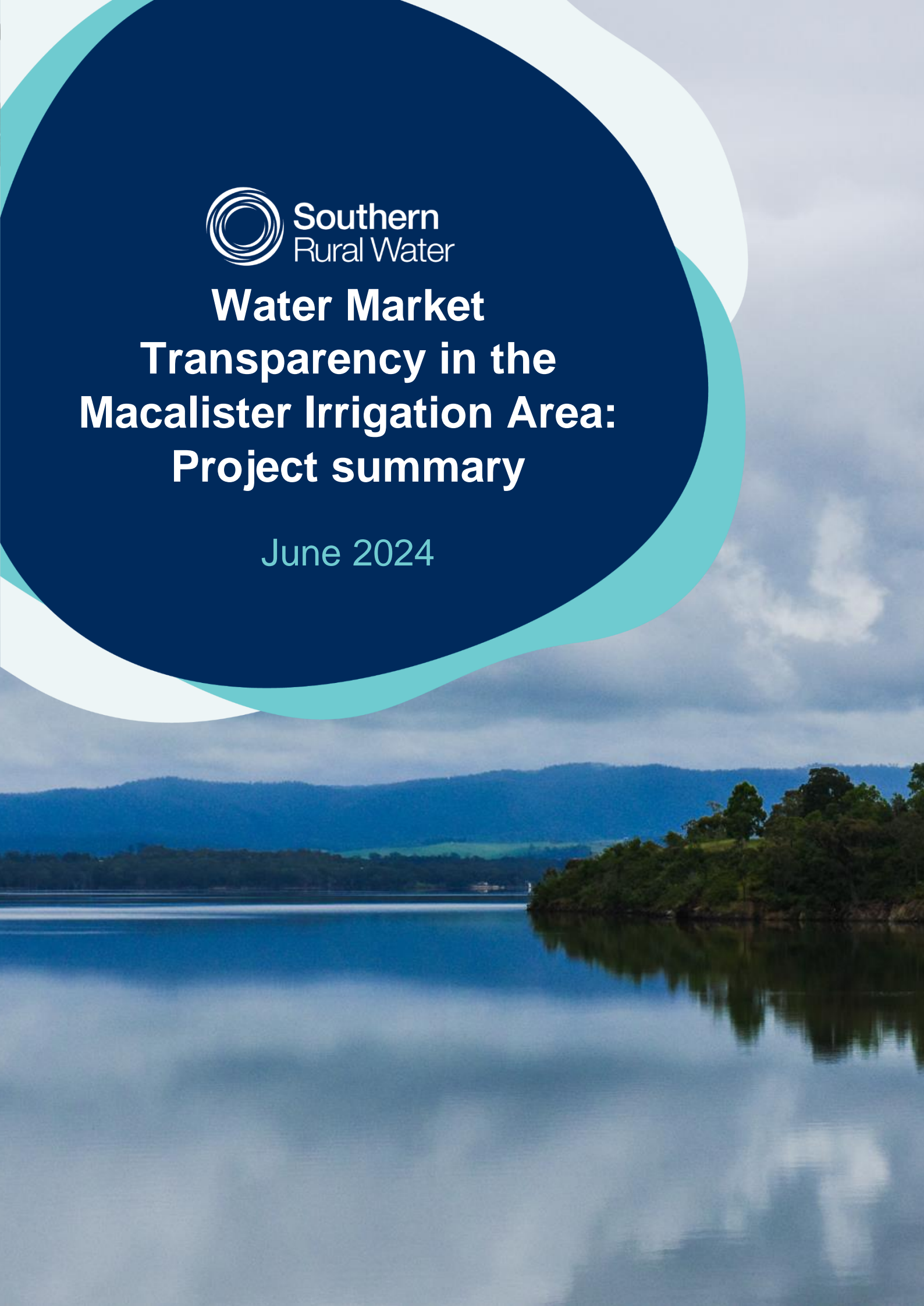




**Water Market
Transparency in the
Macalister Irrigation Area:
Project summary**

June 2024



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Introduction

This report provides a summary of the Water Market Transparency in Southern Victoria Project.

This report will discuss:

- Initiatives from the Water Market Transparency research paper
- Partnership with Water Partners to deliver an online water trading platform
- Project scope and funding agreement
- Project outcome and evaluation

Background

Well-functioning water markets and trade can facilitate more efficient use of water across a district. For both sellers and buyers, water trade can increase productivity, allow choice and flexibility in business decision making, and reduce risks associated with variable climatic conditions.

For this project the Macalister Irrigation Area (MIA) a large irrigation district located in Victoria's east, was the subject of this project. Historically there has not been a strong water trading market in the MIA. The average number of allocation trades is well below the average in other irrigation districts where water markets are more established.

This project provided a renewed focus on the water trade barriers within the MIA. It assessed current barriers through analysis of water use and trade patterns within the district, and review of the social and economic barriers. The assessment draws upon findings of a desktop review of past reports and data, and the outcomes of consultation with water users and other stakeholders in the MIA.

The project also explored the opportunity for the establishment of an online water trade platform to support enhanced trade in the MIA. Core requirements and existing water trade platform services were considered in an assessment against a set of criteria reflecting the needs of Southern Rural Water (SRW) and their customers.

Project Scope

The Department of Energy, Environment and Climate Action (DEECA) engaged Southern Rural Water to collectively and collaboratively achieve the vision of creating liveable, inclusive and sustainable communities that support jobs and growth in Victoria whilst maintaining world class liveability and protecting our heritage for future generations.

DEECA contributed \$250,000 (this amount excludes GST) with the funding objectives to understand and remove barriers to water allocation trade, and to develop water market activity in southern Victoria.

The project aimed to:

- Understand why people choose to trade or not trade, and document the current barriers to trade.
- Draw on existing work, including on the lower Latrobe system, and connection with other SRW projects (especially the MIA allocation model review, water supply and demand studies).
- Assess the barriers that would be addressed by the introduction of a water trading exchange.
- Identify the information irrigators need to participate in the water market, as well as any gaps.

Project actions:

- Work with irrigators to provide information they need to participate in water markets, address any gaps, and to improved channels to make it easier to access information.
- Worked with irrigators on change management and providing information about how to use the pilot exchange.
- Engaged a supplier to implement a pilot of a water trading exchange in the Macalister Irrigation Area.
- Assess the effectiveness of interventions and identify suitability for scaling or continuing the pilot in the following season or expanding to other areas.

Overview

The project undertook community consultation on barriers to trade, making recommendations to address and remove barriers for trade and leading the project management of a pilot water trading exchange (the initial focus on the MIA).

This component of the project was, for obvious reasons, more involved and included engaging with customers, completion of surveys via email and phone, and a Macalister Consultative Customer Committee workshop where aspects of the district were discussed and the customer's perceived issues were verbalised.

Whilst survey questions were being developed RMCG investigated the MIA's historical seasonal trends and trading data. Varying sectors were determined where it was made apparent that the

district is still primarily used as dairy and beef production however there was an increase in the crop growing/horticulture sector which could potentially increase water usage in the coming years.

108 customers participated in the survey which was a substantial result. Numerous customers mentioned that they found it difficult to find available water to buy on the market and then also didn't know where to advertise their surplus water for selling. Based on this outlook customers were reluctant to trade and put the task into the 'too hard' basket.

Water trading platform

The consultation to the trading platform included the investigation of organisations in the water market that offer an 'off-the-shelf' solution which could accommodate our initial requirements whilst also being able to offer specific expertise on strategy surrounding how a water trade platform should be introduced to a conservative and cautious market, being the MIA.

Key criteria focused on:

- Fit-for-purpose
- Accessibility
- User-friendly
- Transparency, legitimacy and security
- Sustainability
- Costs and administration burden

What we did

As part of the project, we looked at different opportunities to connect directly with our customers. This served a range of purposes, including hearing directly from them on what they needed from SRW and DEECA to remove barriers to trade, and to offer opportunities to increase knowledge on how to trade. This was combined with our desktop analysis and further research findings, to holistically understand trading in the MIA.

We have outlined how we collaborated with customers below.

Survey

In 2021 Southern Rural Water conducted a survey relating to barriers to water trading in the Macalister Irrigation Area and received 108 responses which helped shape the outcomes of the project and was considered an excellent response rate.

Mailout

As part of the Southern Rural Water Exchange launch in August 2023, a mailout was sent to 1,100 MIA customers, which provided an information pack including frequently asked questions and information about the Southern Rural Water Exchange and how to get started. This also included an invitation to schedule a one-on-one session at our Maffra facility or attend an online webinar with a WaterPartners.

Drop-in information sessions

Within a week of launching the Southern Rural Water Exchange, Southern Rural Water facilitated one-on-one information sessions with customers and a WaterPartners staff member at the Southern Rural Water Maffra office. WaterPartners were available to listen and discuss their water trading needs and help guide them through the process of the water trading online through the Southern Rural Water Exchange.

Webinar

Shortly after launching the Southern Rural Water Exchange, customers were invited to attend an online information session to learn about the Southern Rural Water Exchange and how it can assist them in their water trading needs. This was well attended and was offered as a more practical way for customers who were geographically restricted to hear directly about how the Southern Rural Water Exchange works and how it can assist them with their water trading needs.

Social media

A sequence of social media content was generated and released in the second half of 2023 and 2024 that have assisted generating awareness and click through traffic to the Southern Rural Water Exchange.

Events

WaterPartners shared a site with Southern Rural Water at the 2024 annual Farm World trade show in Lardner Park this year to promote the online trade platform and encourage registrations.

Sponsorship

In May, WaterPartners will be sponsoring the local junior hockey team in Maffra in state championships. As a way of giving back to the community and promoting the Southern Rural Water Exchange.

Internal education

SRW held a workshop to train and educate customer facing staff including field staff on water trading and how to respond to requests or queries relating to water trading.

Online

SRW has reviewed and updated the website with current information and frequently asked questions and website tiles promoting our water trading partnership and content.

Evaluation

The Water Market Transparency Research in the MIA provided insight into the potential for greater utilisation of water resources which could drive increased trade activity.

The evaluation showed that a greater activation of sleeper and dozer licences through the participation of trade would enable more utilisation of water in the district.

If there was an increased demand for regulated water, it would drive trade activity. This could be sparked by expansion of the irrigation or intensification of the irrigation footprint, growth in high value, irrigation dependent industries (example horticulture), an increase in dry years, or reduced confidence in the reliability of other supplementary water supplies (example groundwater).

A key finding from consultation was that in addition to the water availability barriers identified through the desktop review, most irrigators perceived lack of information as a barrier to trade in the district.

Knowledge building

As part of the project, we set out to understand what customers want, and to increase awareness and knowledge on how to trade. We have outlined this in the 'what we did' chapter.

- 10% of MIA customers participated in our customer survey.
- 100% of customers were sent the mailout.
- Our drop-in sessions and webinars were offered to 100% of customers, with around 30 customers taking the opportunity to go through an online tutorial on how the platform worked and how to sign up. 100% of participants felt informed at the end of the session.
- An average of 597 impressions, 47 engagements, 15 post clicks, 2 comments and 3 reposts on each Facebook post.
- An average of 68 impressions, 5 engagements and 1 post click on each Instagram post.
- WaterPartners attended a two-day Farm World event, where they spoke to customers about benefits of the platform, and how to trade water. Information packs were handed out, including frequently asked questions on how to trade.
- WaterPartners have sponsored \$1,000 to a local community group, which will promote brand awareness of the water trade platform.
- 100% of our customer service team attended the training and feel equipped to support customers in water trade.
- 1,038 views and 669 individual users have visited the SRW website trading page since 24 September 2023.

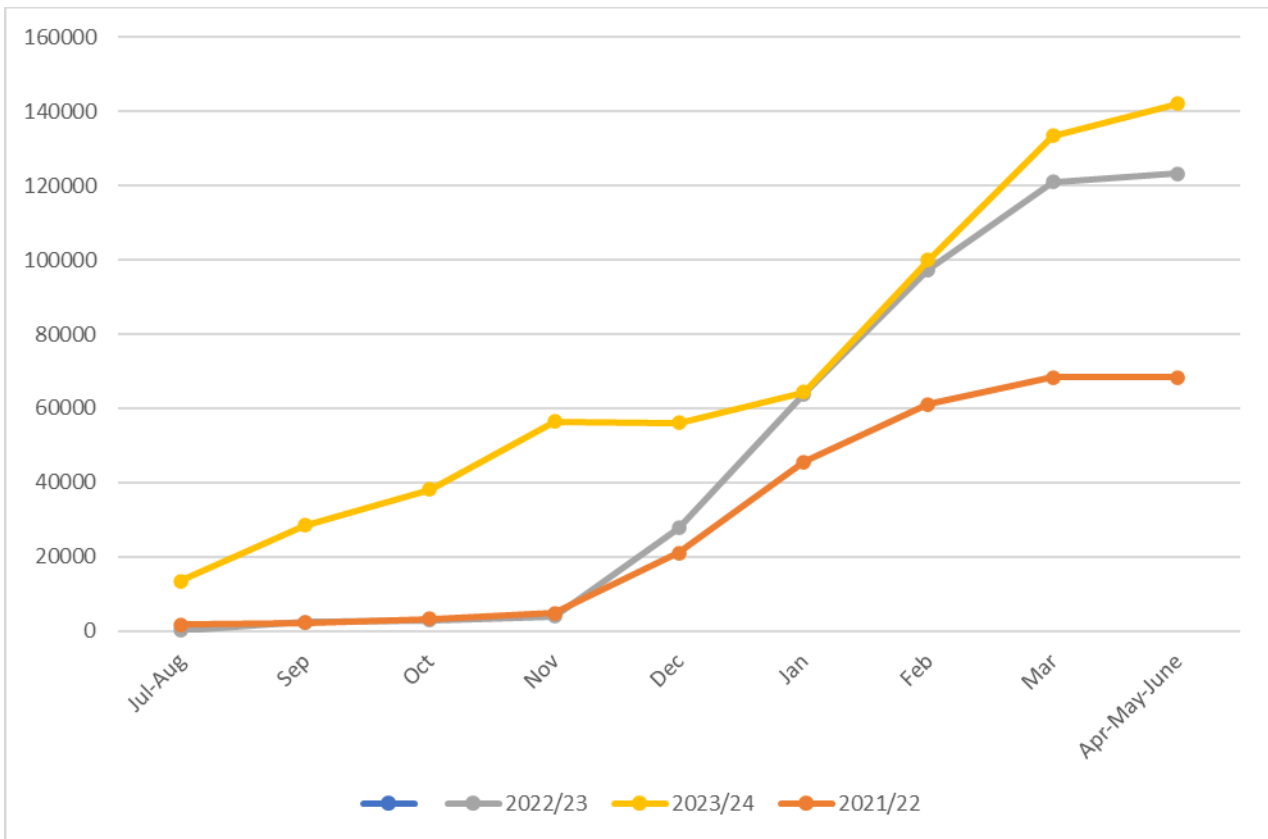
Water trade platform

Research conducted by RMCG, outlined in, *Regulated Water Trade Barriers, and Trading Platform in the Macalister Irrigation Area 2022*, states that rainfall in the MIA can meet more than 50 percent of crop requirements.

This coupled, with a high availability of water in most years due to climate conditions and a highly secure water supply from Lake Glenmaggie, including spill entitlement means that irrigation is often more supplementary than core to farm production.

Additional water is becoming readily available, with water sales by SRW, with savings from the MID2030.

Seasonal water availability has a greater impact in determining demand for trade. The season, which started on 15 August 2023, has been unseasonably wet. The early season rainfall, meant our customers carried a high volume of water available into early 2024 – for more than half the season.



With the wet season, this will have impacted uptake of the trade platform.

For the purposes of this report more qualitative measures have been used to determine the overall success of the project. These following key criteria has been used to evaluate the water trading platform:

As of the end of April 2024 the Southern Rural Water Exchange has 52 registered traders.

Within the first weeks of launching the platform we observed the first trade for allocation water get seamlessly processed before entering an unexpectedly wet summer.

Since then, there have been multiple trade offers listed for both allocation and permanent entitlement and as both buy and sell offers.

Fit-for-purpose

SRW-independent operator partnership would have the capacity to effectively meet the needs of MIA customers and SRW and provide a service with a range of customisable features which could be readily adapted over time.

How did we go:

WaterPartners has proven highly capable of delivering their 'off the shelf' online trading platform product tailored as a dedicated trading platform for our MIA customers during our trial phase with the intention of offering it more widely. This has inbuilt capability to extend roll out service offering to other customer types and service as a platform for offering 'off the shelf' water sales.

Currently it offers the ability to trade seasonal allocation, permanent entitlement and delivery share but can also easily be adapted to offer further products like recycled water.

Accessibility

The levels of accessibility offered by existing providers are considered suitable for the MIA context.

How did we go:

Trade rooms operate online 24/7, giving our customers continuous access to a more accessible market. The process is streamlined to ensure a swift turnaround of 48 hours, enabling faster and more efficient transactions.

All profits are returned to the business to develop and deliver services, including education and to support the communities in which WaterPartners operate.

The online platform is well supported through experienced staff at Water Partners. Over-the-phone assistance is available to ensure members achieve the best outcomes for their trades catering for customer who still prefer to trade via an agent over the phone.

User-friendly

Offering a user-friendly service is critical to success of the platform in a developing market. Partnering with an existing water trade platform operator is highly recommended to ensure a smooth transition to a new user-friendly platform. The options explored offer suitable interfaces and back-end processes for a developing market.

How did we go:

When selecting to partner with WaterPartners in using their online water trading product. This platform was selected because of its easy and simple to use design whilst offering comprehensive information to make informed trader decisions.

WaterPartners have had the water trading platform product since 2019 and have continually been making it a more user friendly and refined product.

Extensive user testing was carried out prior to going live exclusively with MIA customers. One-on-one as well as online information sessions received positive feedback on the useability.

WaterPartners also provide excellent support over the phone for those who don't have online access and require assistance.

Transparency, legitimacy, and security

Are critical to success of the platform in a developing market.

SRW's involvement in the establishment and maintenance of the platform strengthens both aspects and their involvement in customer communications and engagement is highly recommended to support early participation. Existing services available appear to offer suitable levels of transparency and security, however it is recommended that any information campaigns targeting customers be sensitive to perceived misuses of private water allocation or water entitlement information.

How did we go:

WaterPartners provide a fair, transparent and easy solution to buy and sell your water. The launch of this partnership water trading platform was carefully considered to ensure that the community would be able to trust this platform.

Initial communications all came through Southern Rural Water to endorse the legitimacy and partnership between Southern Rural Water and WaterPartners. Use of co-branding had been carefully considered through the establishment period. The product launch provided one-on-one product information session at the Southern Rural Water Maffra facility. Promotion at Farm World 2024 field day allowed an opportunity for WaterPartners to share a site with Southern Rural Water to promote the Southern Rural Water Exchange in partnership.

Sustainability

Any partnership agreement should offer financial incentive and/or some level of exclusivity to an independent operator during an establishment period. It is recommended SRW prepare a market development strategy to accompany the establishment of a water trade platform and guide the establishment phase of the platform.

How did we go:

In drafting up the terms of the agreement, Southern Rural Water and WaterPartners agreed that all infrastructure, set up and ongoing maintenance costs for the first 12 months would be due in project milestone payments with the balance upon a Go Live date. This gave WaterPartners security in the establishment period of the platform.

Costs and administrative burden

Partnership arrangements will need to ensure appropriate balance between costs and potential benefits (including public and private) for both SRW and an independent operator to ensure both platform reach (or penetration into the market) and sustainability. Requirements for SRW system integrations should be discussed prior to entering partnership agreements as these could create additional administrative burden and costs for providers.

How did we go:

Southern Rural Water through the funding agreement with DEECA has covered the cost of development, implementation, and Southern Rural Water will bear the ongoing infrastructure expenses, so customers can enjoy the benefits of the platform. Trading fees including commissions charged by Water Partners cover the cost of trade facilitation.

Competitive neutrality

How will this be managed in the future if water markets in the MID and WID grew large enough to attract interest from other water brokers.

Southern Rural Water's expectation is that the trade platform isn't intended to be self-sustaining and will require ongoing financial support. This means that the platform is customer funded and the costs of operating are subsidised by customers.

With the trade platform operating at a low-cost margin, at a self-sustaining level, it would not be feasible for water brokers to enter the market at a profitable level. SRW has committed to covering the costs of the platform and administration each year to ensure water trade costs remain as low as reasonably practical.

Expansion of the District

Macalister Fresh

Southern Rural Water has started work on a region-building water strategy called Macalister Fresh that will deliver a vision and plan to drive future investment in Gippsland.

The \$660,000 Macalister Fresh project, funded by the Victorian Government and Southern Rural Water, will be co-designed with water users and our key partners.

The final infrastructure upgrades under the modernisation program are due for completion in 2024. The Macalister Fresh project will provide a plan to maximise the benefits of this investment, identify further opportunities and drive future investment in the region.

Exploring more water savings, delivering best practice irrigation, finding innovative solutions to our future challenges, and finding great partners to work with are key priorities of the Macalister Fresh project.

Mac Avon

Southern Rural Water, in partnership with the Department of Energy, Environment and Climate Action (DEECA) is investigating the potential to develop irrigated agriculture in the area east of the Avon River, adjacent to the Macalister Irrigation District (MID). This initiative is supported by Action 7-2 within the Central and Gippsland Sustainable Water Strategy.

A feasibility study is being conducted as part of the Macalister Avon Irrigation Development Project that seeks to provide the technical evidence to inform discussions around future irrigation development and investment in the area.

This study will be guided by a set of principles that ensure decision making is sound, equitable and protects existing users including the environment and cultural needs. Within this, and in-line with the Central and Gippsland Sustainable Water Strategy, we are seeking quadruple bottom line outcomes.

A consortium led by SMEC will undertake assessments focussing on addressing the following areas:

- supply capacity, demand and storage requirements;
- estimating and/or describing potential flow recovery in the Avon River;
- functional design of pipe network, balancing storage and costings;
- environmental planning and assessment requirements;
- understanding potential service impacts on current customers;
- economics assessments, including cost/benefit analysis; and
- exploration of a non-infrastructure based option to identify opportunities, challenges and process requirements.

We have established a Customer and Stakeholder Reference Group to work with Southern Rural Water to draw upon local knowledge and expertise to support project outcomes.