

# Strategy for the controlled allocation of groundwater

May 2017

## Introduction

Most water sources in NSW are fully committed and general access licences can only be obtained through the water trading market. In water sources with unassigned water, however, a controlled allocation order can make new access licences available.

A water source has unassigned water when current water users' requirements (including licensed volumes and water to meet basic landholder rights) are less than the extraction limit in the water sharing plan and, for water sources in the Murray-Darling Basin, those requirements are also less than the sustainable diversion limit (SDL) in the Basin Plan 2012. Unassigned water occurs mainly in groundwater sources.

The right to apply for a new access licence can be obtained through a competitive process, set out in a controlled allocation order. These orders are made under section 65 of the *Water Management Act 2000* by the Minister for Regional Water (Minister).

This Strategy sets out the objectives, principles and methodology relevant to the controlled allocation of groundwater process, based on current policy and scientific knowledge.

## Objectives

The key objective of the controlled allocation process is to facilitate the creation of a positive business environment and enable job creation and opportunities for economic growth in line with the Department of Primary Industries' Strategic Plan 2015-2019, by releasing unassigned groundwater to:

- increase market access and development
- maximise productive use of water
- maintain sustainable and equitable access to and use of water.

A secondary objective of the controlled allocation process is to ensure that the NSW Government obtains value for money from the sale of access licences.

## Principles

1. Water will not be made available in water sources at risk of over allocation.
2. Each controlled allocation will be a competitive process consistent with section 65 of the *Water Management Act 2000*.
3. Relevant information, such as water sources, amounts of water made available and minimum prices, will be made publicly available to inform market participants in controlled allocations.
4. Controlled allocations will deliver value for money for the NSW Government by setting minimum prices for each groundwater source.

## Factors informing whether water is made available

The Minister is taking a precautionary approach to controlled allocations of groundwater with the aim of preventing the over allocation of water. For this reason, the amount of water made available in any controlled allocation order is intended to keep total water requirements below 80% of the appropriate extraction limit in any water source. For water sources in the Murray-Darling Basin the appropriate extraction limit is the SDL and for all other water sources it is the long term average annual extraction limit (LTAAEL).

Even where unassigned water may appear to be available under the 80% limit, there are a number of other reasons why a water source may not be included in a controlled allocation order, including:

- whether there were licence applications made under the *Water Act 1912* before the water sharing plan commenced that have not yet been decided
- whether water users' future needs can be met through trading
- predicted future water requirements for high priority uses, such as water supply for towns and for basic landholder rights
- predicted future impacts of climate change on groundwater recharge
- future environmental water requirements.

## Amount of groundwater to be made available

For water sources included in an order, it is intended that a portion of unassigned water will be made available up to a maximum total entitlement of 80% of the appropriate extraction limit (i.e. the LTAAEL or SDL). The portion of unassigned water made available in each water source will be at the discretion of the Minister.

Where a groundwater storage extraction limit is specified in a water sharing plan, the Minister also has the discretion to make some or all of this water available under a controlled allocation order.

## Setting the minimum price for groundwater

A minimum tender price per share will be set for each groundwater source included in a controlled allocation order. Setting a minimum price is necessary to ensure that the NSW Government obtains value for money for the sale of water resources. Minimum prices may also act to prevent the new allocation causing a sudden devaluation in existing shareholdings. A minimum price does not preclude higher prices being paid through the competitive controlled allocation process.

Minimum prices included in previous controlled allocation orders were based on previous sales of water, including historical trade data for the water source or similar water sources. The Minister intends to base future minimum prices on cost recovery plus a return on the public water asset being released to private ownership. Recognising that some existing market values may be higher than the minimum prices calculated under this model, the Minister may also apply an adjustment to the calculated minimum price to minimise potential capital value shock.

This means that the minimum price in controlled allocation orders will be set as follows:

### 1. Groundwater sources with no previous controlled allocation sales

The minimum price will be set equal to the capitalised service delivery costs in each water source uplifted to provide an appropriate return on the water asset. Service delivery costs in each water source are based on published revenue needs.<sup>1</sup> These costs are capitalised using the IPART-determined weighted average cost of capital for the Water Administration Ministerial Corporation (4.9%). An equivalent uplift factor (4.9%) is then applied as the return on capital.

Note: Variations between water sources for minimum prices calculated using this method are minimal. As a result, to ensure consistency, the minimum price will be set at the same level for all water sources with no previous controlled allocation sales.

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<sup>1</sup> DPI Water 2015 Submission to the Independent Pricing and Regulatory Tribunal for prices commencing 1 July 2016 for the Water Administration Ministerial Corporation.

## 2. Groundwater sources with previous controlled allocation sales

At the discretion of the Minister, the minimum price may be adjusted higher than the price calculated in (1) in order to minimise the potential for capital value shock.

### Duration and frequency of controlled allocation orders

The duration and frequency of controlled allocation orders will be as the Minister considers necessary to achieve the objectives of the Strategy.

The duration of any controlled allocation order will be stated in the order.

### More information

[controlled.allocation@dpi.nsw.gov.au](mailto:controlled.allocation@dpi.nsw.gov.au)

[www.water.nsw.gov.au](http://www.water.nsw.gov.au)

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Published by the Department of Primary Industries.