reduced if the last 20 years of inflows is a guide to the future. If we could predict the future, we would not need a risk management strategy, but as we can't, individuals need to determine the level of risk they are comfortable with and what protection measures are implemented.

More and more irrigators are critically assessing their water needs, with many considering a mixed portfolio to spread the risk. Mixed portfolios include ownership, leasing and some exposure to the allocation market.

The table on the reverse side of this fact sheet provides some of the things to consider when looking at different water access strategies.

Table 1: Advantages/disadvantages of different water access strategies

Water source	Advantages	Disadvantages
Ownership of entitlement	<ul style="list-style-type: none"> ▪ Access to water through annual allocations in perpetuity ▪ Reduced exposure to the allocation water market ▪ Benefit from any appreciation of entitlement value ▪ Provides some security of access to water at a known cost ▪ Provides access to carryover ▪ Low level of active management required 	<ul style="list-style-type: none"> ▪ Exposed to allocation risk ▪ Opportunity cost of capital – capital is tied up in ownership that could be used for other purposes ▪ Annual storage charges incurred ▪ Exposed to any depreciation of entitlement value
Leasing entitlement	<ul style="list-style-type: none"> ▪ Access to water through annual allocations for the term of the lease ▪ Reduced exposure to the allocation water market ▪ Generally less cost required to gain access compared to ownership ▪ Not exposed to any depreciation of entitlement value ▪ Provides some security of access to water at a known cost ▪ Provides access to carryover (need to check conditions on lease) 	<ul style="list-style-type: none"> ▪ Exposed to allocation risk ▪ No benefit to any appreciation of water entitlement value ▪ Annual storage charges often included on top of lease costs ▪ Medium level of active management required
Forward Contracts	<ul style="list-style-type: none"> ▪ Provides certainty to access to water at a known cost for the period of the contract ▪ Not exposed to allocation risk ▪ Reduced exposure to the allocation water market ▪ Generally less cost to gain access to water compared to ownership but more expensive than leasing ▪ Not exposed to any depreciation of entitlement value 	<ul style="list-style-type: none"> ▪ No benefit to any appreciation of water entitlement value ▪ Generally no annual storage fees (need to check details of agreements) ▪ Cost is set and therefore can represent a higher water cost if allocation water market drops below contract rate. ▪ No access to carryover ▪ Medium level of active management required
Allocation water market	<ul style="list-style-type: none"> ▪ No exposure to any depreciation of water entitlement value ▪ No annual storage fees ▪ No capital costs 	<ul style="list-style-type: none"> ▪ Exposed to the allocation market ▪ Exposed to allocation risk in the form of higher water prices (at low water allocations, water price will be higher) ▪ Require access to cash to purchase when needed as there are limited terms available when purchasing allocation water ▪ No benefit of any appreciation of water entitlement value ▪ No access to carryover ▪ High level of active management required



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