

Water trading in coastal NSW

Water trade or dealings

Water trading is the process of buying and selling water access licences, entitlements and allocations ('entitlements' and 'allocations' are explained below). It is also referred to as 'access licence dealings'.

Trading can be either temporary (a trade of the allocation in your water allocation account) or permanent (a trade of the entitlement shares on your water access licence). A person can trade all or some of their water allocation or water entitlement.

Water may be traded within catchments, between catchments or along river systems, where allowed. This form of trading allows water users to buy and sell water in response to their individual needs.

Buying and selling water on the water market can increase productivity, give businesses choice and flexibility in making decisions and reduce risk. It can also provide income where someone is not using their full allocation.

In most areas of NSW, available water is fully allocated. This means that water trading remains the primary way that users can get water.

Water entitlement, allocations and usage

Entitlements or share component

Water entitlements are rights to an ongoing share of water within a system. Water entitlement is also known as a share component, usually expressed as unit shares or, for some specific licences, as megalitres per year (ML/yr).

Allocations

Each access licence has a water allocation account. Water allocations are the amount of water distributed to water entitlement holders in a given water year (1 July to 30 June). The NSW Department of Planning and Environment distributes available water to each licence account through an available water determination.

The department makes available water determinations (AWDs) on 1 July each year, or more frequently for some water sources. These AWDs put water into the water allocation account. The volume credited is based on the licence share component. For example, an AWD may be one megalitre per unit share (1 ML/unit share). Allocations in these accounts are expressed in megalitres.

The amount put into the water allocation account may change. AWDs for unregulated and groundwater sources are usually made once a year on 1 July and are generally 1 ML/unit share. For regulated systems, they are made according to rainfall, inflows into storages and how much water is already stored. AWDs in regulated systems may increase each time there is an inflow into the dam

or a change in the available resource. Allocations can increase throughout the year in response to changes in the system, but generally only up to a total of 1 ML/unit share or 100% of unit shares if they are expressed in ML.

The department may make AWDs of less than 1 ML/unit share if we need to bring the amount of water taken back down to the long-term average annual extraction limits described in the water sharing plans.

AWDs and future allocation outlooks give people information about when they will receive water, while allowing the department to manage water availability through varying climatic conditions.

Usage

Water usage is how much water is actually used from the water that is allocated. When water is allocated to a licence holder's allocation account, they use it as needed. Sometimes they only use a portion of their allocated water – for example, they may use 30% or sometimes 95%. Sometimes the licence holder will carry over unused water to the next water year (depending on the water allocation account rules in their water source).

This is an individual business decision, where entitlement holders consider climate and rainfall, their cropping cycle, and their own business plans.

Differences between permanent and temporary trade

Temporary trade, or assignment of water allocations, is the sale of the current water allocation available under a water access licence (WAL). This allocation is held in the access licence water allocation account.

The sale does not affect future water allocations which accrue to the WAL. This allows the holder to sell water in their water allocation account that is surplus to their immediate needs or to buy water to meet a short-term requirement.

The buyer must hold a WAL to purchase allocation water. If you do not hold a WAL, you can apply to WaterNSW for a new WAL with a share component of zero units.

Permanent trade, or assignment of shares, is a transaction to sell the whole or part of the share component of a WAL. One legal entity sells a water entitlement to another permanently.

The water entitlement is the right to access a volume of water on an annual basis, as defined by the allocation attributed to the WAL each year. For example, a WAL holder may wish to sell all or part of their share component (their share or entitlement of the available water under the WAL) to another WAL holder.

If you want to buy a share component and don't already hold a WAL, you must apply for a new WAL with a share component of zero units.

Where trading is allowed to and from water sources

The legislative framework for water trading comprises:

- the *Water Management Act 2000* and its regulations
- the Access Licence Dealing Principles Order 2004
- any access licence dealing principles established by the Minister for Lands and Water
- access licence dealing rules established by the relevant water sharing plan.

Water can be traded out of, into and within water sources, where allowed. The *Water Management Act 2000*, together with the access licence dealing principles and the access licence dealing rules established by a water sharing plan, determine where trading is allowed or restricted.

General rules that determine where water can be traded in coastal NSW:

- Trading between regulated, unregulated and groundwater sources is not permitted.
- Trading between some unregulated and groundwater sources may be permitted.
- Water cannot be traded across areas that are not hydrologically connected (that is, where the water sources do not drain into or out of each other).
- Where there are high ecological values present (that is, there is a diversity of species, the species are rare or threatened, the habitat is vital for native animals or plants, or it is undisturbed by human activity), trade is generally not allowed.
- If a water source experiences medium levels of stress from extraction, trade is often only allowed with no net gain in that water source.

A water sharing plan lists where water trading is allowed in the part called 'Access licence dealing rules'. You can read water sharing plans on the NSW Legislation website, <https://legislation.nsw.gov.au/>.

How to find a seller or buyer

In the past, water and property were always sold together. While it is possible to sell land and water together, water can be sold independently now.

Before applying to make a trade through WaterNSW, you need to identify someone who is interested in buying or selling water. You can do this in a few different ways:

- ‘Over the fence’ – Talking with other licence holders in your area will help identify if there are trading opportunities.
- Through a water broker – This is the most common way of trading water in inland NSW. The broker or intermediary organisation receives a portion of the trade fee, authority fees and a trade conveyancing fee. Fees vary across brokers and water trading organisations.
- Through a real estate agent – Agents in regional areas may broker water trades as well as handling property sales.

How to make the trade

Once you have found a buyer or seller, and agreed on a sale price, you can apply for the trade through the WaterNSW website.

For application forms and more information on trading, visit the WaterNSW website, www.waternsw.com.au/customer-service/ordering-trading-and-pricing/trading#stay

Determining the price of water

The price of water reflects supply and demand factors as it is traded through a market. It differs across regions and with time.

Demand is driven by:

- commodity prices
- water availability (determined by water allocations and the outlook of future water allocations)
- carryover availability (the ability to carry unused water over to the next water year)
- weather conditions
- trade restrictions.

Ultimately, the price of water is determined by the attitude of participants in the trade market who take these factors into account.

Glossary

Term	Definition
Available water determination	An announcement which informs licence holders how much water they can extract. The available water determination announcement is made on 1 July and periodically throughout the year.
Controlled allocation	A controlled allocation gives a right to buy a water access licence for a specified water source by auction, tender or other means specified in an order published in the NSW Government Gazette.
Dealing	A water trade
High ecological value	If a water source has high ecological value, there is a diversity of species, the species are rare or threatened, the habitat is vital for native animals or plants, or it is relatively undisturbed by human activity.
Hydrologically connected	If water sources are hydrologically connected, they drain into or out of one another.
No net gain	If a water source has a no net-gain trade rule, it means water must not exceed a specified level of entitlement. To trade into the water source, someone must first trade out.
Water allocation	<p>Water allocations are the amount of water distributed to water entitlement holders each water year.</p> <p>Allocations can change based on rainfall and water storage levels. Allocations can increase throughout the water year in response to changes in the system.</p>
Water entitlement	Water entitlements are rights to an ongoing share of available water within a system. Water entitlement is expressed as unit shares or ML/yr on a water access licence.
Water year	Coincides with the Australian financial year (1 July to 30 June). Water is allocated each water year.