

What is environmental water trading?

Water trading is the process of buying, selling or exchanging rights to water.

Trade can be a permanent transfer of ownership of a water entitlement (an ongoing right to water), or trade of an annual water allocation (the physical water available in a given year).

Water markets in the irrigation supply systems in northern Victoria and the Murray-Darling Basin are well established and are commonly used by entitlement holders to manage water for irrigation, towns and the environment. In other regions in Victoria, while trade is possible, there are not always well-established processes.

Whether they be dairy farmers, almond growers, beef farmers, water corporations or environmental water holders, all market participants are subject to the same State and Commonwealth trading rules.

Under the Victorian Water Act, the Victorian Environmental Water Holder (VEWH) can buy, sell or exchange water to meet environmental needs.

Entitlement vs allocation

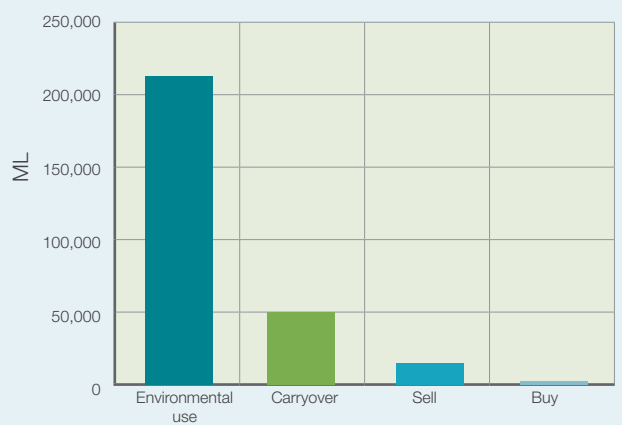
A water entitlement describes the maximum amount of water its owner is allocated in a given year. What is actually available to the entitlement holder in a given season often varies depending on climatic conditions – this is generally referred to as water allocation. For example in a wet season an entitlement holder would usually be allocated 100% of their entitlement, but in a dry season they might get less.

Why would the VEWH trade water?

The VEWH trades water to improve the health of Victoria's waterways. Trading helps ensure water is available when and where it is most needed.

Environmental water supply and demand across systems varies due to climatic and ecological conditions. Trading, like carryover (saving unused allocated water to use the following season), helps us smooth out some of that variability.

Figure 1. The volumes of water the VEWH used, carried over, sold and bought in 2014-15.



Proceeds from selling allocation can help us buy water in areas where we need it. For example, in a year when there is enough water to meet all needs in a system, we might be able to sell allocation to buy and deliver water in a system where we don't have enough.

Proceeds can also fund monitoring and river improvements.



Who decides if the VEWH trades?

Decisions to use, carryover or trade Victoria's environmental water are made by the VEWH as an independent statutory authority. The VEWH consists of three Commissioners, supported by a small team.

Our decisions about how best to use environmental water are based on advice from water managers, scientists and communities.

Can the VEWH trade water entitlements and allocation?

Yes. The VEWH hasn't bought or sold an entitlement (a permanent 'right to water') to date and we expect this type of trade to be infrequent.

The VEWH trades allocations to help manage the annual volume of water available for the environment.

We use allocation trade to:

- transfer water between the VEWH entitlements
- transfer water allocation with other environmental water holders for use
- receive water donations
- buy water allocation
- sell water allocation.

The most common trades we carry out are administrative water transfers, which involve transfers of water with no financial exchange (aside from application fees). These are usually transfers between VEWH entitlements, or with other environmental water holders.

Transfers between VEWH entitlements

Like farmers who have more than one farm or water entitlement, we can move our allocations between different entitlements. These administrative transfers basically involve moving water between our different environmental water 'buckets', helping to make sure the water is available where it is needed most.

Transferring water from the Yarra to the Thomson

In 2014, we transferred just under 4,000 ML of environmental water from our entitlement in the Yarra system to our entitlement in the Thomson system to meet the needs of a threatened fish – the Australian grayling.

Australian grayling spawn downstream of coastal river systems. The juveniles then spend time in the sea before migrating back upstream. River flows of specific duration and magnitude are needed to trigger spawning and return migrations.

There hadn't been any flows triggering the return of juvenile grayling to upstream since 2010. The water transferred from the Yarra system provided much needed flows in the Thomson River.

Transfers with other environmental water holders

Other environmental water holders, such as the Commonwealth Environmental Water Holder and the Murray-Darling Basin Authority in northern Victoria, transfer their water to the VEWH to use in northern Victorian waterways.

This occurs to:

- use environmental water in Victoria in a coordinated way
- maximise water availability across all regions
- return unused water to the source environmental water holder
- account for delivery of water to South Australia.

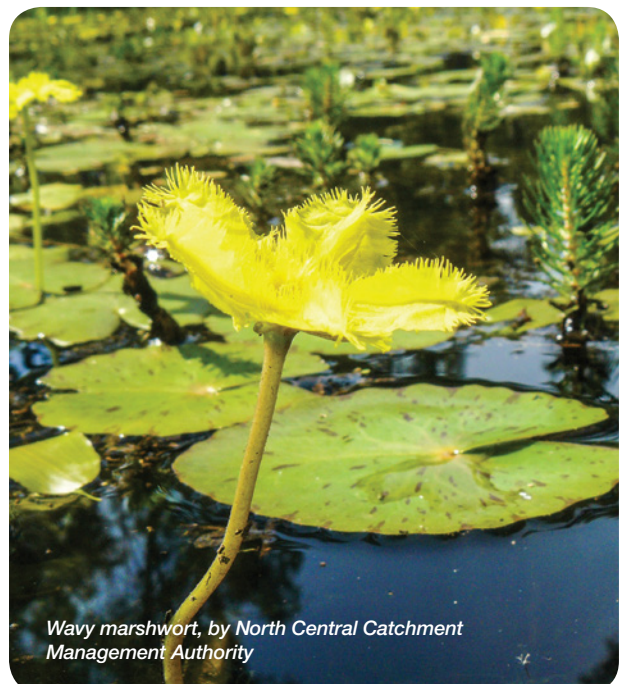
Transfers of Commonwealth environmental water

A large proportion of trade by the VEWH is simply moving water between systems and environmental water accounts.

For instance 384,056 ML of water allocated to the Commonwealth Environmental Water Holder was transferred into the VEWH's accounts to use in northern Victorian rivers and floodplains in 2014-15.

This water benefited the Goulburn, Campaspe, Loddon, and Broken systems and Hattah Lakes and Mulcra Island – resulting in golden perch spawning in the Goulburn River and improving fish passage and habitat in the lower Broken Creek.

Once environmental watering in a system is completed, unused Commonwealth water is transferred back to the Commonwealth Environmental Water Holder. A total of 53,064 ML returned to the Commonwealth in 2014-15.



Wavy marshwort, by North Central Catchment Management Authority

Water donations

We can receive water donations from individuals, community groups and other organisations.

This water can be used in the financial year it was donated or it can be carried over to use in the future.

Some donors may tell us how they want the water to be used (such as in a specific wetland or to protect a certain tree species). About 47 ML of water was generously donated to the VEWH in 2014-15. It was primarily used to water wetlands in the Mallee region and contributed to winter flows in the Goulburn River.

If you are interested in donating water to the VEWH to benefit the environment, please contact us on 03 9637 8951 or email general.enquiries@vevh.vic.gov.au.

Buying water allocation

We buy water to meet shortfalls in environmental demand and to mitigate risks, such as preventing the loss of a threatened species.

The VEWH has purchased relatively small amounts of water in systems such as the Loddon in northern Victoria, and in the Werribee and Maribyrnong systems in southern Victoria (in partnership with Melbourne Water), where there are smaller quantities of environmental water available.

Larger purchases may occur, but would be uncommon. Like all organisations we are constrained by funding and achieving value for money. The primary driver for us to buy allocation is critical environmental demand, and – due to the high cost of water – the water market is unlikely to be a feasible option for making up a significant demand shortfall.

Buying water for the Loddon

300 ML of water was purchased in 2013-14 to release into the Loddon River.

This contributed to delivery of a spring freshening flow. This flow is the highest priority environmental watering action for the Loddon River, and aims to provide movement opportunities for fish and help promote the establishment of appropriate vegetation in and on the banks of the river.



Water dragon, by East Gippsland Catchment Management Authority

Selling allocation

The VEWH has sold allocation that wasn't required for foreseeable priority environmental watering and where it was a better option than carrying it over or unable to be carried over.

All proceeds from the sale of environmental water is used to purchase water to meet shortfalls in other systems, or to invest in monitoring, technical or small structural works, or other improvements.

Decisions to sell depend on unfolding climatic conditions and environmental water demands. Environmental water demand is highest in winter and spring (since this is when nature would usually boost streamflow).

Decisions to sell water have typically happened from early December onwards, once peak demand has passed.

Trading allocation in northern Victoria

Following the spring environmental watering period in 2014, a demand-supply assessment was done across the VEWH's northern region entitlements. It was determined that up to 8,000 ML of Goulburn and Murray allocation could be sold on the water market.

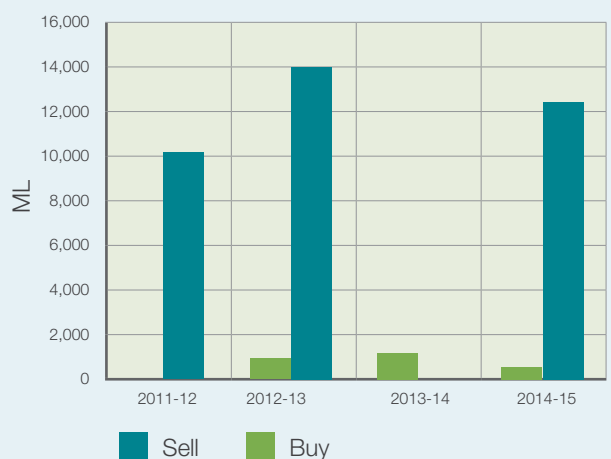
Following another assessment in March 2015, the VEWH sold a further 5,000 ML.

These sales were made because we forecast that foreseeable environmental water demands in northern Victoria could be met with the available water, with some water remaining.

Analysis also told us that there was enough water available to be carried over and used the following year in 2015-16, and there was a risk that some water could not be carried over at the end of the season.

The market price for water was also good, providing an opportunity to convert water into money that could be used to benefit the environment at another time or in other ways.

Figure 2. The volume of water the VEWH bought and sold from 2011 to 2015.





Tools of the trade

When trading in northern Victoria where there are large and well-established water markets, we have used brokers and online water exchanges to trade.

Brokers must be members of the Australian Water Brokers Association to ensure they operate with a high standard of ethics and business practices.

What about the effects on other water traders?

As a public organisation, we take our trade responsibilities seriously. In undertaking any water trading, we aim to avoid negatively impacting on other market participants such as farmers.

When trading the VEWH ensures that:

- adequate information is provided to the marketplace
- there is no positive or negative discrimination against potential buyers and sellers or intermediaries
- we minimise any real or perceived impacts on the market from trading activity
- transaction costs and management fees are efficient

- systems and contractual arrangements are in place to guarantee transactions are timely, accountable and efficient
- it benefits the environment.

The Victorian Minister for Environment, Climate Change and Water also sets parameters around how the VEWH can make decisions, including water trade.

The Government has ensured that we trade only in order to protect the environment and in the public interest, without adverse community impacts.

How do I find out what the VEWH has traded?

The VEWH releases an annual [Water Allocation Trade Strategy](#) for northern and western Victoria. It provides information about how and why environmental water might be traded in the following financial year.

Significant commercial trade decisions are on our website www.vewh.vic.gov.au.

This is also where you will find our annual reports, which report on the management and use of environmental water.

