

MARKET BASED APPROACHES TO SECURING REGIONAL AUSTRALIA'S URBAN WATER SUPPLY

Aither's recent work with regional water providers in New South Wales demonstrates the opportunity to cost-effectively deliver water security outcomes by taking a more strategic approach to water entitlement management.

A secure and affordable water supply is a critical objective for all urban water utilities. Securing adequate water supply supports economic growth and social wellbeing. However, at the same time, urban water utilities need to ensure the affordability of their water services.

Meeting these objectives is increasingly challenging in regional Australia. Greater climatic variability and changing patterns of demand make balancing these objectives particularly complex in regional areas. Large investments in new regional water supply infrastructure have been announced in response to these challenges, such as the \$1 billion set aside in the New South Wales Government's *Rebuilding NSW Plan*.

Water markets provide significant opportunities to secure water supply. Most regional water providers have existing portfolios of water entitlements and many have access to active trading markets, particularly those connected to major rivers in the Murray Darling Basin. While regional water providers will only ever be relatively small market players, the volume of water

allocations traded in the southern Murray Darling Basin in 2013-14 equated to more than double the annual water usage of Melbourne or Sydney.¹

Strategic allocation trading can accrue substantial benefits in the short-term. Allocation markets allow regional water providers to meet seasonal water demands in a cost-effective manner. In years of high-demand, regional water providers can purchase additional allocations. And in years of low-demand, regional water providers can sell surplus allocations to secure a financial return.

Aither's strategic approach to water entitlement management developed with regional water providers in New South Wales is expected to deliver significant benefits to regional communities.

¹ See Aither's Water Markets Report 2013-14 <<http://www.aither.com.au/markets-report/>>.



Engaging in water entitlement markets can deliver benefits in the longer-term.

Water entitlements allow water providers to meet longer-term shifts in water demand. Strategic management of water entitlement portfolios can also deliver significant financial returns – enabling the purchase of more secure water or investment in other areas.

Active management of water entitlement portfolios will increase the efficiency of infrastructure investments.

Considering regional water infrastructure in combination with improved entitlement management and water trading can save money by reducing or deferring the scale of infrastructure required, changing the optimal mix and timing of investments, and essentially making better use of existing sources.

STRATEGIC APPROACH TO WATER ENTITLEMENT MANAGEMENT:

1 Understand the water entitlement portfolio, regulatory framework and outcomes required

– undertake a stocktake of entitlements to confirm the nature and extent of the portfolio, address any licence issues or barriers to market, and assess the current and future supply and demand balance.

2 Monitor allocations and usage

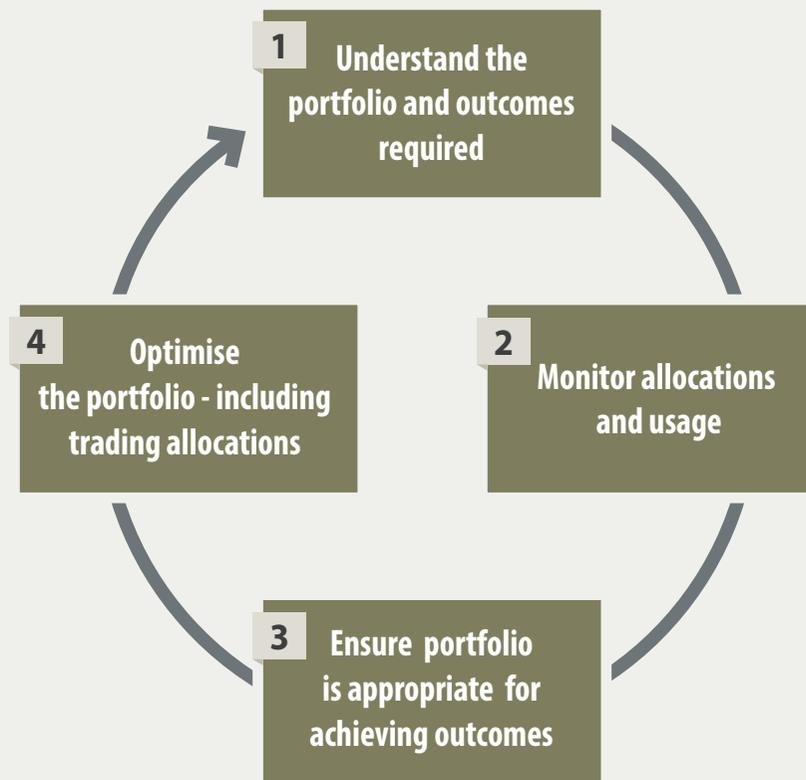
– maintain records of seasonal allocations to entitlements and usage against allocations, and update records as more information becomes available throughout the season.

3 Ensure the water entitlement portfolio is appropriate

– reassess the supply and demand balance on a regular basis, decide on a desired level of supply security and confirm whether the current portfolio is adequate to meet this.

4 Optimise the water entitlement portfolio

– actively manage the use of different entitlements and take advantage of opportunities to optimise the portfolio, such as the selling of excess allocations or purchase of more to meet seasonal water shortfalls.



Regional water providers are already pursuing such approaches. Aither has recently worked with a number of regional water providers in New South Wales to develop a strategic approach to entitlement portfolio management to ensure that value is realised from these assets.

Water trading by regional water providers should deliver win-win outcomes.

Engagement in water markets can deliver more secure water for suppliers, but also gives customers more affordable access to water in the longer-term. Governments and the broader community also benefit by deferring the need for major investments in water supply infrastructure.



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Note:

Louise Barth will be presenting on this topic at the national OzWater'15 conference during May 2015.