

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 allocation management.

A secure and affordable water supply is a critical objective for all urban water utilities. Securing adequate supply supports economic growth and social wellbeing. However, at the same time, regional 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. These issues are being considered in some Queensland regions through regional water supply security assessments. Implementation of actions outlined in water supply security assessments is the responsibility of local government or the water service provider.

Water markets provide significant opportunities to secure water supply.

Most regional urban water providers have existing portfolios of water allocations and many have access to active trading markets. While regional water providers will only ever be relatively small market players, the

volume of water allocations¹ traded in the southern Murray Darling Basin in 2013-14 equated to more than double the annual water usage of Melbourne or Sydney.²

Strategic seasonal assignment trading can accrue substantial benefits in the short-term. Seasonal assignment 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 water. And in years of low-demand, regional water providers can temporarily sell surplus water 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. This approach is applicable to other jurisdictions.

¹ Seasonal water assignments in Queensland.
² See Aither's Water Markets Report 2013-14
<http://www.aither.com.au/markets-report/>.



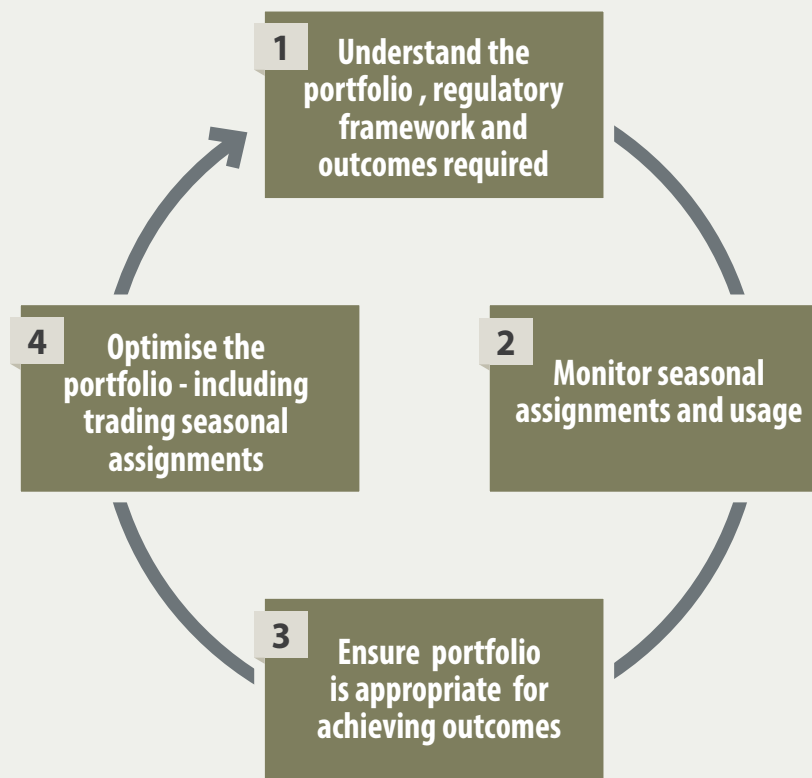
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Water markets can deliver benefits in the longer-term. Water allocation and seasonal assignment trading allows water providers to meet longer-term shifts in water demand. Strategic management of water allocation portfolios can also deliver significant financial returns – enabling the purchase of more secure water or investment in other areas.

Active entitlement portfolio management will increase the efficiency of infrastructure investments. Considering regional water infrastructure in combination with improved allocation 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 allocation portfolio, regulatory framework and outcomes required** – undertake a stocktake of allocations to confirm the nature and extent of the portfolio, assess the current and future supply and demand balance and document legislative or other conditions that affect the use of the water market such as trading zones specified in the relevant ROP.
- 2 Monitor seasonal assignments and usage** – maintain usage records and document seasonal assignments where applicable and update records as more information becomes available throughout the season.
- 3 Ensure the water allocation 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 portfolio** – actively manage the use of different allocations and take advantage of opportunities to optimise the portfolio, such as temporarily selling excess water or purchasing water 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 water portfolio management to ensure that value is realised from these held 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:

Aither is pleased to announce that they have appointed Rod Coulton in a new office in Brisbane. Prior to joining Aither, Rod has held senior economic advisory roles at the National Water Commission, the Queensland Department of Natural Resource and Mines and the Queensland Competition Authority.